



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of
Corrections*

*For the Two Fiscal Years Ended
June 30, 2018*

APRIL 2019

LEGISLATIVE AUDIT
DIVISION

18-15

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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. Most 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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April 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Corrections for the two fiscal years ended June 30, 2018. The report contains two recommendations to the department related to the use of youth correctional facilities and internal controls over revenue estimates. Our audit effort focused on the department's expenditures for personal services and for housing inmates. We also performed work over the revenues generated by the Montana Correctional Enterprise programs and federal revenue activity for the Board of Crime Control.

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

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Internal Service Funds	1
Background.....	2
Prior Audit Recommendations.....	7
Apparent Penal Violation Referral.....	8
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	9
State Youth Correctional Facilities	9
Pine Hills Youth Correctional Facility	9
Riverside Youth Correctional Facility.....	9
Summary	10
Revenue Estimate Errors	11
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Combined Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2018.....	A-5
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2017.....	A-6
Combined Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2018.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2017.....	A-8
Combined Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2018.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2017.....	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	B-1
DEPARTMENT RESPONSE	
Department of Corrections.....	C-1

FIGURES AND TABLES

Tables

Table 1	Average Daily Adult Populations.....	6
Table 2	Average Daily Youth Populations.....	7
Table 3	Revenue Estimate Overstatements	12

APPOINTED AND ADMINISTRATIVE OFFICIALS

Director's Office	Reginald Michael, Director (effective July 2017) Mike Batista, Director (through July 2017) Cynthia Wolken, Deputy Director (effective January 2018) Loraine Wodnik, Deputy Director (through December 2017)
Administrative Services	John Daugherty, Division Administrator (effective October 2018)
Business Management Services*	Pat Schlauch, Division Administrator (through September 2018)
Information Technology*	John Daugherty, Division Administrator (through September 2018)
*As a result of reorganization, the Business Management Services and Information Technology divisions are now part of the Administrative Services Division, effective September 2018.	
Probation and Parole	Kevin Olson, Division Administrator
Secure Custody Facilities	Lynn Guyer, Warden, Montana State Prison (effective October 2018) Jim Salmonsens, Acting Warden, Montana State Prison (February 2018 - October 2018) Mike Fletcher, Warden, Montana State Prison (April 2017 - January 2018) Leroy Kirkegard, Warden, Montana State Prison (through April 2017) Jennie Hansen, Warden, Montana Women's Prison (effective November 2017) Robert Paul, Acting Warden, Montana Women's Prison (August 2017 - November 2017) Joan Daly-Shinners, Warden, Montana Women's Prison (through July 2017) Steve Ray, Superintendent, Pine Hills
Montana Correctional Enterprises	Gayle Butler, Division Administrator
Youth Services	Cindy McKenzie, Division Administrator (through October 2018)
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	01/01/2021
Renee Bauer	Helena	01/01/2021
Kristina Lucero	Missoula	01/01/2025
Darrell Bell	Billings	01/01/2025
Brad Newman	Butte	01/01/2023

Montana Board of Crime Control

<u>Board Members</u>	<u>Representing</u>	<u>Term Expires</u>
Laura Obert, Chair	Local Government	01/01/2021
Rick Kirn, Vice Chair	Tribal Government	01/01/2019
Laurie Barron	Educator	01/01/2019
Reginald Michael	Law Enforcement	01/01/2019
Tim Brurud	Youth Justice Advisory	01/01/2021
Brenda Desmond	Judge/Judiciary	01/01/2019
William Dial	Law Enforcement	01/01/2021
Leo Dutton	Local Law Enforcement	01/01/2021
Tim Fox	Attorney General	01/01/2021
Wyatt Glade	Law Enforcement	01/01/2021
Katie Wirtz	Community	01/01/2021
Beth McLaughlin	Judiciary	01/01/2019
Angela Russell	Public	01/01/2019
Peter Ohman	Criminal Justice Agency	01/01/2019
Olivia Rieger	Public	01/01/2021
Jared Cobell	Public	01/01/2021

Geri Small	Professional Community Organizations	01/01/2021
Derek VanLuchene	Public	01/01/2019

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, 2018

APRIL 2019

18-15

REPORT SUMMARY

The Department of Corrections is tasked with developing and maintaining comprehensive services and programs in the fields of adult and youth corrections for the state. The department managed an average of approximately 14,400 and 15,400 offenders in fiscal years 2017 and 2018, respectively. In fiscal years 2017 and 2018 combined, the department spent approximately \$400 million of General Fund money in support of its operations. This report contains two recommendations to the department related to the use of youth correctional facilities and internal controls over revenue estimates.

Context

The Department of Corrections (department) operated two prisons and two state youth correctional facilities 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. Offenders may engage in various skill-development programs at the prisons, intended to prepare them for re-entry into the community.

The department's operations are funded primarily by the state's General Fund. Other funding sources include, but are not limited to, juvenile cost of care contributions in the State Special Revenue fund, federal grant awards, and profits from the Montana Correctional Enterprises programs in the Enterprise and Internal Service funds. The department had expenditures of \$400 million in the General Fund, \$10.4 million in the State Special Revenue fund, \$13.2 million in the Federal Special Revenue fund, \$19.4 million in the Enterprise fund, and \$17 million in the Internal Service fund in fiscal years 2017 and 2018 combined.

Chapter 384, Laws of 2017 Regular Session, moved the Montana Board of Crime Control (board) from the Department of Justice to the Department of Corrections. This move was effective in fiscal year 2018. Additionally, Chapter 416, Laws of 2017 Regular Session, created the Bureau of Crime Control to provide staff and support to the board. The financial schedules for fiscal year 2018 contain the financial activity for the Bureau of Crime Control. The move resulted in an increase in federal special revenue activity for the department. The board is located within the Director's Office.

Results

Our audit effort focused primarily on the department's expenditures for personal services and for housing inmates at contracted correctional facilities, the revenues generated by Montana Correctional Enterprise programs, activity associated with inmate trust accounts and restitution payments, and federal revenue activity for the Bureau of Crime Control. The audit contains two recommendations to the department related to the use of youth correctional facilities

(continued on back)

and an internal control deficiency related to recording revenue estimates. As a result of the control deficiency, revenue estimates were overstated by approximately \$34.9 million in fiscal year 2018.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2018, 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, 2018, fairly present the results of operations and changes in fund equity and property held in trust.
3. Determine the implementation status of audit recommendations made in the previous audit.
4. Determine whether the department complied with selected laws and regulations.

Our audit effort focused primarily on the department's expenditures for personal services and for housing inmates at contracted correctional facilities, the revenues generated by Montana Correctional Enterprise programs, activity associated with inmate trust accounts and restitution payments, and federal revenue activity. As a result of our work, we identified an internal control deficiency related to recording revenue estimates. The deficiency in controls resulted in an overstatement of revenue estimates in both fiscal years. This is discussed further on page 11. In addition, we made a recommendation, discussed on page 9, related to the use of youth correctional facilities.

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 operated three 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 cook-chill fund and the prison industries training program were reasonable for the two fiscal years ended June 30, 2018. For the license plate fund, we found that fees were not commensurate with costs and fund equity was not reasonable for the fiscal year ended June 30, 2017. However, legislation passed in the 2017 Regular Session moved the license plate production activity from an internal service fund to an enterprise fund effective July 1, 2017. As a result, this fund is no longer required to comply with §17-8-101(6), MCA.

Background

The department is responsible for promoting public safety and trust by holding adult and juvenile offenders accountable for their actions against victims, through custody, supervision, treatment, work, restitution, and skill development. The following paragraphs outline the department's organization as reflected in program expenditures on the Schedule of Total Expenditures and Transfers-Out on page A-9, and A-10, as well as the authorized full-time equivalent (FTE) positions for fiscal year 2018.

Administrative Services (132.44 FTE) includes the Director's Office, Information Technology Division, and Business Management Services Division. These three functions provide budgeting, accounting, payroll, legal, procurement, policy-setting, and information technology services to the entire department. The Director's Office also includes the Quality Assurance Office and Office of Investigations, as well as American Indian liaison services and crime victim programs.

In addition to the functions listed above, the Montana Board of Crime Control (board) was allocated to the Department of Corrections per Chapter 384, Laws of 2017 Regular Session. The board was previously allocated to the Department of Justice. The department became responsible for the function of the board effective in January of fiscal year 2018. Additionally, Chapter 416, Laws of 2017 Regular Session, created the bureau within the Director's Office to provide staff and support to the board. This activity is recorded under the Administrative Services Program on the financial schedules for the second half of fiscal year 2018. For the first half of the fiscal year, the financial activity for the board was recorded under the board's previous business unit; this activity is reported separately in the fiscal year 2018 Schedule of Expenditures and Transfers-Out in the Justice System Support Services program. The majority of the activity of the board is funded through federal grants. The activity under the board's previous business unit remained there to ensure complete reporting of the grant activity for the federal fiscal year. In future fiscal years, all Bureau of Crime Control expenditure activity will be recorded in the Administrative Services program on the Schedule of Expenditures and Transfers-Out. The board contributes to public safety, crime prevention, and victim assistance through policy development and coordination of the justice system.

Board of Pardons and Parole (9 FTE) is established in §2-15-2302, MCA, and is allocated to the department for administrative purposes. The board is responsible for executive clemency and parole.

Clinical Services Division (101 FTE) provides a standard of care department-wide for all medical, mental health, dental, and vision services provided to adult and juvenile

offenders under the care of the department. The division was established in fiscal year 2014 and oversees the health services pre-authorization process and provides education to all facilities with regard to medical issues. The division works with a third-party administrator to oversee all claims submitted by outside medical providers and ensures Medicaid reimbursement for the department's Medicaid-eligible inmates.

Probation and Parole Division (250.5 FTE) includes the community supervision of adult offenders. The division provides supervision for approximately 80 percent of the more than 13,000 offenders in the 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.

- ◆ **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 up to 675 offenders with varying levels of chemical dependency, mental health, and assessment and sanction programs.
- ◆ **Prerelease Programs** house up to 955 male and female offenders needing a step-down or step-up program. These residential or check-in centers provide transition from prison to community and an alternative to prison when public safety and the offenders' interests are best served by a level of supervision between prison and probation.
- ◆ **Probation and Parole** supervises approximately 8,900 felony probation and parole offenders in the state.

Montana Correctional Enterprises (82.5 FTE) 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 and nonprofit organizations, and through contracts. Agriculture products are sold on the open market.
- ◆ **Vocational Education** operates motor vehicle maintenance and metal fabrication shops, offers vocational education classes, and assists inmates in

obtaining driver's licenses, birth certificates, Social Security cards, and state of Montana identification cards as part of re-entry services.

- ◆ **Food Factory** operates a cook-chill operation and bakery, which 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.

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

- ◆ **Montana State Prison** in Deer Lodge houses up to 1,565 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 213 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.

Youth Services (162 FTE) holds juvenile offenders accountable for their actions through custody, supervision, restitution, and life-skills development. The division has three primary operations described below:

- ◆ **Pine Hills Youth Correctional Facility** in Miles City is a 96-bed, secure-care program for males 10-17 years old who are judged delinquent by the Youth Court. In February 2016, Youth Services Division converted an existing 20-bed unit at Pine Hills into a unit specifically for male offenders 18-25 years old. By specifically addressing the needs of these offenders while they are still maturing, the department hopes to improve the outcome for the offenders and increase the likelihood that they will succeed when they return to Montana communities.
- ◆ **Riverside Recovery & Re-entry Program** in Boulder is an 11-bed, secure facility being used to meet the demand of treatment of adult female offenders in the department's custody. The facility was previously used as a secure-care program for females 10-17 years old who were judged delinquent by the Youth Court. At the beginning of fiscal year 2017, Youth Services Division finalized a contract to move the adolescent females from the Riverside facility to an out-of-state facility.

In fall 2018, the department announced their intent to repurpose the Riverside facility as a special needs unit for the adult male offender population

currently being held in Lewistown. The target date to start housing the male offenders is March 31, 2019.

- ◆ **Youth Transitional Center** in Great Falls is a 7-bed transitional program for male youth. It offers an intermediate program for male youths whose placement in a less restrictive community setting has failed and also a transition program for youths being released from Pine Hills Youth Correctional Facility.

The department's proposed budget for the 2021 biennium proposes a reorganization which would eliminate the Youth Services Division. The proposed reorganization would distribute all the program's functions and FTE to other programs within the department. As part of the reorganization, the Pine Hills facility will be allocated to the Secure Custody Facilities program and the Riverside facility will be allocated to the Clinical Services Division. The prior audit had a recommendation related to the Youth Services facilities and the use of those facilities. This is discussed in further detail in the State Youth Correctional Facilities section of the report on page 9.

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

Table 1
Average Daily Adult Populations
 Fiscal Years 2016 through 2018

Male Prison Beds		2016	2017	2018
	Montana State Prison-Deer Lodge	1452	1496	1565
	Great Falls Regional Prison-Great Falls	149	150	151
	Dawson County Regional Prison-Glendive	142	142	143
	Crossroads Correctional Center-Shelby	597	599	587
	Lewistown Infirmary	23	25	24
	MSP Jail Hold	16	82	36
	Total Male Prison	2,379	2,494	2,506
	% Change	-1%	5%	0%
Female Prison Beds				
	Montana Women's Prison-Billings	206	208	213
	MWP Jail Hold	20	17	19
	Total Female Prison	226	225	232
	% Change	2%	0%	3%
Alternatives to Prison-Community Corrections				
	Male Community Corrections Jail Hold	263	232	200
	Female Community Corrections Jail Hold	83	86	71
	County Jail Sanctions	1	1	2
	Boot Camp (male)-Deer Lodge	34	34	5
	Boot Camp (female)-Deer Lodge	2	3	0
	Pine Hills Training and Treatment Program	3	17	42
	Riverside Reentry Program	1	17	25
	Missoula Assessment and Sanction Center	141	143	142
	Sanction, Treatment, Assessment, Revocation and Transition (START)	142	141	140
	Passages Assessment, Sanction and Revocation Center	52	49	47
	Connections Corrections (male)-Butte/Warm Springs	107	106	107
	Passages Alcohol and Drug Treatment (female)-Billings	43	40	44
	Meth Treatment (male)-Lewistown	85	85	81
	Meth Treatment (female)-Boulder	42	42	36
	WATCh Program (male)-Warm Springs	116	115	103
	WATCh Program (male)-Glendive	28	24	29
	WATCh Program (female)-Glendive	25	28	21
	Total Alternatives to Prison	1,168	1,163	1,095
	% Change	13%	0%	-6%
Prerelease/Transitional Living-Community Corrections				
	Prerelease (male)	651	670	671
	Prerelease (female)	184	183	188
	Transitional Living (male/female)	82	90	96
	Total Prerelease/Transitional Living	917	943	955
	% Change	-1%	3%	1%
Specialized Supervision Programs-Community Corrections				
	Specialized Programs	311	366	287
	Specialized Populations	242	240	220
	Total Specialized Supervision	553	606	507
	% Change	-2%	10%	-16%
Probation & Parole-Community Corrections				
	Probation & Parole	8,353	8,806	9,922
	Enhanced Supervision Program	115	108	122
	Total Probation & Parole	8,468	8,914	10,044
	% Change	3%	5%	13%
	Total Average Daily Population	13,711	14,345	15,339
	Change from Previous Year	337	634	994
	% Change	3%	5%	7%

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

Table 2
Average Daily Youth Populations
 Fiscal Years 2016 through 2018

Youth Secure	2016	2017	2018
Pine Hills	46	41	38
Riverside/Idaho	4	3	10
Total Youth Secure	50	44	48
Youth Parole	2016	2017	2018
Male Youth Treatment Center	6	7	5
Female Youth Treatment Center	0.5	0	0
Other Male Parole	27	33	29
Other Female Parole	4.5	5	5
Total Youth Parole	38	45	39

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

Prior Audit Recommendations

Our prior audit report of the department, for the two fiscal years ended June 30, 2016, contained seven recommendations. The department fully implemented four recommendations and partially implemented two recommendations. The department did not implement one recommendation related to state youth correctional facilities. This issue is discussed further starting on page 9 of this report. The fully implemented recommendations were related to per diem accounting processes and internal controls, capital asset transaction internal controls, procedures over compliance with state laws, and internal service fund fees commensurate with costs. While we determined fees were not commensurate with costs for one of the department's three internal service funds, we consider the prior audit recommendation fully implemented. This is because legislation moved the activity from the internal service fund to an enterprise fund effective July 1, 2017.

One of the partially implemented recommendations was related to segregation of duties over inmate trust account moneys at correctional facilities. The prior audit identified improper segregation of duties at three facilities. During the current audit, we concluded segregation of duties were implemented at two of these facilities. Dawson County Correctional Facility (DCCF) did not implement the recommendation and still has improper segregation of duties. Through discussion with department staff, they have communicated with key personnel at DCCF about the importance of proper

segregation of duties and will perform periodic reviews to ensure the recommendation is implemented. For this reason, we make no further recommendation.

The second partially implemented recommendation was related to timeliness of deposits in accordance with state law. The prior audit identified noncompliance at three facilities. During the current audit we concluded two of the facilities had implemented the recommendation. We identified multiple instances where deposits were not made in accordance with state law at Crossroads Correctional Center. The department has communicated with the contracted facility about timeliness of deposits and will review deposits through their contract monitoring process. For this reason, we make no further recommendation.

Apparent Penal Violation Referral

In October 2018, we made a referral to the Attorney General's Division of Criminal Investigation regarding an issue reported through the fraud hotline as required by §5-13-304(4), MCA. At the request of the Division of Criminal Investigation, we ceased further audit work related to the issue while the investigation was ongoing. As a result, the issue is not discussed further in this report. We did not modify our opinion in response to this issue. Charges were filed in the Third Judicial District Court, Powell County, on March 28, 2019. Any findings related to the outcome of this investigation will be reported in the next audit of the Department of Corrections.

Chapter II – Findings and Recommendations

State Youth Correctional Facilities

The department continues to place both youth and adults in the Pine Hills youth correctional facility and use the Riverside correctional facility as an adult facility contrary to state law.

Section 52-5-101, MCA, allows the Department of Corrections (department), within the annual or biennial budgetary appropriation, to establish state youth correctional facilities, for youth in need of these services. The Montana Youth Court Act (Act) allows youth courts across the state to commit delinquent youth to the department's care, for placement in a state youth correctional facility. The Act also defines 'state youth correctional facility' as meaning the Pine Hills youth correctional facility in Miles City or the Riverside youth correctional facility in Boulder.

Pine Hills Youth Correctional Facility

The prior audit report contained one recommendation that was not implemented related to state youth correctional facilities. In the prior audit, we concluded the department violated state law by placing both youth and adults in the Pine Hills state youth correctional facility. Section 41-5-1522(2), MCA, prohibits the department from placing youth offenders in state adult correctional facilities or any other facility used for the execution of sentences of adults convicted of crimes. Department staff indicated the decision to place adult offenders at this youth facility was the result of several factors, including an increasing number of adult offenders and a decreasing number of youth offenders. We recommended the department not place adult offenders in youth correctional facilities established in state law.

The department is still placing both adult and youth offenders in the Pine Hills facility. In the 2017 Regular and Special Legislative Sessions, language in House Bill 2 directed county jail holds be maintained at a level of 250 or less. Per the department, to attain this directive, the department used the Pine Hills facility to house adult male offenders to keep county jail holds under 250 daily. The department continues to ensure youth offenders remain separated by sight and sound from adult offenders, which is a requirement of federal regulations.

Riverside Youth Correctional Facility

During the prior audit period, the department also placed adult offenders in the Riverside youth correctional facility. In July 2016, the department contracted with an out-of-state third-party provider for the placement and care of female youths committed

to the department's care. Under this contract, female youth were transferred from the Riverside state youth correctional facility to the contracted out-of-state facility. As a result, the department transitioned the Riverside facility to a female adult correctional facility.

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

In the prior audit, we concluded the department contracted for youth services without the legal authority to do so under the Act. Additionally, under the Act, Riverside is designated as a state youth correctional facility. We concluded removing youth from the facility and converting it to a female adult correctional facility constitutes the department discontinuing a legislatively-established youth correctional facility. Section 53-1-202(4), MCA, prohibits a correctional facility from being moved, discontinued, or abandoned without the consent of the legislature.

Summary

In the prior audit, we recommended the department use state youth correctional facilities only for the purposes outlined in state law and the department resume state youth correctional activities at the Riverside facility.

Department management indicated the department could not responsibly or efficiently sustain its operation of the Riverside youth correctional facility, given the low population of youth female offenders residing there. Per the department, the daily cost per youth at the contract facility is significantly less than the daily cost when the youth were housed at the Riverside facility. Additionally, in fall 2018, the department announced the Riverside facility would no longer be used as a female adult correctional facility. The facility will be repurposed to house sick male state prison inmates that were previously being held at the Lewistown infirmary.

Based on the information discussed above, the department did not implement the recommendation from the prior audit and continues to be in noncompliance. The department did not concur with the recommendation in the prior audit, but did introduce a bill during the 2017 Regular Legislative Session that would have allowed

the use of Pine Hills and Riverside for adult populations. The bill did not pass, and department personnel are not pursuing similar legislation during the 2019 Legislative Session. Because of the youth correctional facility use limitations established in state law, the department will need the support of the Montana Legislature to resolve these compliance issues. Without resolution, the facilities will continue to be used for unauthorized purposes. The department must consider whether any contemplated resolution aligns with federal requirements.

RECOMMENDATION #1

We recommend the Montana Legislature, in coordination with the Department of Corrections, resolve the compliance issues resulting from:

- A. *Placing youth offenders in a facility used to execute sentences of adults convicted of crimes, and*
 - B. *Using state youth correctional facilities contrary to the purposes outlined in state law.*
-

Revenue Estimate Errors

The department duplicated multiple revenue estimates resulting in material misstatements on the department's financial schedule.

Agencies are required to enter revenue estimates into the state's accounting system in order for revenue to be recorded on the system. Revenue estimates are entered by fund and account type. Estimates can also be made for all organizations or for a specific organization. On the state's accounting system, an organization is defined as a cost accounting unit that captures activity for a specific function or activity. Through review of the department's revenue estimates, we identified instances where the department overstated revenue estimates in fiscal year 2018.

The department initially recorded some revenue estimates for all organizations combined. They then allocated these estimates to specific accounting organizations. The initial revenue estimates were not backed out of the "all" category which resulted in duplicate revenue estimates. Additionally, in fiscal year 2018, the Board of Crime Control (board) was allocated to the Department of Corrections. At the beginning of the fiscal year, revenue estimates for the board were recorded under the board's business unit within the accounting system. The department became responsible for the function of the board effective in January of fiscal year 2018. When the board

was moved, the board's revenue estimates were added to the department's estimates within the accounting system. However, the original estimates made for the board were not reduced, resulting in additional duplicated estimates when the financial activity was combined for the two business units. The department's internal controls were not sufficient to identify and correct the misstatements in a timely manner. We classified the internal control deficiency as a material weakness as it resulted in an opinion modification as discussed below.

Overall, the misstatements for revenue estimates occurred in four different fund types and eight different revenue classes totaling approximately \$34.9 million. The table below summarizes the overstatements by fund type and revenue type. These errors resulted in an opinion qualification detailed in the Independent Auditor's Report on page A-1.

Table 3
Revenue Estimate Overstatements
Fiscal Year 2018

Account Type	Fund Type			
	State Special Revenue Fund	Federal Special Revenue Fund	Internal Service Fund	Enterprise Fund
Licenses & Permits	\$127,962			
Charges for Services	\$855,000			\$500
Investment Earnings		\$7,427		
Sale of Documents, Merchandise and Property	\$3,000,000		\$5,637,000	\$3,500,000
Grants, Contracts, and Donations	\$600,000			
Transfers-In	\$75,000	\$4,970,590		
Miscellaneous	\$1,000			
Federal		\$16,097,563		
Total	\$4,658,962	\$21,075,580	\$5,637,000	\$3,500,500

Source: Compiled by the Legislative Audit Division.

Per discussion with department staff, estimates were inadvertently doubled when new budget staff did not reduce the original estimates during the fiscal year-end closing process. Additionally, when the board estimates were moved, the department intended to only move the amounts of uncollected revenue estimates, but the original board estimates were not reduced. Department staff noticed the revenue estimates were too high after the books had closed for fiscal year 2018.

RECOMMENDATION #2

We recommend the Department of Corrections improve internal control procedures to ensure accurate revenue estimate reporting.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for the fiscal year ended June 30, 2017; Combined Schedule of Changes in Fund Equity & Property Held in Trust, Combined Schedule of Total Revenues & Transfers-In, and Combined Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for the fiscal year ended June 30, 2018; 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, 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, 2018, and June 30, 2017, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The department overstated revenue estimates in the state's accounting system for fiscal year 2018. The cumulative effects of these misstatement are summarized by fund type and schedule line item in the table below.

Account Type	Overstated Amount Fiscal Year 2018			
	State Special Revenue Fund	Federal Special Revenue Fund	Internal Service Fund	Enterprise Fund
Total Revenues & Transfers-In by Class				
Estimated Revenues & Transfers-In	\$4,658,962	\$21,075,580	\$5,637,000	\$3,500,500
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$4,658,962	\$21,075,580	\$5,637,000	\$3,500,500
Budgeted Revenues & Transfers-In Over (Under) Estimated by Class				
Licenses & Permits	\$127,962			
Charges for Services	\$855,000			\$500

Investment Earnings		\$7,427		
Sale of Documents, Merchandise and Property	\$3,000,000		\$5,637,000	\$3,500,000
Grants, Contracts, and Donations	\$600,000			
Transfers-In	\$75,000	\$4,970,590		
Miscellaneous	\$1,000			
Federal		\$16,097,563		
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$4,658,962	\$21,075,580	\$5,637,000	\$3,500,500

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the Combined Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018, presents fairly, in all material respects, the results of operations of the Department of Corrections for the fiscal year ended June 30, 2018, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, 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, 2017; and the Combined Schedule of Changes in Fund Equity & Property Held in Trust and the Combined Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for the fiscal year ended June 30, 2018, presents fairly, in all material respects, the results of operations and change 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

Chapter 384, Laws of 2017 Regular Session, allocated the Montana Board of Crime Control to the Department of Corrections in fiscal year 2018. This change was effective in January 2018. For the first half of the fiscal year, July through December, the financial activity for the board was recorded under the board’s previous business unit within the accounting records. The department’s financial schedules included in this report for fiscal year 2018 include the financial activity recorded in the board’s previous business unit. As a result of the move,

- ◆ The Combined Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018, reflect an increase in federal special revenue fund activity as compared to the fiscal year ended June 30, 2017.
- ◆ The board’s expenditure activity is reflected in two programs on the Combined Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2018: Justice System Support Services and Administrative Support Services. The expenditures for the first half of the year are included in the Justice System Support Services program. For the second half of the year, the new Bureau of Crime Control is located in to the Director’s Office which is reported in the Administrative Services program.

Chapter 384, Laws of 2017 Regular Session, also moved the license plate production activity from an internal service fund to an enterprise fund effective July 1, 2017. This resulted in an increase in Enterprise Fund activity and a decrease in Internal Service Fund activity on the combined financial schedules for the fiscal year ended June 30, 2018.

Our opinion is not modified with respect to these matters.

Other Matters

The Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, and the Combined Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2018, present expenditures for the Youth Services Division which includes the Pine Hills and Riverside facilities. The expenditures reported in both fiscal years include expenditures for adult offenders housed at these facilities as well as the male youth offenders housed at Pine Hills and female youth offenders housed at a contracted out-of-state facility. 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 February 27, 2019, on our consideration of the Department of Corrections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 27, 2019

DEPARTMENT OF CORRECTIONS
COMBINED SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2017	(11,860,170)	1,721,480	0	0	13,160,313	5,897,739	0
PROPERTY HELD IN TRUST: July 1, 2017							1,938,954
ADDITIONS							
Budgeted Revenues & Transfers-In	132,452	5,377,871	12,141,792		13,735,800	5,770,206	
Nonbudgeted Revenues & Transfers-In	9,711	26,142	829		796,831	6,752	
Prior Year Revenues & Transfers-In Adjustments	156,421	19,804	(98)		26,333		
Direct Entries to Fund Equity	201,178,784	51,294	0	475,808	455,905	583,117	
Additions to Property Held in Trust							8,692,834
Total Additions	201,477,368	5,475,111	12,142,524	475,808	15,014,868	6,360,075	8,692,834
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	200,125,144	5,370,762	12,177,992	543,415	10,142,190	5,728,677	
Nonbudgeted Expenditures & Transfers-Out	(297,257)	31,768	0		1,080,191	3,994,692	
Prior Year Expenditures & Transfers-Out Adjustments	153,366	24,268			(33,460)	(84,243)	
Reductions in Property Held in Trust							8,426,354
Total Reductions	199,981,253	5,426,797	12,177,992	543,415	11,188,922	9,639,127	8,426,354
FUND EQUITY: June 30, 2018	(10,364,055)	1,769,793	(35,468)	(67,607)	16,986,259	2,618,687	0
PROPERTY HELD IN TRUST: June 30, 2018							2,205,434

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

DEPARTMENT OF CORRECTIONS
 SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2016	\$ (12,813,391)	\$ 1,458,552	\$ 0	\$ 13,758,737	\$ 5,640,824	\$ 0
PROPERTY HELD IN TRUST: July 1, 2016						1,598,090
ADDITIONS						
Budgeted Revenues & Transfers-In	50,798	5,199,132	995,706	7,622,981	7,685,648	
Nonbudgeted Revenues & Transfers-In	1,631			93,417	9,934	
Prior Year Revenues & Transfers-In Adjustments	4,038	5,100	363	(521)		
Direct Entries to Fund Equity	201,005,002	26,716		(100,000)	(94,811)	
Additions to Property Held in Trust						8,619,971
Total Additions	201,061,469	5,230,948	996,069	7,615,877	7,600,772	8,619,971
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	200,120,107	4,994,344	996,069	7,804,436	7,665,746	
Nonbudgeted Expenditures & Transfers-Out	(187,039)	(331)		410,479	(256,833)	
Prior Year Expenditures & Transfers-Out Adjustments	(3,234)	(632)		(612)	(65,056)	
Reductions in Property Held in Trust						8,279,107
Total Reductions	199,929,834	4,993,381	996,069	8,214,302	7,343,857	8,279,107
FUND EQUITY: June 30, 2017	\$ (11,681,757)	\$ 1,696,119	\$ 0	\$ 13,160,313	\$ 5,897,739	\$ 0
PROPERTY HELD IN TRUST: June 30, 2017						1,938,954

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
 COMBINED SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits						
Taxes	\$	41,136				\$ 41,136
Charges for Services			829			829
Investment Earnings	50	1,386,968		1,282		1,388,300
Fines and Forfeits		0	5,731			5,731
Capital Contributions		6,476				6,476
Sale of Documents, Merchandise and Property		2,818,336		3,493,781		3,493,781
Rentals, Leases and Royalties		9,898		10,297,526	5,770,206	18,886,068
Grants, Contracts, and Donations		582,270		18,941	6,752	607,963
Transfers-in	247,402	554,034	858,336	727,448	9,500	2,387,220
Capital Asset Sale Proceeds						9,500
Federal Indirect Cost Recoveries	10,186					10,186
Miscellaneous	40,946	24,699		10,485		76,130
Federal						11,277,628
Total Revenues & Transfers-In	298,584	5,423,817	11,277,628	14,558,963	5,776,958	38,200,845
Less: Nonbudgeted Revenues & Transfers-in	9,711	26,142	12,142,524	796,831	6,752	840,265
Prior Year Revenues & Transfers-in Adjustments	156,421	19,804	(98)	26,333		202,460
Actual Budgeted Revenues & Transfers-In	132,452	5,377,871	12,141,792	13,735,800	5,770,206	37,158,120
Estimated Revenues & Transfers-in	111,234	10,535,934	40,068,595	22,940,665	11,487,000	85,143,428
Budgeted Revenues & Transfers-in Over (Under) Estimated	21,218	(5,158,063)	(27,926,803)	(9,204,865)	(5,716,794)	(47,985,307)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits						
Charges for Services	\$ 49	(232,380)		(1,218)		\$ (232,380)
Investment Earnings		(979,795)				(980,964)
Fines and Forfeits			(5,599)			(5,599)
Sale of Documents, Merchandise and Property		(218,525)		(8,459,748)		(218,525)
Rentals, Leases and Royalties		(3,000,465)			(5,716,794)	(17,177,008)
Grants, Contracts, and Donations		(689,819)		(5)		(5)
Transfers-in	55,038	(33,221)	(47,768)	(743,880)		(737,587)
Federal Indirect Cost Recoveries	(9,814)		(5,638,721)			(6,360,783)
Miscellaneous	(24,055)	(3,859)		(15)		(9,814)
Federal						(27,929)
Budgeted Revenues & Transfers-in Over (Under) Estimated	21,218	(5,158,063)	(22,234,716)	(9,204,865)	(5,716,794)	(47,985,307)

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, 2017

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Taxes			363			363
Charges for Services	\$	1,402,396	\$	525		\$ 1,402,921
Fines and Forfeits		7,804				7,804
Sale of Documents, Merchandise and Property		2,665,363		7,656,263	\$ 7,685,648	\$ 18,007,274
Grants, Contracts, and Donations		563,828		17,731	9,934	591,493
Transfers-in		563,611	789,471			1,353,083
Capital Asset Sale Proceeds	\$	8,301		20,800		\$ 20,800
Federal Indirect Cost Recoveries		48,166		20,558		68,954
Miscellaneous						8,301
Federal		1,230				1,230
Total Revenues & Transfers-In		56,467	206,235	7,715,877	7,695,582	21,668,227
Less: Nonbudgeted Revenues & Transfers-In		1,631	996,069	93,417	9,934	104,981
Prior Year Revenues & Transfers-In Adjustments		4,038		(521)		8,980
Actual Budgeted Revenues & Transfers-In		50,798	995,706	7,622,961	7,685,648	21,554,265
Estimated Revenues & Transfers-In		60,000	1,773,638	7,562,242	8,213,100	23,631,156
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	(9,202)	\$ (777,932)	\$ 60,739	\$ (527,452)	\$ (2,076,891)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$	(852,564)		(4,475)		\$ (857,039)
Fines and Forfeits		3,304				3,304
Sale of Documents, Merchandise and Property		(38,437)		77,661	(527,452)	(488,228)
Rentals, Leases and Royalties				(5)		(5)
Grants, Contracts, and Donations		(44,188)				(44,188)
Transfers-in		108,611	(481,121)			(372,509)
Federal Indirect Cost Recoveries	\$	3,301		(12,442)		\$ 3,301
Miscellaneous		(12,502)				(24,715)
Federal		230				230
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	(9,202)	\$ (777,932)	\$ 60,739	\$ (527,452)	\$ (2,076,891)

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
COMBINED SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administrative Support Services	Board of Pardon & Parole	Clinical Services Division	Montana Correctional Enterprise	Probation & Parole Division	Secure Custody Facilities	Youth Services	Justice System Support Service	Total
Personal Services									
Salaries	\$ 6,972,114	\$ 508,929	\$ 6,073,468	\$ 3,454,372	\$ 12,030,667	\$ 27,627,617	\$ 7,330,372	\$ 258,790	\$ 64,256,328
Hourly Wages				508,577		337,889	54,576		901,042
Other Compensation	850							450	1,300
Employee Benefits	2,352,998	186,141	2,212,067	1,295,990	5,100,791	11,144,877	3,071,655	100,454	25,464,973
Personal Services-Other				(277)					(277)
Total	9,325,962	695,069	8,285,535	5,258,663	17,131,458	39,110,383	10,456,603	359,694	90,623,367
Operating Expenses									
Other Services	4,196,563	33,189	7,091,972	288,069	52,356,077	32,276,678	1,393,236	301,846	97,937,630
Supplies & Materials	519,840	8,166	4,557,900	2,443,975	368,105	4,328,089	876,237	44,179	13,146,491
Communications	1,082,596	8,854	2,007	38,345	256,778	102,191	38,859	10,738	1,540,367
Travel	116,645	2,713	26,806	34,404	216,505	265,944	88,247	68,076	819,339
Rent	531,478	61,985	55,027	31,381	1,685,450	293,966	120,262	37,958	2,817,507
Utilities			3,804	251,017	33,996	1,189,940	301,950		1,780,708
Repair & Maintenance	72,949	897	10,133	800,491	55,482	955,809	62,155	39,881	1,997,796
Other Expenses	396,662	61,000	16,689	6,113,614	389,489	304,889	61,227	15,221	7,358,791
Goods Purchased For Resale				8,442,912			785		8,443,696
Total	6,916,733	176,804	11,764,337	18,444,208	55,361,881	39,717,504	2,942,957	517,901	135,842,326
Equipment & Intangible Assets									
Equipment			(332)	(123,312)		73,915	3,442		(46,288)
Total			(332)	(123,312)		73,915	3,442		(46,288)
Capital Outlay									
Buildings				(68,117)					(68,117)
Total				(68,117)					(68,117)
Grants									
From State Sources	192,778							436,991	629,769
From Federal Sources	5,871,290							1,176,950	7,048,240
Total	6,064,068							1,613,941	7,678,009
Benefits & Claims									
From State Sources							293,550		293,550
Total							293,550		293,550
Transfers-out									
Fund transfers	2,548,242			904,330		182,000		280,239	3,914,811
Total	2,548,242			904,330		182,000		280,239	3,914,811
Debt Service									
Loans					70,280	317,976	62,760		451,016
Capital Leases				14,027					14,027
Total				14,027	70,280	317,976	62,760		465,043
Post Employment Benefits									
Other Post Employment Benefits				17,539					17,539
Employer Pension Expense				237,266					237,266
Total				254,805					254,805
Total Expenditures & Transfers-Out	\$ 24,855,005	\$ 871,874	\$ 20,049,540	\$ 24,684,603	\$ 72,563,619	\$ 79,401,778	\$ 13,759,313	\$ 2,771,775	\$ 238,957,506
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund	\$ 14,470,259	\$ 871,874	\$ 20,049,540	\$ 1,034,913	\$ 71,653,553	\$ 78,041,573	\$ 13,029,566	\$ 829,975	\$ 199,981,253
State Special Revenue Fund	485,215			2,841,143	815,388	743,840	506,256	34,956	5,426,797
Federal Special Revenue Fund	9,792,302			87,728	94,678	72,950	223,490	1,906,843	12,177,991
Capital Projects Fund						543,415			543,415
Enterprise Fund	79,977			11,108,945					11,188,922
Internal Service Fund	27,252			9,611,875					9,639,127
Total Expenditures & Transfers-Out	24,855,005	871,874	20,049,540	24,684,603	72,563,619	79,401,778	13,759,313	2,771,775	238,957,506
Less: Nonbudgeted Expenditures & Transfers-Out	4,204			5,074,883		(295,881)		26,188	4,809,395
Prior Year Expenditures & Transfers-Out Adjustments	(5,343)		(23,714)	(89,820)	(10,597)	211,881	(22,474)		59,932
Actual Budgeted Expenditures & Transfers-Out	24,856,144	871,874	20,073,254	19,699,540	72,574,216	79,485,778	13,781,787	2,745,587	234,088,179
Budget Authority	37,798,139	874,418	20,288,407	21,101,159	74,928,028	79,499,443	14,129,927	2,778,454	251,397,975
Unspent Budget Authority	\$ 12,941,996	\$ 2,544	\$ 215,153	\$ 1,401,620	\$ 2,353,812	\$ 13,665	\$ 348,140	\$ 32,867	\$ 17,309,796
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 429,939	\$ 2,544	\$ 6,253	\$ 121	\$ 2,252,896	\$ 10,707	\$ 2,169	\$	\$ 2,704,630
State Special Revenue Fund	188,376		208,900	182,525	6,300	2,957	92,806		681,863
Federal Special Revenue Fund	12,323,681			41,516	94,616	1	253,165	32,867	12,745,846
Enterprise Fund				1,016,753					1,016,753
Internal Service Fund				160,705					160,705
Unspent Budget Authority	\$ 12,941,996	\$ 2,544	\$ 215,153	\$ 1,401,620	\$ 2,353,812	\$ 13,665	\$ 348,140	\$ 32,867	\$ 17,309,796

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, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administrative Support Services	Board of Pardons & Parole	Clinical Services Division	Montana Correctional Enterprises	Probation & Parole Division	Secure Custody Facilities	Youth Services	Total
Personal Services								
Salaries	\$ 6,091,649	\$ 481,816	\$ 5,725,927	\$ 3,201,495	\$ 12,117,319	\$ 26,760,278	\$ 7,606,391	\$ 61,984,875
Hourly Wages				525,315	604	338,660	45,061	909,640
Other Compensation		30,300						30,300
Employee Benefits	2,222,322	208,950	2,221,066	1,253,897	5,597,368	12,068,926	3,469,809	27,042,337
Personal Services-Other				55,214				55,214
Total	8,313,971	721,066	7,946,993	5,035,921	17,715,290	39,167,864	11,121,260	90,022,366
Operating Expenses								
Other Services	3,073,005	13,591	6,098,763	336,614	48,172,377	39,850,084	996,169	98,540,603
Supplies & Materials	666,186	12,697	4,266,061	2,539,123	612,254	3,422,447	742,289	12,261,056
Communications	777,121	10,075	12,117	34,069	276,448	105,379	78,962	1,294,173
Travel	80,813	40,396	28,762	16,777	215,487	224,844	86,941	694,020
Rent	440,217	71,207	48,866	64,931	1,587,954	209,740	169,002	2,591,915
Utilities			4,861	240,911	48,320	1,288,488	290,248	1,872,827
Repair & Maintenance	79,854	1,831	28,794	927,757	42,153	879,975	68,516	2,028,880
Other Expenses	762,230	554	28,518	1,653,217	319,388	271,129	67,317	3,102,352
Goods Purchased For Resale				7,573,848		33,109	1,474	7,608,431
Total	5,879,424	150,351	10,516,742	13,387,247	51,274,381	46,285,194	2,500,919	129,994,257
Equipment & Intangible Assets								
Equipment			101,649	148,733	23,422	55,778	55,097	384,678
Total			101,649	148,733	23,422	55,778	55,097	384,678
Capital Outlay								
Buildings				(188,113)				(188,113)
Other Improvements				(10,651)				(10,651)
Total				(198,764)				(198,764)
Benefits & Claims								
From State Sources							334,597	334,597
Total							334,597	334,597
Transfers-out								
Fund transfers				187,330	39	49,500		236,869
Total				187,330	39	49,500		236,869
Debt Service								
Loans					70,280	217,261	62,760	350,301
Capital Leases				22,193				22,193
Total				22,193	70,280	217,261	62,760	372,494
Post Employment Benefits								
Other Post Employment Benefits				163,355				163,355
Employer Pension Expense				167,591				167,591
Total				330,946				330,946
Total Expenditures & Transfers-Out	\$ 14,193,395	\$ 871,417	\$ 18,565,384	\$ 18,913,606	\$ 69,083,412	\$ 85,775,597	\$ 14,074,633	\$ 221,477,443
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 13,031,960	\$ 871,417	\$ 18,565,384	\$ 880,422	\$ 68,276,048	\$ 84,993,043	\$ 13,311,560	\$ 199,929,834
State Special Revenue Fund	414,001			2,572,634	788,697	643,126	574,924	4,993,381
Federal Special Revenue Fund	649,825				18,666	139,428	188,149	996,069
Enterprise Fund	53,318			8,160,984				8,214,302
Internal Service Fund	44,291			7,299,565				7,343,857
Total Expenditures & Transfers-Out	14,193,395	871,417	18,565,384	18,913,606	69,083,412	85,775,597	14,074,633	221,477,443
Less: Nonbudgeted Expenditures & Transfers-Out	(331)			153,645		(187,039)		(33,724)
Prior Year Expenditures & Transfers-Out Adjustments	(2,630)		135	(65,668)		(632)	(738)	(69,535)
Actual Budgeted Expenditures & Transfers-Out	14,196,356	871,417	18,565,249	18,825,629	69,083,412	85,963,268	14,075,371	221,580,702
Budget Authority	14,806,075	872,596	21,845,412	19,934,600	69,488,600	86,802,858	14,552,778	228,302,919
Unspent Budget Authority	\$ 609,719	\$ 1,179	\$ 3,280,163	\$ 1,108,971	\$ 405,188	\$ 839,590	\$ 477,407	\$ 6,722,217
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 23,274	\$ 1,179	\$ 3,071,263	\$ 3,435	\$ 138,706	\$ 612,227	\$ 239,872	\$ 4,089,955
State Special Revenue Fund	44,100		208,900	191,492	38,630	195,515	24,138	702,775
Federal Special Revenue Fund	532,725				227,852	26,758	213,397	1,000,733
Capital Projects Fund						5,090		5,090
Enterprise Fund				809,455				809,455
Internal Service Fund	9,620			104,589				114,209
Unspent Budget Authority	\$ 609,719	\$ 1,179	\$ 3,280,163	\$ 1,108,971	\$ 405,188	\$ 839,590	\$ 477,407	\$ 6,722,217

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

Montana Department of Corrections

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2018

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, 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 (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. 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, 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.

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 and in FY17, the license plate production.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include prison ranch, industries programs and in FY18, the 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.

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, 2017 and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General Fund, State Special Revenue Fund, Federal Special Revenue Fund, 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 2018, the department had 17.3 million in unspent budget authority.

Administrative Support Services – The Administrative Support Services had unspent budget authority of 12.9 million at June 30, 2018. Legislation during the 2017 Legislative Session mandated that the Montana Board of Crime Control would become a Bureau within the Administrative Support Services Division of the Department of Corrections. As a result, the Division has several federal grants that span more than one year. 12.3 million of unspent budget authority relates to the Departments Crime Control Bureaus' various grants. The remaining amounts are comprised of general fund and restricted state special revenue funds for the collection of restitution.

Clinical Services Division – The Clinical Services Division had unspent budget authority of \$215,000 dollars at June 30, 2018. The bulk of the unspent budget authority is restricted authority for expenditures related to Medical Copays (\$208,000).

Montana Correctional Enterprises – had 1.4 million in unspent budget authority on June 30, 2018 due to fluctuating market prices in the Enterprise and Internal Service fund operations.

The Probation and Parole, Secure Custody and Youth Services Divisions – had a combined total of unspent budget authority of 2.7 million at June 30, 2018. The unspent authority for FY18 is comprised of restricted treatment funds that span the biennium.

5. Contractual Commitments

At June 30, 2018, the department had contractual commitments of approximately \$14.3 million and the department made bond payments on those contracts totaling 2.8 million in fiscal year 2018. The department is contractually required to make bond payments on behalf of four pre-release and two drug treatment centers to cover the construction costs of these facilities. These costs are then recovered through the center's monthly billing for inmate room and board.

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

In Fiscal Years 2017 and 2018, the financial schedule presentation shows all activity recorded in “additions and deletions to property held in trust” on the Schedule of Changes in Fund Equity & Property Held in Trust, including corrections. As a result, the “additions and deletions to property held in trust” in each of the corresponding Fiscal Years includes all activity even though corrections were made. The ending balance in the agency fund is correct.

7. Move Montana Board of Crime Control from Department of Justice to Department of Corrections

Legislation was passed in the 2017 Legislative Session to transfer the Montana Board of Crime Control from an Administratively Attached Unit of the Dept. of Justice to a Bureau within the Department of Corrections Administrative Support Services Division. The transition was not fully implemented until January of 2018. As a result, Board of Crime Control financial activity for the first two quarters of FY18 are reflected in an additional column on the Department's Combined Financial Schedules entitled Justice System Support Services.

BOARD OF CRIME CONTROL -TOTAL EXPENDITURES				
FY18				
			DOJ	DOC
			Justice System Support	Administrative Support
Expenditures & Transfers Out:			Services	Services
Personal Services:				
	Salaries		\$ 258,790	\$ 681,891
	Other Compensation		\$ 450	\$ 850
	Employee Benefits		\$ 100,454	\$ 228,124
	Total:		\$ 359,694	\$ 910,865
Operating Expenses:				
	Other Services:		\$ 301,846	\$ 465,667
	Supplies & Materials		\$ 44,179	\$ 13,014
	Communications		\$ 10,738	\$ 6,524
	Travel		\$ 68,076	\$ 34,710
	Rent		\$ 37,958	\$ 74,602
	Utilities		\$ 39,881	
	Repair & Maintenance		\$ 15,221	\$ 22,550
	Other Expenses			\$ 19,379
	Goods Purchased for Resale			
	Total:		\$ 517,901	\$ 636,446
Grants:				
	From State Sources		\$ 436,991	\$ 192,778
	From Federal Sources		\$ 1,176,950	\$ 5,872,470
	Total:		\$ 1,613,941	\$ 6,065,249
Transfers Out:				
	Fund Transfers		\$ 280,239	\$ 2,548,242
	Total:		\$ 280,239	\$ 2,548,242
Total Expenditures & Transfers Out:			\$ 2,771,775	\$ 10,160,801
Expenditures & Transfers Out by Fund:				
	General Fund		\$ 829,975	\$ 908,733
	State Special Revenue Fund		\$ 34,956	\$ 38,471
	Federal Special Revenue Fund		\$ 1,906,843	\$ 9,213,597
	Total:		\$ 2,771,774	\$ 10,160,801

8. Montana Correctional Enterprises License Plate Production fund was changed from an Internal Service Fund to an Enterprise Fund

Legislation passed in the 2017 Legislative Session changed the License Plate Production fund from an Internal Service Fund to an Enterprise Fund. The designation of the License Plate Factory as an Enterprise fund was needed because the License Plate

Factory's customers are not another governmental agency, they are consumers that purchase plates for their vehicles. The plate manufacturing fee is set by statute and is paid by the consumer at the time of purchase. The fees are then passed through the Department of Justice, Motor Vehicle Division to the Department. As a result, the Combined Schedule of Total Revenues and Transfers-In reflect an increase in the Enterprise Fund and a decrease in the Internal Service Fund in FY18.

9. Contingencies

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

- ◆ *Langford v. Bullock*, 93-CV-46: A civil rights case over conditions of confinement at Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the department in 1994, with continued monitoring by the court until the Department is in full compliance. The last remaining provision of the consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. On June 19, 2018, the federal district court accepted the revised Class Action Settlement Agreement, which includes the Department's agreement to pay attorneys fees. The parties are currently in the process of attempting to negotiate a resolution to the attorneys fees requested. At the moment, the Class Counsel are seeking approximately \$1,600,000 in attorneys fees and costs for a period spanning from 2008 until the present. If the parties cannot reach a mediated resolution, this matter will be contested and the department would be responsible for additional fees and costs incurred in defending the fees petition. The Department has hired attorneys from Agency Legal Services Bureau to assist in this matter. The projected sum does not include the anticipated two year monitoring period as well. Currently, the parties have agreed to settle the claim for past attorneys fees and costs for \$950,000, which is to be paid upon appropriation by the 66th Legislature, or barring that appropriation, will be paid from DOC's FY2020 budget year on or before July 15, 2019.
- ◆ *Disability Rights Montana v. Batista*, CV-15-22: 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 MSP. The district court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The department has exchanged settlement proposals and continues to meet with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff recently requested a removal of the stay of the appeal proceedings. The Plaintiff's chances of success are fair, given the current political climate. The Plaintiff has made a number of unreasonable demands that would cost the Department millions of dollars and at least \$800,000 in attorneys fees and undisclosed expert witness fees. At this time the department cannot specify

an anticipated amount of financial obligation. This matter is scheduled for oral argument before the 9th Circuit Court of Appeals in April, 2019.

- ◆ Kila Shepherd v. DOC Step III grievance – The department has hired outside legal counsel to represent the department regarding Ms. Shepherd’s termination from her position at the department. Ms. Shepherd seeks in excess of \$1,000,000 in damages, including lost wages and benefits, as well as emotional and punitive damages and attorneys fees. The department cannot specify an anticipated amount of financial obligation. This matter has been heard before a hearings officer from DLI Office of Administrative Hearings and we are currently awaiting a ruling. It is anticipated that regardless of the outcome of that hearing, the matter will be filed directly in district court.
- ◆ Michael Jackson v. MDOC, MSP Powell County Cause No. DV-18-70 – Mr. Jackson is a current employee, suing the department for allowing race discrimination at Montana State Prison and creating a hostile work environment. He is seeking lost wages, humiliation and emotional distress damages as well as attorneys fees and costs. The Human Rights Bureau found no reasonable cause in his claims. We believe his chances of success are fair to poor. The department has referred this matter to Agency Legal Services Bureau. At this time the department cannot specify an anticipated amount of financial obligation.

10. Other

In FY18 the Department’s Revenue Estimates were overstated by 21 million in the Federal Special Revenue Fund, 4.6 million in the State Special Revenue Fund, 3.5 million in the Enterprise Fund and 5.7 million in the Internal Service Fund. Estimates were inadvertently doubled when revenue estimates were established at the organization level without reducing the original estimate that was established. As a result, a process will be in place in subsequent years to ensure that all estimates are reviewed and adjusted accordingly prior to the close of the Fiscal Year.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for the fiscal year ended June 30, 2017; the Combined Schedule of Changes in Fund Equity & Property Held in Trust, Combined Schedule of Total Revenues & Transfers-In, and Combined Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for the fiscal year ended June 30, 2018; and the related notes to the financial schedules, and have issued our report thereon dated February 27, 2019. Our report includes a qualified opinion on the Combined Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2018.

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 the attention by those charged with governance.

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 a material weakness.

We consider the internal control deficiency over revenue estimates, described on page 11, to be a material weakness.

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 on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Corrections Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 27, 2019

DEPARTMENT OF
CORRECTIONS

DEPARTMENT RESPONSE



Montana Department of Corrections

Director's Office

Steve Bullock, Governor
Reginald D. Michael, Director

April 15, 2019

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

RECEIVED
APR 16 2019
LEGISLATIVE AUDIT DIV.

RE: Financial Compliance Audit #18-15: Department of Corrections for the Two Fiscal Years Ended June 30, 2018

Dear Mr. Maciver:

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

RECOMMENDATION # 1:

We recommend the Montana Legislature, in coordination with the Department of Corrections, resolve the compliance issues resulting from:

- A. Placing youth offenders in a facility used to execute sentences of adults convicted of crimes, and;
- B. Using state youth correctional facilities contrary to the purposes outlined in state law.

Department Response: Concur

The department carefully performed its due diligence before making changes to the uses and population compositions of the Pine Hills and Riverside correctional facilities. The department determined that the controlling legal authority under the circumstances of very low census, rising costs of care, and excess capacity at both facilities, was §53-1-201, MCA. That statute requires that the department use state resources at maximum efficiency in a coordinated effort to develop and maintain comprehensive services and programs in the field of adult and youth corrections. The department acknowledges that other statutes pertaining to correctional facilities, including but not limited to §41-5-1522(2), MCA, need to be reconciled with §53-1-201, MCA and with each other through legislative action.

RECOMMENDATION #2:

We recommend the Department of Corrections improve internal control procedures to ensure accurate revenue estimate reporting.

Department Response: Concur

The department has implemented processes to improve internal control procedures to ensure that revenue estimates are reasonable and reported accurately.

The department appreciated the opportunity to discuss the Financial Compliance Audit Report with your staff during the exit conference on March 25, 2019. I'd like to thank your staff for their professionalism and the fairness with which they approached issues that arose during the audit period.

Sincerely,

A handwritten signature in cursive script that reads "C. W. Michael for".

Reginald Michael
Director

RM:kt

**Department of Corrections – Corrective Action Plan Status
As of April 15, 2019**

Division/ Facility	Audit Report & Rec #	Recommendation	Management View	CAP – Corrective Action Plan	Person responsible	Target Date
Director's Office	Leg FC 18-15 Rec. #1	We recommend the Montana Legislature, in coordination with the Department of Corrections, resolve the compliance issues resulting from: A. Placing youth offenders in a facility used to execute sentences of adults convicted of crimes, and; B. Using state youth correctional facilities contrary to the purposes outlined in state law.	Concur	<i>The Department will collaborate with the Montana Legislature to seek revisions to existing laws through legislative action.</i>	Cynthia Wolken	Jan-April 2021
ASD	Leg FC 18-15 Rec #2	We recommend the Department of Corrections improve internal control procedures to ensure accurate revenue estimate reporting	Concur	<i>Processes have been put in place to ensure that Revenue Estimates are reasonable and reported accurately. The process requires staff to: A. Reduce original first level Revenue Estimates (ALL) when establishing a new estimate that restricts revenues to a specific cost center. B. As part of the Fiscal Year End closing processes, staff will review existing Department wide Revenue Estimates to ensure accuracy. Adjustments to existing estimates will be made accordingly and prior to closing.</i>	John Daugherty	Implemented