

Department of Corrections  
and Rehabilitation  
BISMARCK, NORTH DAKOTA  
**Audit Report**

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor



Office of the State Auditor  
Division of State Audit

# Office of the State Auditor

## Department of Corrections and Rehabilitation

### Report Highlights

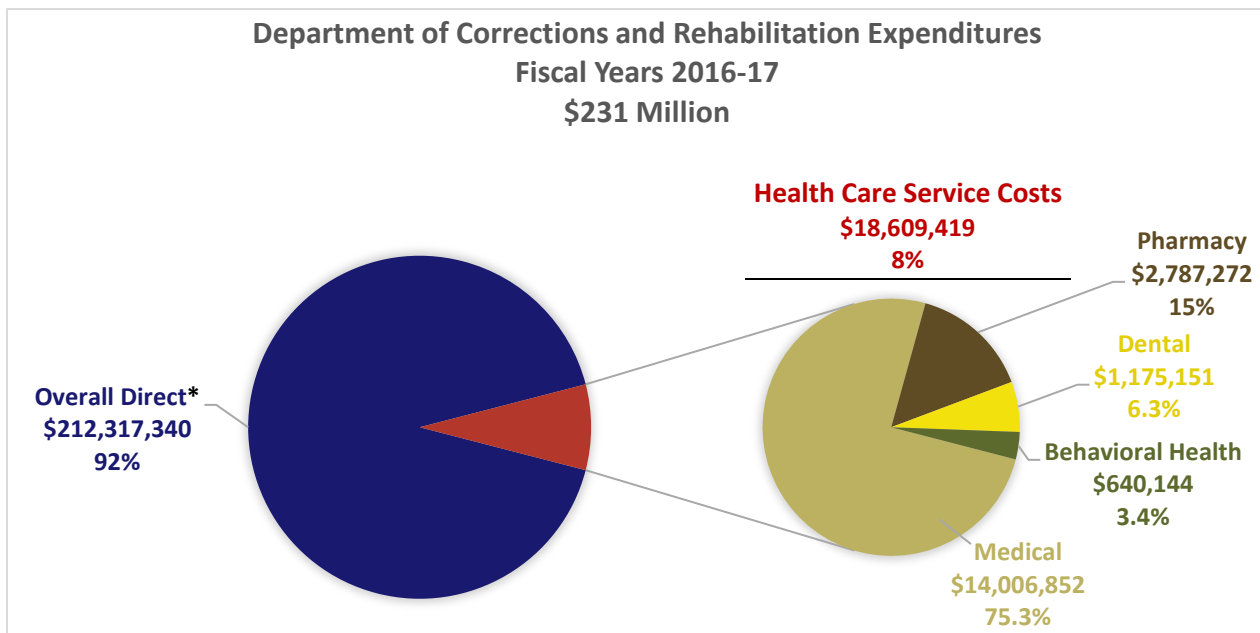
**Internal Control and Legislative Intent:**

We evaluated and tested high risk areas of internal control and legislative intent.

- The Department of Corrections and Rehabilitation does not have proper authorization to deposit revenues into the Department of Corrections and Rehabilitation operating fund.

**Department of Corrections and Rehabilitation Health Care Service Costs:**

The Department of Corrections and Rehabilitation had \$231 million in expenditures during the 2015-17 biennium. Health care service costs accounted for 8% of the total expenditures and include medical services (infirmary and clinic services), pharmacy, dental services, and behavioral health services.



Source: Connect ND Peoplesoft.

\* The Overall Direct expenditures include plant and facility (68.1%), parole and probation (10.5%), Roughrider Industries (7%), treatment (6.3%), crime victim grants (2.8%), education (3.5%), and other (1.8%).

\*\* The health care service costs listed here will not agree to the Medical, Hospital, Dental, Optical expenditures listed in the financial statements as salaries and benefits expenditures are also included with the health care service costs above.

**Operations:**

This audit did not identify areas of the Department of Corrections and Rehabilitation's operations where we determined it was practical at this time to help improve efficiency or effectiveness.

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman

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Patrick Hatlestad  
Mary Johnson  
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Andrew G. Maragos  
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Dwight Cook  
Judy Lee  
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**AUDITOR AND AGENCY PERSONNEL**

**State Auditor Personnel**

Cindi Pedersen, CPA, CM, Audit Manager  
Andrea Wike, In-Charge  
Michael Schmitcke, CPA  
Ryan Bear, CISA  
Amanda Westlake  
Ian Ballantyne, CPA

**Department of Correction Contacts**

Leann Bertsch, Director  
Dave Krabbenhoft, Director of Administrative Services

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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April 11, 2018

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly  
Ms. Leann Bertsch, Director

We are pleased to submit this audit of the Department of Corrections and Rehabilitation for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

Cindi Pedersen, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Bertsch and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

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## *Introduction*

The North Dakota Department of Corrections and Rehabilitation's mission is to enhance public safety, to reduce the risk of future criminal behavior by holding adult and juvenile individuals accountable, and to provide opportunities for change.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## *Responses to LAFRC Audit Questions*

### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Department of Corrections and Rehabilitation in accordance with generally accepted accounting principles, so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Other than our finding addressing "Lack of Authorization to Deposit Revenue in an Operating Fund" (page 10), the Department of Corrections and Rehabilitation was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

The Department of Corrections and Rehabilitation has implemented all recommendations included in the prior audit report.

### *6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 13 of this report, along with management's response.

## **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Corrections and Rehabilitation's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), ELITE (inmate information), and MACOLA (Roughrider Industries accounting system) are high-risk information technology systems critical to the Department of Corrections and Rehabilitation.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the Department of Corrections and Rehabilitation for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Corrections and Rehabilitation's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Corrections and Rehabilitation and are they in compliance with these laws?
3. Are there areas of the Department of Corrections and Rehabilitation's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Department of Corrections and Rehabilitation is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Corrections and Rehabilitation has operations in the following locations. Each location was included in the audit scope:

- North Dakota State Penitentiary, including Roughrider Industries
- James River Correctional Center
- Missouri River Correctional Center
- Youth Correctional Center

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the



sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Corrections and Rehabilitation's processes and procedures.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues and Other Sources:</b>		
Roughrider Industries Sales	\$ 8,692,359	\$ 11,589,005
Correctional Fees	3,521,605	3,529,202
Federal Revenue	3,362,851	2,547,334
Intergovernmental Revenue	1,022,547	550,808
Meal Sales	482,391	543,632
Mineral Lease Royalties	25,000	59,207
Miscellaneous Revenue	264,126	275,928
Transfers In	1,872,867	1,838,294
<b>Total Revenues and Other Sources</b>	<b>\$ 19,243,746</b>	<b>\$ 20,933,410</b>
<b>Expenditures:</b>		
Salaries and Benefits	\$ 65,316,683	\$ 63,347,441
Community Housing and Programming	10,963,690	10,742,409
Roughrider Industries Expenses	6,941,420	7,977,273
Medical, Hospital, Dental, Optical	6,406,730	5,342,625
Contract Housing	4,480,080	7,645,648
Food and Clothing	3,687,119	4,004,597
Building and Grounds	2,893,969	1,723,744
Grants	2,721,315	2,452,458
IT – Services, Equipment, Supplies	1,950,644	1,909,674
Utilities	1,787,467	1,773,660
Rent of Building Space	1,149,278	825,714
Travel	1,056,050	1,229,194
Professional Services and Supplies	929,700	1,068,947
Repairs	793,239	805,819
Bond Payments and Special Assessments	663,338	654,842
Inmate Wages	648,200	604,888
Supplies	374,681	408,848
Equipment	366,656	282,825
Flood Control Project	349,950	
Building Expansion Project	158,937	
Professional Development	142,038	197,377
Other Operating Expenses	3,398,982	748,610
<b>Total Expenditures</b>	<b>\$ 117,180,166</b>	<b>\$ 113,746,593</b>

## Statement of Appropriations

For the Biennium Ended June 30, 2017

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Capital Assets					
Carryover		\$ 349,950	\$ 349,950	\$ 349,950	
Adult Services	\$ 208,925,977	4,322,057	213,248,034	201,396,294	\$ 11,851,740
Youth Services	30,716,107	128,444	30,844,551	29,131,988	1,712,563
<b>Totals</b>	<u>\$ 239,642,084</u>	<u>\$ 4,800,451</u>	<u>\$ 244,442,535</u>	<u>\$ 230,878,232</u>	<u>\$ 13,564,303</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 201,279,378	\$ 4,003,151	\$ 205,282,529	\$ 201,344,049	\$ 3,938,480
Other Funds	38,362,706	797,300	39,160,006	29,534,183	9,625,823
<b>Totals</b>	<u>\$ 239,642,084</u>	<u>\$ 4,800,451</u>	<u>\$ 244,442,535</u>	<u>\$ 230,878,232</u>	<u>\$ 13,564,303</u>

### Expenditures without Appropriations of Specific Amounts:

Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$48,527 of expenditures for this biennium).

## *Internal Control*

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In our audit for the biennium ended June 30, 2017, we identified the following areas of the Department of Corrections and Rehabilitation's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues and expenditures for Adult Services and Juvenile Services.
- Controls surrounding the processing of receivables of correctional fees in Field Services.
- Controls surrounding purchases made using purchase cards.
- Controls surrounding the processing of payroll.
- Controls affecting the safeguarding of pharmacy and Roughrider Industries inventory.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the MACOLA accounting system at Roughrider Industries, including the processing of revenues and expenditures.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving Federal funds, the Code of Federal Regulation as set forth by the Federal Government (2 CFR 200.303).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: misstatements in financial or performance information, violations of laws and regulations, or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Department of Corrections and Rehabilitation in a management letter dated April 11, 2018.

## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2017, we identified and tested Department of Corrections and Rehabilitation's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Establish policies and procedures to ensure proper payments to crime victims (NDCC 54-23.4-06).
- Proper use of legally restricted funds:
  - Community Service Suspension fund (NDCC 29-26-22).
  - Probationer Violation Transportation fund (NDCC 12-65-08).
  - State Penitentiary Land Replacement fund (NDCC 54-23.3-04).
  - Crime Victims Gift fund (NDCC 54-23.4-05).
- Application of proper statutory rates relating to revenue collected for interstate transfer or travel of probationers in accordance with NDCC 12-65-08.
- Proper authorization of the Department of Corrections and Rehabilitation's funds.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2015 North Dakota Session Laws, chapter 15).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for appointed positions and certification of payroll.
- Compliance with adjustments to appropriation (Senate Bill 2015, sections 18 and 19, of the 2015 Legislative Session; Senate Bill 2379, section 6, of the 2016 Special Session; House Bill 1024, section 2, of the 2017 Legislative Session, emergency clause; Capital Construction Carryover Committee approval; and Emergency Commission appropriations).
- Proper authorization of expenditures without appropriations of specific amounts from the Insurance Recovery Fund (NDCC 54-44.1-09.1).
- Proper use of Bank of North Dakota as a depository for credit card revenue in accordance with NDCC 54-06-08.2.
- Adequate policies and procedures over crime victim expenditures in accordance with NDCC 54-23.4-05.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Department of Corrections and Rehabilitation in a management letter dated April 11, 2018.

### ***Lack of Authorization to Deposit Revenue into an Operating Fund (Finding 17-1)***

#### **Condition:**

The Department of Corrections and Rehabilitation does not have proper authorization to deposit revenues into the Department of Corrections and Rehabilitation operating fund. Total revenue of the fund during the audit period was over \$11.5 million. Authorization could not be identified for sources of revenue in the fund, including but not limited to the following:

- Supervision fees collected in accordance with North Dakota Century Code 12.1-32-07 (2.), along with other fees including pre-sentence investigation (PSI), polygraph, global positioning system (GPS) tracking, and secure continuous remote alcohol monitoring (SCRAM) fees. Revenue of \$6,828,777 was collected during fiscal years 2016 and 2017.
- Roughrider Industry profits, primarily from the commissary, for the inmate betterment funds. During our audit period, \$500,000 was transferred from the Roughrider fund into the Department's operating fund.
- Revenue received from the State Hospital under the contract for the James River Correctional Center for providing food services to State Hospital patients. Collections of \$1,016,023 were received during fiscal years 2016 and 2017.

#### **Criteria:**

NDCC 54-06-07 requires "All fees, which are not otherwise by the laws of this state directed to be deposited in a special fund or disbursed for a special purpose, received or charged by an elective or appointive officer or deputy state officer for any act or service rendered in the officer's official capacity must be accounted for and paid over by the officer monthly to the state treasurer and must be credited to the general fund of the state."

#### **Cause:**

Because the operating fund has been in existence for so many years and the fund is being declared to the state legislature in the Department's budget, the Department felt that authorization did not need to be obtained.

#### **Effect or Potential Effect:**

Potential noncompliance with state law.

#### **Recommendation:**

We recommend the Department of Corrections and Rehabilitation obtain authorization to deposit revenues into the Department's operating fund.

***Department of Corrections and Rehabilitation Response:***

Although the Department of Corrections and Rehabilitation (DOCR) does not agree with this finding, the DOCR will suggest clarifying language regarding the authorization to deposit revenues into the DOCR operating fund be included in its 2019-2021 appropriation bill. It is the DOCR's opinion that authorization to deposit and expend funds from the DOCR operating fund currently exists in its agency appropriation session law within the special funds appropriation. Budget documents used by the 64th Legislative Assembly to formulate the 2015-2017 DOCR appropriation not only note the existence of the operating fund, but also detail the anticipated revenues and expenditures of the operating fund. The DOCR operating fund has received and expended supervision fee revenue since the 1993 - 1995 biennium, Roughrider Industry commissary profits since the 2011 - 2013 biennium, and State Hospital food cost reimbursement since the 2003 - 2005 biennium.

## Operations

This audit did not identify areas of Department of Corrections and Rehabilitation's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.



# ***Management Letter (Informal Recommendations)***

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April 11, 2018

Ms. Leann Bertsch  
Director  
Department of Corrections and Rehabilitation  
3100 Railroad Avenue  
Bismarck, ND 58501

Dear Ms. Bertsch:

We have performed an audit of the Department of Corrections and Rehabilitation for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Corrections and Rehabilitation's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

## **ROUGH RIDER INDUSTRIES**

Informal Recommendation 17-1: We recommend Roughrider Industries implement processes to ensure proper review and approval of adjustments to customer accounts in MACOLA, adjustments to inventory records in MACOLA, inmate timesheets, and the inmate payroll register is completed.

Informal Recommendation 17-2: We recommend Rough Rider Industries implement a process to investigate adjustments to commissary inventory and properly approve adjustments on a timely basis.

Informal Recommendation 17-3: We recommend Rough Rider Industries conduct an annual inventory of fixed assets.

Management of Department of Corrections and Rehabilitation agreed with these recommendations.

I encourage you to call me or an audit manager at 328-2241, if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

*Cindi Pedersen, CPA*

Cindi Pedersen, CPA  
Audit Manager

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**Email:** [ndsao@nd.gov](mailto:ndsao@nd.gov)

**Phone:** (701) 328-2241

**Office of the State Auditor**

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