



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Corrections

*For the Two Fiscal Years Ended
June 30, 2020*

NOVEMBER 2020

LEGISLATIVE AUDIT
DIVISION

20-15

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FINANCIAL-COMPLIANCE AUDITS

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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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November 2020

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 30, 2020. Our audit work included analyzing the financial schedules, note disclosures and reviewing the underlying financial activity for personal services expenditures, operating expenses, and inmate housing costs.

The report contains one recommendation related to Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities implementation. We issued unmodified opinions on the financial schedules for fiscal years 2019 and 2020. An unmodified opinion on the financial schedules means that the information presented within them can be relied upon for decision-making purposes.

The department's written response to the audit recommendation is included in the audit report beginning at 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

Director's Office	Reginald Michael, Director Cynthia Wolken, Deputy Director
Administrative Services	John Daugherty, Division Administrator
Probation and Parole	Kevin Olson, Division Administrator
Secure Custody Facilities	Lynn Guyer, Warden, Montana State Prison (through July 2020) Jim Salmonsens, Acting Warden (July 2020 - October 2020), Warden (effective October 2020) Jennie Hansen, Warden, Montana Women's Prison Steve Ray, Superintendent, Pine Hills Correctional Facility
Montana Correctional Enterprises	Gayle Butler, Division Administrator
Clinical Services	Connie Winner, Division Administrator

Board of Pardons and Parole

<u>Board Members</u>	<u>Location</u>	<u>Term Expires</u>
Annette Carter – Chair	Deer Lodge	1/1/2021
Renee Bauer	Helena	1/1/2021
Kristina Lucero	Missoula	1/1/2025
Darrell Bell	Billings	1/1/2025
Brad Newman	Butte	1/1/2023

Montana Board of Crime Control

<u>Board Member</u>	<u>Representing</u>	<u>Term Expires</u>
Peter Ohman – Chair	Criminal Justice Agency	1/1/2023
Rick Kirn – Vice Chair	Tribal Government	1/1/2023
Laurie Barron	Educator	1/1/2023
Tim Brurud	Youth Justice Advisory Council	1/1/2021
Katie Campbell	Community Corrections	1/1/2021
Jared Cobell	Public Representative	1/1/2021
Kaydee Snipes Ruiz	Judiciary	1/1/2023
Bill Dial	Law Enforcement	1/1/2021
Leo Dutton	Local Law Enforcement	1/1/2021
Tim Fox	Attorney General	1/1/2021
Wyatt Glade	Law Enforcement	1/1/2021
Beth McLaughlin	Judiciary	1/1/2023
Reginald Michael	Law Enforcement	1/1/2023

Laura Obert	Local Government	1/1/2023
Olivia Reiger	Public Representative	1/1/2023
Angela Russell	Public Representative	1/1/2023
Geri Small	Professional & Community Organizations	1/1/2021
Derek VanLuchene	Public Representative	1/1/2023

For additional information concerning the Department of
Corrections, contact:

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FINANCIAL-COMPLIANCE AUDIT 20-15

NOVEMBER 2020

MONTANA LEGISLATIVE AUDIT DIVISION

Department of Corrections

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

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. The department managed an average of approximately 15,681 and 15,313 offenders in fiscal years 2019 and 2020, respectively. The department operated two prisons, a special needs unit, and a state youth correctional facility during the audit period. 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.

The Department of Corrections (department) spent approximately \$404 million of General Fund money in support of its operations for the two fiscal years ended June 30, 2020. During the audit period the department also received approximately \$4.3 million in CARES act funds. This report contains one recommendation related to the department's implementation of new accounting guidance to its inmate accounts and restitution activity.

AUDITOR'S OPINION (PAGE A-1): UNMODIFIED

Unmodified opinions mean the reader can rely on the information that is 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-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 1

To the legislature: 0

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

Fully Implemented: 1

Partially Implemented: 1

Not Implemented: 0

RECOMMENDATION #1 (page 11):

Accounting and Financial Reporting

We recommend the Department of Corrections comply with state law by recording the Inmate Trust Accounts and Restitution activity in the State Special Revenue and Custodial Funds, respectively.

Department response: **Partially Concur**

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

leg.mt.gov/lad

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

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

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

Introduction

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2020, 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, 2020, fairly present the results of operations and changes in fund equity.
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 work included analyzing the financial schedules, note disclosures, and reviewing the underlying financial activity for personal services expenditures, operating expenses, and inmate housing costs.

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 two internal service funds related to the Montana Correctional Enterprise program during the audit period. Through our review, we found that fees and fund equity for the prison industries training program were reasonable for the two fiscal years ended June 30, 2020. For the cook-chill fund, we found fees and fund equity were reasonable for fiscal year 2019. However, for fiscal year 2020 we found that fees were not commensurate with costs and fund equity was not reasonable, given the fund had 7 days of working capital in excess of the allowed 60 days at fiscal year-end. When we inquired about the excess working capital, the department staff indicated that the MCE Food Factory had plans to purchase a boiler in fiscal year 2020 as part of an authorized building expansion. Due to unexpected delays in the bid process, they indicated the boiler will now be purchased before the end of the calendar year. Because the department has plans to address the excess working capital in fiscal year 2021, we make no recommendation at this time.

CARES Act Funding

During the audit period the department also received approximately \$4.3 million in CARES act funding. As described in Note 9, page A-16 this funding was used to purchase personal protective equipment, additional personnel costs, and to provide subsistence payments to prerelease and treatment vendors to ensure continuity.

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-8 as well as the authorized full-time equivalent (FTE) positions for fiscal year 2020.

Administrative Support Services (128.56 FTE) includes the Director's Office and Administrative Services Division. These two functions provide budgeting, accounting, payroll, legal, procurement, policy-setting, and information technology services to the entire department. The Montana Board of Crime Control (board) established in §2-15-2306, MCA, contributes to public safety, crime prevention, and victim assistance through policy development and coordination of the justice system and is also recorded under the Administrative Services Division. 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 (9 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.

Clinical Services Division (134 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. Additionally, the division includes the Riverside Special Needs Unit, created in late 2018 to meet the needs of medically fragile offenders. As a secure special-needs unit, the Riverside facility now accommodates male inmates who need the level of care formerly provided in the Lewistown Infirmary, which closed in 2018.

Probation and Parole Division (260.5 FTE) includes the community supervision of adult offenders. The division provides supervision for approximately 80 percent of the more than 15,000 offenders in the correction 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. The department also contracts with treatment centers, assessment and sanction centers, and prerelease centers throughout the state.

- ◆ **Missoula Assessment and Sanction Center (MASC)** houses up to 142 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 approximately 616 offenders with varying levels of chemical dependency, mental health, and assessment and sanction programs.
- ◆ **Prerelease Programs** house, on average, 920 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 10,500 felony probation and parole offenders in the state.

Montana Correctional Enterprises (99.51 FTE) provides education, work experience and transitional services to offenders, and is responsible for the following programs:

- ◆ **Industries** includes furniture, upholstery, print, sign, sewing, and laundry at Montana State Prison; and 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, 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.
- ◆ **Education and Library Services** provides adult basic education, High School Equivalency Test (HiSET) preparation, special education, general library services and legal library services, and parenting and life skills.

- ◆ **Food Factory** operates a cook-chill operation and bakery, which provides 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 and generate registration tabs and decals.

Secure Custody Facilities (728.36 FTE) includes all of the following prison programs for felony adult males and females, which is approximately 20 percent of the adult offenders supervised by the department. The department also currently contracts with a facility in Idaho to house juvenile females.

- ◆ **Montana State Prison** in Deer Lodge houses up to 1,620 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 215 female inmates ranging from minimum to maximum security levels and provides chemical dependency, education, and treatment programs.
- ◆ **Contract Facilities** includes all contract private and county operated prison programs housing up to 936 beds. It also includes county jail holds which range in beds depending on the needs of the department.
- ◆ **Pine Hills Correctional Facility** in Miles City has an operational capacity of 126 secure-care beds, of which 38 beds are for the juvenile males in two separate housing units, including one with specialized sex offender treatment for juvenile males. There are 88 beds for adult males in four different housing units. Each Pine Hills adult unit is specialized to meet the needs of the department, and these four housing units are as follows:
 - A 22-bed assessment unit.
 - A 22-bed 90-day treatment unit.
 - A 22-bed young offender treatment and training program unit.
 - A 22-bed jail hold unit.

By specifically addressing the needs of these offenders, the department hopes to improve the outcome for the offenders and increase their success as they return to the community.

Table 1 (see page 5) shows information related to adult populations, and Table 2 (see page 6) 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
Average Daily Adult Populations
 Fiscal Years 2018 through 2020

Male Prison Beds	FY 2018	FY 2019	FY 2020
Montana State Prison-Deer Lodge	1,565	1,630	1,620
Great Falls Regional Prison-Great Falls	151	151	148
Dawson County Regional Prison-Glendive	143	143	140
Crossroads Correctional Center-Shelby	587	587	602
Lewistown Infirmary (closed in 2018)	24	16	0
Riverside Special Needs Unit	0	19	23
MSP Jail Hold	36	23	46
Total Male Prison	2,506	2,569	2,579
Female Prison Beds	FY 2018	FY 2019	FY 2020
Montana Women's Prison-Billings	213	221	215
MWP Jail Hold	19	15	22
Total Female Prison	232	236	237
Alternatives to Prison-Community Corrections	FY 2018	FY 2019	FY 2020
Male Community Corrections Jail Hold	200	124	159
Female Community Corrections Jail Hold	71	54	59
County Jail Sanctions	2	0	0
Boot Camp (male)-Deer Lodge	5	0	0
Pine Hills Training and Treatment Program	42	63	75
Riverside Reentry Program	25	0	0
Missoula Assessment and Sanction Center	142	135	128
Sanction, Treatment, Assessment, Revocation and Transition (START)	140	145	146
Passages Assessment, Sanction and Revocation Center	47	55	52
Connections Corrections (male)-Butte/Warm Springs	107	136	144
Passages Alcohol and Drug Treatment (female)-Billings	44	46	49
Meth Treatment (male)-Lewistown	81	69	77
Meth Treatment (female)-Boulder	36	33	45
WATCh Program (male)-Warm Springs	103	76	67
WATCh Program (male)-Glendive	29	23	23
WATCh Program (female)-Glendive	21	20	13
Total Alternatives to Prison	1,095	979	1,037

(Table 1 continued on next page)

Table 1 continued from page 5			
Prerelease/Transitional Living-Community Corrections	FY 2018	FY 2019	FY 2020
Prerelease (male)	671	637	629
Prerelease (female)	188	186	192
Transitional Living (male/female)	96	211	99
Total Prerelease/Transitional Living	955	1,034	920
Specialized Supervision Programs-Community Corrections	FY 2018	FY 2019	FY 2020
Specialized Programs	287	0	0
Specialized Populations	220	0	0
Total Specialized Supervision	507	0	0
Probation & Parole-Community Corrections	FY 2018	FY 2019	FY 2020
Probation & Parole	9,922	10,598	10,379
Enhanced Supervision Program	122	218	130
Total Probation & Parole	10,044	10,816	10,509

Source: Department of Corrections.

Table 2
Average Daily Youth Populations
 Fiscal Years 2018 through 2020

Youth Secure	FY 2018	FY 2019	FY 2020
Pine Hills	38	38	22
Idaho	10	8	9
Total Youth Secure	48	46	31
Youth Parole	FY 2018	FY 2019	FY 2020
Male Youth Treatment Center	5	1	0
Other Male Parole	29	0	0
Other Female Parole	5	0	0
Total Youth Parole	39	1	0

Source: Department of Corrections.

Prior Audit Recommendations

Our prior audit report of the department, for the two fiscal years ended June 30, 2018, contained two recommendations. The department fully implemented one

recommendation and partially implemented one recommendation. The fully implemented recommendation related to improving internal control procedures to ensure accurate revenue estimate reporting.

The partially implemented recommendation was directed to the Montana Legislature, in coordination with the department, and related to resolving compliance issues resulting from placing youth offenders in a facility used to execute sentences of adults convicted of crimes and using state youth correctional facilities contrary to the purposes outlined in state law. Based on discussions with the department, they found a sponsor for a bill to revise the existing laws to implement the recommendation and the legislation is being drafted. There has not been a legislative session between issuance of the prior audit report and the current audit report for the legislature to introduce and pass a bill to revise the laws. For this reason, we make no further recommendation at this time.

Chapter II – Findings and Recommendation

GASB 84 Implementation

In fiscal year 2020, the State of Montana implemented Governmental Accounting Standards Board (GASB) No. 84, Fiduciary Activities. The Department of Corrections (department) implementation decisions caused its inmate trust and restitution accounts to be improperly reported.

The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Section 17-1-102, MCA, requires the department to record its financial activity in accordance with Generally Accepted Accounting Principles, which includes GASB Statement No. 84.

Under GASB Statement No. 84, fiduciary activities include assets held by the department in a custodial capacity for the benefit of individuals. Fiduciary activities are required to be reported in the following types of funds:

- ◆ Pension (and other employee benefit) trust funds,
- ◆ Investment trust funds,
- ◆ Private-Purpose trust funds (PPTF), or
- ◆ Custodial Funds.

In addition, custodial funds replaced the agency funds previously used to account for resources held in a purely custodial capacity. All activity previously reported in agency funds had to be re-evaluated to determine which fund type is now most appropriate. Activity that does not meet the new fiduciary activities criteria should be reported in the governmental funds, such as the State Special Revenue Fund (SSRF). An activity meeting all the following criteria is considered fiduciary activity:

- ◆ The assets are controlled by the department.
- ◆ The assets are not derived from the department's other revenue sources, except for certain pass-through grants.
- ◆ The assets have at least one of the following characteristics:
 - Administered through a trust dedicated to providing benefits to recipients in accordance with benefit terms. The department cannot be a beneficiary and the trust must be legally protected from the department's creditors.
 - Held for the benefit of individuals and not associated with goods or services the department provides to those individuals. The department can have no administrative or direct financial involvement, such as

monitoring compliance, determining eligible expenditures, exercising discretion over allocation of the assets, or providing matching resources.

- Held for the benefit of organizations or other governments and not associated with goods or services the department provides to those organizations or governments.

The department had three agency funds requiring a reevaluation: Inmate Trust Accounts, Department of Corrections Restitution (restitution), and Juvenile Placement Trust Account.

During the department's implementation of GASB 84, they consulted with the State Accounting Bureau within the Department of Administration to determine where Inmate Trust Accounts and restitution should be reported. They determined the Inmate Trust Accounts and restitution funds meet the criteria to be classified as PPTF. They also determined the Juvenile Placement Trust Account to be a governmental activity and placed it into a SSRF.

After reviewing GASB 84 and discussing its requirements with GASB personnel, we do not agree with the department's assessment that the Inmate Trust Accounts are fiduciary activity or that Inmate Trust Accounts and restitution funds meet the criteria to be classified as PPTF. Based on our review, the classification decisions inappropriately applied the requirements in GASB 84 to the facts and circumstances of the department's activities, including their associated statutory provisions. We consider this to be human error, and not indicative of a weakness in internal controls at the department. The following paragraphs summarize the results of our review and the basis for our conclusions.

Inmate Trust Accounts

While the Inmate Trust Accounts are controlled by the department and are not derived from the department's revenue sources, the accounts do not meet the remaining fiduciary activities criteria. Specifically, Inmate Trust Accounts are not held in a trust or trust equivalent arrangement. While 'trust' is in the account name, a statutory requirement to only maintain the accounts is not equivalent to a trust arrangement with established benefit terms. State law also does not protect the account from the department's creditors. While the accounts are held for the benefit of individuals, the department has administrative involvement. The department assesses fees for poor behavior based on facility policy, and state law grants them the ability to use the inmate account balances to pay those fees. Additionally, §53-1-107(4), MCA, requires the department to adopt rules to create savings subaccounts in working inmate accounts. The department has adopted rules and imposes a minimum 20 percent savings deduction from working inmate accounts. Savings subaccounts are only

returned to an inmate when they are released from custody or may be used prior to inmate release to pay re-entry expenses. Re-entry expenses must be requested by an inmate and approved by a designated department employee. These provisions result in administrative involvement by the department. Based on our review, the Inmate Trust Accounts should be reported in the SSRF.

Restitution

Restitution activity meets the fiduciary activity criteria but is not administered through a trust or trust equivalent arrangement. The PPTF is used to report fiduciary activities held in trust or trust equivalent arrangement not meeting the criteria for pension and other employee benefit trust funds or investment trust funds. Restitution is not administered through a trust or trust equivalent arrangement. Therefore, it should not be reported in a PPTF. Instead, it should be reported as a custodial fund. Custodial funds are used to report fiduciary activities that are not required to be reported in pension, investment, or PPTF.

Summary of Resulting Financial Schedule Misstatements

As a result of the department improperly classifying the activity in the restitution and inmate trust accounts, the department's accounting records contain errors, which are summarized in Table 3 below. Errors in accounting records also flow to the department's financial schedules.

	Private-Purpose Trust Fund	State Special Revenue Fund	Custodial Fund
Non-Budgeted Miscellaneous Revenue	\$10,315,153	(\$4,872,108)	(\$5,443,044)
Non-Budgeted Other Expenses Expenditures	\$7,708,121	(\$3,576,022)	(\$4,132,098)
Fund Equity	\$2,607,031	(\$1,296,085)	(\$1,310,945)

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

Summary

The department agrees with our assessment that restitution funds meet the criteria to be reported as custodial funds. However, the department does not agree with our assessment that Inmate Trust Accounts should be reported as governmental activity

in the SSRF. The department has stated that monies deposited in the Inmate Trust Account belong to the inmate and should not be subject to the state of Montana's creditors, and reporting of the activity as government might signal the cash in this account is available for the state to use at will. However, state law does not establish these accounts as trusts or trust equivalent arrangements. When reporting this activity, the department will be required to classify the fund balance according to its availability. Based on our review of GASB standards, we believe the fund balance meets the requirement to be reported as restricted. Restricted fund balances can only be spent for specific purposes as specified by enabling legislation. State law requires the use of the inmate trust account system for the inmate to receive and send money. Therefore, a restricted fund balance will place enough protections on the activity to alleviate the department's concerns.

RECOMMENDATION #1

We recommend the Department of Corrections comply with state law by recording the Inmate Trust Accounts and Restitution activity in the State Special Revenue and Custodial Funds, respectively.

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:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Corrections, 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, 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.

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, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held In Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, 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, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

In fiscal year 2020, the state adopted *Governmental Accounting Standards Board Statement No. 84 – Fiduciary Activities*. Implementation of the standard necessitated elimination of the presentation of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, 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 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

October 23, 2020

DEPT OF CORRECTIONS
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2019	\$ (10,542,831)	\$ 1,990,142	\$ (31,451)	\$ 15,981,169	\$ 2,703,301	\$ 0
ADDITIONS						
Budgeted Revenues & Transfers-In	4,236,792	5,816,011	19,435,119	10,061,566	6,089,797	
Nonbudgeted Revenues & Transfers-In	(3,327)	33,064	3,018	174,552		10,315,153
Prior Year Revenues & Transfers-In Adjustments	3,327	15,023,667	306,276	(146)	1,559	
Direct Entries to Fund Equity	197,063,210	96,502	27,836	94,021	(134,749)	
Total Additions	201,300,002	20,969,243	19,772,249	10,329,994	5,956,607	10,315,153
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	205,048,287	6,180,038	19,743,607	10,026,675	5,940,723	
Nonbudgeted Expenditures & Transfers-Out	(79,738)	13,370		595,941	(43,040)	7,708,121
Prior Year Expenditures & Transfers-Out Adjustments	5,374	14,856,145	1,648	6,746	895	
Total Reductions	204,973,923	21,049,552	19,745,256	10,629,362	5,898,578	7,708,121
FUND EQUITY: June 30, 2020	\$ (14,216,752)	\$ 1,909,833	\$ (4,458)	\$ 15,681,801	\$ 2,761,329	\$ 2,607,031

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

DEPT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2018							
PROPERTY HELD IN TRUST: July 1, 2018	<u>\$ (10,366,056)</u>	<u>\$ 1,769,793</u>	<u>\$ (26,580)</u>	<u>\$ (67,607)</u>	<u>\$ 16,986,259</u>	<u>\$ 2,618,687</u>	<u>\$ 0</u>
							<u>\$ 2,205,434</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	80,098	5,626,751	15,240,567		10,284,476	5,838,814	
Nonbudgeted Revenues & Transfers-In		5,788	444		46,762		
Prior Year Revenues & Transfers-In Adjustments	198,830,025	13,871	1,156	67,607	56,931	20	
Direct Entries to Fund Equity		(7,812)	(2,510)		76,421	(1,558)	
Additions to Property Held in Trust							9,396,835
Total Additions	<u>198,910,122</u>	<u>5,638,598</u>	<u>15,239,657</u>	<u>67,607</u>	<u>10,464,591</u>	<u>5,837,275</u>	<u>9,396,835</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	199,693,730	5,401,826	15,254,679		10,180,215	5,783,071	
Nonbudgeted Expenditures & Transfers-Out	(588,070)	16,290			1,294,418	(29,934)	
Prior Year Expenditures & Transfers-Out Adjustments	(18,762)	134	(10,152)		(4,951)	(476)	
Reductions in Property Held in Trust							9,225,100
Total Reductions	<u>199,086,897</u>	<u>5,418,249</u>	<u>15,244,527</u>	<u>0</u>	<u>11,469,681</u>	<u>5,752,661</u>	<u>9,225,100</u>
FUND EQUITY: June 30, 2019	<u>\$ (10,542,831)</u>	<u>\$ 1,990,142</u>	<u>\$ (31,451)</u>	<u>\$ 0</u>	<u>\$ 15,981,169</u>	<u>\$ 2,703,301</u>	<u>\$ 0</u>
PROPERTY HELD IN TRUST: June 30, 2019							<u>\$ 2,377,169</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.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Licenses and Permits	\$	68,936				\$	68,936
Taxes			1,628				1,628
Charges for Services		1,312,151		5,837			1,317,988
Investment Earnings			10,607				10,607
Fines and Forfeits		7,894					7,894
Capital Contributions					4,551		4,551
Sale of Documents, Merchandise and Property		3,388,878		10,075,321	6,086,804		19,551,004
Grants, Contracts, and Donations		612,658					612,658
Transfers-in		467,866	5,087,966	125,073			5,555,832
Capital Asset Sale Proceeds	\$ 9,853						9,853
Federal Indirect Cost Recoveries	4,226,939	15,014,358		29,742		10,315,153	29,586,191
Miscellaneous							14,644,212
Federal			14,644,212				14,644,212
Total Revenues & Transfers-In	4,236,792	20,872,741	19,744,413	10,235,973	6,091,356	10,315,153	71,496,427
Less: Nonbudgeted Revenues & Transfers-In	(3,327)	33,064	3,018	174,552		10,315,153	10,522,460
Prior Year Revenues & Transfers-In Adjustme	3,327	15,023,667	306,276	(146)	1,559		15,334,683
Actual Budgeted Revenues & Transfers-In	\$ 4,236,792	\$ 5,816,011	\$ 19,435,119	\$ 10,061,566	\$ 6,089,797	\$ 0	\$ 45,639,284

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

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Licenses and Permits	\$	180,546				\$ 180,546
Taxes			1,541			1,541
Charges for Services		1,319,902		977		1,320,880
Investment Earnings			3,500			3,500
Fines and Forfeits		6,517				6,517
Sale of Documents, Merchandise and Property		3,037,123		10,377,920	5,838,834	19,253,877
Grants, Contracts, and Donations		562,466				562,466
Transfers-in		530,866	1,013,494			1,544,360
Federal Indirect Cost Recoveries	\$ 21,276					21,276
Miscellaneous	58,822	8,990		9,273		77,084
Federal			14,223,633			14,223,633
Total Revenues & Transfers-In	80,098	5,646,409	15,242,167	10,388,170	5,838,834	37,195,678
Less: Nonbudgeted Revenues & Transfers-In		5,788	444	46,762		52,994
Prior Year Revenues & Transfers-In Adjustments		13,871	1,156	56,931	20	71,978
Actual Budgeted Revenues & Transfers-In	\$ 80,098	\$ 5,626,751	\$ 15,240,567	\$ 10,284,476	\$ 5,838,814	\$ 37,070,706

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

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administrative Support Services	Board of Pardons & Parole	Clinical Services Division	Montana Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Total
Personal Services							
Salaries	\$ 7,884,807	\$ 611,611	\$ 7,747,583	\$ 4,368,615	\$ 12,560,605	\$ 35,353,787	\$ 68,527,008
Hourly Wages			4,264	511,548	(357)	400,710	916,165
Other Compensation	1,700						1,700
Employee Benefits	2,905,186	218,365	3,013,886	1,758,991	5,685,149	15,447,743	29,029,320
Personal Services-Other				(25,137)			(25,137)
Total	<u>10,791,693</u>	<u>829,976</u>	<u>10,765,733</u>	<u>6,614,016</u>	<u>18,245,397</u>	<u>51,202,240</u>	<u>98,449,056</u>
Operating Expenses							
Other Services	5,263,113	307	6,609,796	237,540	53,827,588	32,001,321	97,939,666
Supplies & Materials	779,150	6,970	4,226,139	2,612,110	915,296	5,805,037	14,344,703
Communications	1,155,212	7,012	8,665	15,119	227,623	88,290	1,501,921
Travel	155,319	2,408	28,184	43,314	220,468	339,019	788,712
Rent	657,574	63,771	58,567	63,868	1,831,451	244,913	2,920,144
Utilities			3,840	257,868	30,661	1,359,866	1,652,235
Repair & Maintenance	100,679	300	16,284	815,885	147,891	1,341,340	2,422,380
Other Expenses	7,981,588	1,833	22,088	2,418,079	624,226	401,610	11,449,424
Goods Purchased For Resale				8,790,959		(7,695)	8,783,264
Total	<u>16,092,635</u>	<u>82,601</u>	<u>10,973,565</u>	<u>15,254,742</u>	<u>57,825,205</u>	<u>41,573,702</u>	<u>141,802,449</u>
Equipment & Intangible Assets							
Equipment	22,885		21,099	43,054		397,727	484,765
Total	<u>22,885</u>		<u>21,099</u>	<u>43,054</u>		<u>397,727</u>	<u>484,765</u>
Capital Outlay							
Buildings				(173,698)			(173,698)
Total				<u>(173,698)</u>			<u>(173,698)</u>
Grants							
From State Sources	651,016						651,016
From Federal Sources	9,876,579						9,876,579
Total	<u>10,527,595</u>						<u>10,527,595</u>
Benefits & Claims							
From State Sources						34,585	34,585
Total						<u>34,585</u>	<u>34,585</u>
Transfers-out							
Fund transfers	17,859,532			83,649		145,000	18,088,181
Total	<u>17,859,532</u>			<u>83,649</u>		<u>145,000</u>	<u>18,088,181</u>
Debt Service							
Loans			20,877		48,235	486,702	555,814
Capital Leases				62			62
Total			<u>20,877</u>	<u>62</u>	<u>48,235</u>	<u>486,702</u>	<u>555,876</u>
Post Employment Benefits							
Other Post Employment Benefits				11,314			11,314
Employer Pension Expense				224,668			224,668
Total				<u>235,982</u>			<u>235,982</u>
Total Expenditures & Transfers-Out	<u>\$ 55,294,340</u>	<u>\$ 912,577</u>	<u>\$ 21,781,274</u>	<u>\$ 22,057,808</u>	<u>\$ 76,118,837</u>	<u>\$ 93,839,956</u>	<u>\$ 270,004,792</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 17,008,190	\$ 912,577	\$ 21,781,274	\$ 2,021,984	\$ 71,119,168	\$ 92,130,730	\$ 204,973,923
State Special Revenue Fund	15,539,689			3,398,842	676,362	1,434,660	21,049,552
Federal Special Revenue Fund	14,924,937			222,445	4,323,307	274,566	19,745,256
Enterprise Fund	84,582			10,544,780			10,629,362
Internal Service Fund	28,821			5,869,757			5,898,578
Private Purpose Trust Fund	7,708,121						7,708,121
Total Expenditures & Transfers-Out	55,294,340	912,577	21,781,274	22,057,808	76,118,837	93,839,956	270,004,792
Less: Nonbudgeted Expenditures & Transfers-Out	7,720,700			552,900		(78,947)	8,194,653
Prior Year Expenditures & Transfers-Out Adjustments	15,004,197			7,624	(130,889)	(10,123)	14,870,809
Actual Budgeted Expenditures & Transfers-Out	32,569,443	912,577	21,781,274	21,497,284	76,249,726	93,929,027	246,939,330
Budget Authority	46,647,712	913,130	24,292,286	23,371,669	76,626,154	94,215,830	266,066,781
Unspent Budget Authority	<u>\$ 14,078,269</u>	<u>\$ 553</u>	<u>\$ 2,511,012</u>	<u>\$ 1,874,385</u>	<u>\$ 376,428</u>	<u>\$ 286,803</u>	<u>\$ 19,127,450</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 246,718	\$ 553	\$ 2,302,112		\$ 72,060	\$ 53,061	\$ 2,674,504
State Special Revenue Fund	62,743		208,900		304,369	79,926	655,937
Federal Special Revenue Fund	13,768,808			661,220		153,816	14,583,843
Enterprise Fund				1,021,925			1,021,925
Internal Service Fund				191,241			191,241
Unspent Budget Authority	<u>\$ 14,078,269</u>	<u>\$ 553</u>	<u>\$ 2,511,012</u>	<u>\$ 1,874,385</u>	<u>\$ 376,428</u>	<u>\$ 286,803</u>	<u>\$ 19,127,450</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.

DEPT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administrative Support Services	Board of Pardons & Parole	Clinical Services Division	Montana Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Total
Personal Services							
Salaries	\$ 7,243,372	\$ 593,326	\$ 6,729,764	\$ 3,852,281	\$ 12,373,366	\$ 33,264,424	\$ 64,056,534
Hourly Wages			2,768	504,607		383,539	890,914
Other Compensation	1,400						1,400
Employee Benefits	2,681,790	212,228	2,730,799	1,525,277	5,704,826	14,619,973	27,474,893
Personal Services-Other				(7,744)			(7,744)
Total	9,926,562	805,554	9,463,331	5,874,421	18,078,192	48,267,936	92,415,996
Operating Expenses							
Other Services	5,714,708	321	6,116,605	262,651	51,764,795	30,709,827	94,568,907
Supplies & Materials	556,685	3,236	4,173,644	2,901,441	646,794	5,100,163	13,381,963
Communications	1,160,406	6,802	20,004	22,566	225,495	96,071	1,531,345
Travel	155,635	2,505	38,593	56,398	230,354	401,531	885,017
Rent	596,052	61,826	69,373	42,495	1,724,903	420,684	2,915,332
Utilities			69,565	241,726	29,245	1,317,860	1,658,395
Repair & Maintenance	81,538	179	51,804	874,262	65,616	1,012,532	2,085,930
Other Expenses	251,039	1,091	34,139	2,671,790	341,001	406,061	3,705,121
Goods Purchased For Resale				8,353,775		564	8,354,340
Total	8,516,063	75,960	10,573,727	15,427,104	55,028,203	39,465,293	129,086,349
Equipment & Intangible Assets							
Equipment			5,902	(8,575)		68,537	65,864
Total			5,902	(8,575)		68,537	65,864
Capital Outlay							
Total							
Grants							
From State Sources	1,016,684						1,016,684
From Federal Sources	9,437,237						9,437,237
Total	10,453,920						10,453,920
Benefits & Claims							
From State Sources						569,330	569,330
Total						569,330	569,330
Transfers-out							
Fund transfers	3,325,214			144,627		25,000	3,494,841
Total	3,325,214			144,627		25,000	3,494,841
Debt Service							
Loans					48,235	436,669	484,904
Capital Leases				5,502			5,502
Total				5,502	48,235	436,669	490,406
Post Employment Benefits							
Other Post Employment Benefits				16,999			16,999
Employer Pension Expense				378,310			378,310
Total				395,309			395,309
Total Expenditures & Transfers-Out	\$ 32,221,759	\$ 881,514	\$ 20,042,960	\$ 21,838,388	\$ 73,154,630	\$ 88,832,766	\$ 236,972,016
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 16,932,671	\$ 881,514	\$ 20,021,742	\$ 1,597,657	\$ 72,339,958	\$ 87,313,355	\$ 199,086,897
State Special Revenue Fund	406,818			2,988,598	814,671	1,208,161	5,418,249
Federal Special Revenue Fund	14,775,041		21,218	137,019		311,249	15,244,527
Enterprise Fund	79,977			11,389,704			11,469,681
Internal Service Fund	27,252			5,725,409			5,752,661
Total Expenditures & Transfers-Out	32,221,759	881,514	20,042,960	21,838,388	73,154,630	88,832,766	236,972,016
Less: Nonbudgeted Expenditures & Transfers-Out	15,411			1,264,484		(587,192)	692,703
Prior Year Expenditures & Transfers-Out Adjustments	(13,003)		(15,794)	(5,456)		45	(34,208)
Actual Budgeted Expenditures & Transfers-Out	32,219,351	881,514	20,058,754	20,579,360	73,154,630	89,419,912	236,313,521
Budget Authority	47,131,770	1,008,059	20,272,106	21,808,379	77,273,546	90,452,569	257,946,428
Unspent Budget Authority	\$ 14,912,419	\$ 126,545	\$ 213,352	\$ 1,229,019	\$ 4,118,916	\$ 1,032,657	\$ 21,632,908
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 689,503	\$ 126,545	\$ 4,452	\$ 154,470	\$ 4,118,916	\$ 723,580	\$ 5,817,465
State Special Revenue Fund	369,548		208,900	7,244		144,600	730,292
Federal Special Revenue Fund	13,853,369			68,438		164,476	14,086,283
Enterprise Fund				837,114			837,114
Internal Service Fund				161,753			161,753
Unspent Budget Authority	\$ 14,912,419	\$ 126,545	\$ 213,352	\$ 1,229,019	\$ 4,118,916	\$ 1,032,657	\$ 21,632,908

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, 2020

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 and Capital Projects). 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 and 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.

On June 16, 2020, Legislative Audit Committee approved changes to the Regulatory Basis Special Purpose Framework for Agency Financial Schedules. The Committee voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. In FY20 the Schedule of Changes in Fund Equity no longer reports property held in trust line items and does not contain property held in trust in its name. Additionally, the Committee voted to exclude revenue estimate

activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

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. These funds are used to pay expenditures associated with incarceration and supervision of offenders throughout the State of Montana. Resources are also used to pay for housing offenders in contracted facilities such as pre-release, treatment facilities and county jail holds.
- ◆ **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, prison rape elimination act, substance abuse treatment, victims of domestic violence, victims of crime, homeland security, school foods and various education programs.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The Department used these funds to pay for emergency repairs to the secure perimeter fencing at Montana State Prison in fiscal year 2018. No expenditures were recorded in FY19, however there was a direct entry to fund equity during FYE.

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

- ♦ **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 during FY19.
- ♦ **Private Purpose Trust** – are used to report all fiduciary activities that (a) are not required to be reported in pension and other employee benefit trust funds and (b) are held in a trust that meets the criteria in paragraph 11c(1): the assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government. Private Purpose Trust Funds are used to account for moneys belonging to inmates of facilities and restitution for victims during FY20.

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, 2019 and June 30, 2020.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue, Capital Projects 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 2019, the department had \$21.6 million in unspent budget authority.

Administrative Support Services – Administrative Support Services had unspent budget authority of \$14.9 million at June 30, 2019. The Montana Board of Crime Control became a Bureau within the Administrative Support Services Division of the Department of Corrections in FY18. As a result, the Division has several federal

grants that span more than one year which contributes approximately \$13.8 million of unspent budget authority related to the Department's Crime Control Bureau's various grants. The remaining amounts are comprised of general fund and restricted state special revenue funds for the collection of restitution.

Clinical Services Division – had unspent budget authority of \$213,000 on June 30, 2019. The bulk of the unspent budget authority is restricted authority for expenditures related to Medical Copays (\$208,000).

Board of Pardons and Parole – had unspent budget authority of \$126,545 in the general fund on June 30, 2019.

Montana Correctional Enterprises – had \$1.2 million in unspent budget authority on June 30, 2019 due to fluctuating market prices in the Enterprise and Internal Service fund operations.

The Probation and Parole, Secure Custody and the Programs and Facilities Division – had a combined total of unspent budget authority of \$5.1 million at June 30, 2019. The bulk of the unspent authority is within the Programs and Facilities Bureau and is primarily comprised of restricted funding for additional treatment beds.

As noted on the Schedule of Total Expenditures & Transfers-Out for Fiscal Year 2020, the department had \$19.1 million in unspent budget authority.

Administrative Support Services – Administrative Support Services had unspent budget authority of \$14.1 million at June 30, 2020. The Montana Board of Crime Control became a Bureau within the Administrative Support Services Division of the Department of Corrections in FY18. As a result, the Division has several federal grants that span more than one year which contributes approximately \$13.7 million of unspent budget authority related to the Department's Crime Control Bureau's various grants. The remaining amounts are comprised of general fund and restricted state special revenue funds for the collection of restitution.

Clinical Services Division – had unspent budget authority of \$2.5 million dollars on June 30, 2020. The Division has biennial appropriation authority and in the process of acquiring an Electronic Medical Records system which is anticipated to cost in excess of \$1.5 million dollars.

Montana Correctional Enterprises – had \$1.8 million in unspent budget authority on June 30, 2020 due to fluctuating market prices in the Enterprise and Internal Service fund operations.

The Probation and Parole, Programs and Facilities Division and the Secure Custody Facilities Division – had a combined total of unspent budget authority of \$663,231 at June 30, 2020. The bulk of the unspent authority is within the Programs and Facilities Bureau.

5. Contractual Commitments

At June 30, 2020, the department had contractual commitments of approximately \$10.3 million and the department made bond payments on those contracts totaling \$2.3 million in fiscal year 2020. 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.

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. In FY19 the Department paid \$189,000 to Boyd Andrew-Elkhorn Treatment Center as a result of this guarantee.

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

In Fiscal Year 2019, the financial schedule presentation shows all activity recorded in “additions and deletions to property held in trust” on the Schedule of Changes in Fund Equity & Property Held in Trust, including corrections. As a result, the “additions and deletions to property held in trust” in Fiscal Year 2019 include all activity even though corrections were made. The ending balance in the agency fund is correct.

7. Implementation of GASB 84-Fiduciary Activities

In Fiscal Year 2020, the State of Montana implemented GASB 84-Fiduciary Activities which had implications to the presentation of activity on the Department's financial schedules as it related to the Department's Restitution and Inmate Trust Accounts. Through consultation with the Department of Administration these funds were determined to meet the criteria to be classified as Private Purpose Trust Funds. Activity associated with these funds for Fiscal Year 2020 is recorded in the Private Purpose Trust Fund column on the Schedule of Total Revenues & Transfers-In as well as in the Private Purpose Trust Fund column on the Schedule of Changes in Fund Equity.

Expenditure activity is reported in the Administrative Support Services section of the Schedule of Total Expenditures & Transfers-Out.

8. Contingencies

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.

9. Other

Cares Act – In Fiscal Year 2020 the Department received \$4.3 million dollars in federal funding as a result of the CARES Act due to the COVID 19 pandemic. These funds were used to offset unforeseen expenditures that the Department incurred as a result of the pandemic. Funds were used to offset the personnel costs related to the P&P staff working with offenders in the community, purchase necessary medical equipment, such as hand washing stations, thermometers and personal protective equipment and to provide subsistence payments to our prerelease and treatment vendors to ensure continuity in their operations during the pandemic. The Department anticipates that it will receive additional CARES Act funding in Fiscal Year 2021 to offset continuing increases in expenditures due to the continuation of the pandemic.

Private Prison Contract Renegotiation – The State of Montana received \$30.0 million dollars in repaid User Fees from CoreCivic, the company that operates the private prison in Shelby, Montana in exchange for a multiyear contract extension. Senate Bill (SB) 9 was passed during the 2017 Special Session (65th Legislative Session). SB9 directed the Department to deposit \$15 million dollars in the fire suppression account and to place the balance of \$15 million into the Private Correctional Facility Contract Renegotiation Account which was established for the legislature to be able to appropriate the remaining funds to essential services in the future. The Department of Administration jointly controls the account that was established in fund 02208. During the 66th Legislative Session, House Bill (HB) 3 passed, which directed that the remaining \$15 million dollars in the Private Correctional Facility Contract Renegotiation Account to also be transferred to the fire suppression account.

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Corrections, and the related notes to the financial schedules, and have issued our report thereon dated October 23, 2020.

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 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 the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

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

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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*.

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

October 23, 2020

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE



MONTANA DEPARTMENT OF
CORRECTIONS
DIRECTOR'S OFFICE

Steve Bullock, Governor | Reginald D. Michael, Director

November 23, 2020

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LEGISLATIVE AUDIT DIV.

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

RE: Financial Compliance Audit # 20-15: Department of Corrections for the Two Fiscal Years Ended June 30, 2020

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 recommendation contained in the report and our response is as follows:

RECOMMENDATION #1:

We recommend the Department of Corrections comply with state law by recording the Inmate Trust Accounts and Restitution activity in the State Special Revenue and Custodial Funds, respectively.

Department Response: Partially Concur

The department performed due diligence in conjunction with the Department of Administration when determining the proper classification for the Department's Fiduciary Funds when implementing Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities Implementation. Initially, we are not convinced that the funds are improperly recorded as Private Purpose Trust Funds. The Department will collaborate with the Department of Administration to review the initial determination to ensure proper designation of the Inmate Trust and Restitution funds, respectively.

Sincerely,



Reginald Michael
Director

RM:kt

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