

STATE OF CONNECTICUT

PERFORMANCE AUDIT

MONITORING OF STATE FINANCIAL ASSISTANCE
STATE SINGLE AUDIT
THE JUDICIAL DEPARTMENT
COURT SUPPORT SERVICES DIVISION

AUDITORS OF PUBLIC ACCOUNTS

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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have conducted a performance audit of some aspects of the requirements of the State Single Audit Act as it pertains to the Judicial Department. The conditions noted during this audit, along with our recommendations, are summarized below.

Monitoring of Audit Report Submissions

The Judicial Department has not established formal procedures to ensure that non-profits failing to submit their State Single Audit reports are detected within a timely manner.

The State Single Audit Act (the Act) requires a non-State entity to submit the report of any audit conducted under the Act to the State within six months after the audited entity's fiscal year end.

We were unable to determine if seven of the 11 non-profits' audit reports selected for review had been filed within six months after the end of the non-profits' fiscal year. No record existed to indicate when the Judicial Department had received these seven audit reports. The remaining four non-profits' audit reports were not received within six months after the end of the non-profits' fiscal year. The late filing submission dates ranged from a low of 14 months to a high of 22 months after the end of the applicable non-profit's fiscal year end.

The Judicial Department should establish a procedure, which alerts staff that a non-profit has failed to submit a State Single Audit report within six months after the end of the non-profit's fiscal year, unless a filing extension is granted. This will require capturing the initial Agency receipt date for an audit report. (See Item No. 1.)

Audit Report Reviews, Dissemination of Information, and Staff Participation

The Judicial Department's participation in the State Single Audit Act can be strengthened through the use of written procedures and/or a desk review checklist, the timely dissemination of information within the Agency, and by the accounting staff establishing a working relationship with their counterparts at the Office of Policy and Management.

Management has not provide its accountants, who are responsible for reviewing State Single audit reports, with written procedures and/or a desk review checklist for use in reviewing State Single Audit reports. Consequently, no definitive record existed to document exactly what an audit report had been checked for and if any problems were noted that needed to be addressed by the non-profit or by Judicial's management.

Our audit examination revealed that State Single Audit reports and correspondence are often allowed to sit around in one Judicial unit for a month or two before they are distributed to the appropriate Judicial units. Further, we learned that accountants, who are responsible for reviewing State Single Audit reports, had never met with the Agency's designated State Single Audit contact person or attended any State Single Audit meetings held by the Office of Policy and Management.

The use of a desk review checklist would not only document the Court Support Services Division staffs' conscientious efforts to review audit reports; but also provide a permanent record of problems, which may turn out to be recurring in nature. State Single Audit information needs to be distributed to employees in a timely manner and staff members need to be fully engaged in the State Single Audit process. (See Item No. 2.)

***Need to Require a
Formal
Reconciliation***

There is a need to require non-profits to submit a detailed reconciliation between their June 30 final program expenditure amount reported to the Court Support Services Division and the expenditure amount reported for the program on their State Single Audit Schedule of State Financial Assistance, whenever differences exist.

As part of our performance examination, we compared a non-profit's audit report expenditures for the Alternative Incarceration Center Services program and/or the Alternative to Juvenile Detention Program against final quarterly expenditure reports submitted to the Court Support Services Division, and to payments made to a non-profit. We performed this comparison for 11 non-profits that received such program funding from the Court Support Services Division for the State fiscal year ended June 30, 1998. The comparison was also made for four of the 11 non-profits for the fiscal year ended June 30, 1999. The comparison revealed a number of discrepancies between final quarterly expenditure reports and expenditure amounts reflected in audit reports for seven of the 11 non-profits.

Our comparisons indicated the need to have a non-profit organization submit a formal reconciliation, whenever there is a difference between the non-profit's final quarterly expenditure amount for a specific grant program and the corresponding amount reported in the State Single Audit on the Schedule of State Financial Assistance. The reconciliation should be filed at the same time as the audit report. The reconciliation should be certified by the non-profit's auditors or subject to verification by the non-profit's auditors to ensure the accuracy and completeness of the reconciliation. (See Item No. 3.)

Management Oversight is Weak

The Court Support Services Division’s quarterly contractor monitoring process needs to be improved.

Our review of the Court Support Services Division’s monitoring process for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program revealed a number of problems.

Management could not provide us with a listing of Court Support Services Division’s programs and providers that each Criminal Sanctions Monitor was responsible for overseeing.

Our review of quarterly monitoring reports for 10 Alternative Incarceration Center Services and four Alternative to Juvenile Detention Program providers (all non-profits) revealed the following situations or problems. Many monitoring reports were not completed in a timely manner. Some monitoring reports were missing pages and others contained blank pages. Many monitoring reports lacked the signature of a Regional Deputy Director. Court Support Services Division’s staff failed to indicate acceptance or rejection of corrective action plans or written responses submitted by service providers.

If quarterly monitoring reports are to be an effective tool in monitoring for compliance with contractual terms, the delivery of quality services each quarter, and for ensuring community safety; the quarterly monitoring reports need to be issued in a timely manner. The monitoring reports should contain all required pages, each page should identify the period covered and the contractor’s name, and the reason for not completing a page should be noted on the page. No quarterly monitoring report should be accepted as completed by management unless it reflects a dated signature for both the provider’s representative and the monitor. Deputy Directors should be required to sign the quarterly monitoring reports to indicate that they have reviewed them and note their acceptance or rejection of a report. Court Support Services Division’s procedures should require monitors and Deputy Directors to indicate their acceptance or rejection of corrective action plans or written responses submitted by providers. (See Item No. 4.)

Need for State Cost Standards

The lack of State uniform cost standards or principles has resulted in the Judicial Department developing its own approach for allowing or disallowing indirect costs to be charged against a State financial assistance award.

Presently, there is no State policy regarding approval of a cost allocation plan and an indirect cost rate for a non-State entity by a State agency or the

charging of indirect costs to State programs based on a Federally approved indirect cost rate. As indicated in our performance audit report (dated August 2, 2000) covering the Office of Policy and Management's administration of the State Single Audit Act, cost principles have not been developed for the State's financial assistance programs as have been established for Federal financial assistance programs. Our review of indirect cost correspondence on file at the Court Support Services Division indicated the need for the establishment of State cost principles and guidelines.

- One non-profit indicated that it was unsuccessful in its efforts to obtain approval for an indirect cost rate to use in charging State programs. Further, the non-profit stated that neither the Federal agency nor the Connecticut Department of Social Services that provided the majority of its funds would serve as its cognizant agency. Consequently, the non-profit adopted the Judicial Department as its cognizant agency.
- Another non-profit indicated that its indirect cost allocation plan was developed and approved under Federal guidelines and that the plan would be submitted to the Connecticut Department of Social Services (the State agency that provided most of its Federal funding) for review and approval. Approximately three months later, the non-profit informed the Court Support Services Division that its current cognizant agency was the Connecticut Department of Mental Health and Addiction Services. A Department of Mental Health and Addiction Services letter stated, "we have reviewed and approved your methodology for indirect cost allocation. Feel free to communicate this to those agencies who require this approval." Although the non-profit's audited report and quarterly expenditure reports reflected the allocation of indirect costs to State programs, the non-profit's auditor indicated that no indirect costs were charged to State programs.
- Since there are no State directives for allowing the charging of indirect costs, the Judicial Department relies on the Federal Office of Management and Budget's Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" for guidance in permitting the charging of indirect costs to State grants. In addition, the Judicial Department is allowing the charging of indirect costs to State funded programs based on indirect cost rates approved by Federal cognizant agencies.

The above situations point out the need for State directives regarding direct cost, allowable and unallowable cost, cost allocation plans, and the charging of indirect cost to State programs. Until State cost standards or principles are established, the term cognizant agency is open to interpretation by both non-profits seeking approval for indirect cost

charges and State agencies approached by non-profits requesting approval for their cost allocation plans and indirect cost rates. In addition, State agencies are free to permit recipients of State financial assistance to use Federal indirect cost rates for charging indirect costs to State programs. (See Item No. 5)

INTRODUCTION

One of the functions of State government is to provide financial assistance, through State grants and loans, to entities that serve the needs of the State's citizens, either to improve the State's economy, to assist persons in need, to carry out specific programs mandated by the Legislature, or to assist municipalities. Prior to 1991, a separate audit of each award was required to assure that State funding was being spent appropriately. Consequently, several different State agencies were often conducting audits of the same recipient's financial records. To reduce the duplication of effort and to establish uniform standards for financial audits, the State Single Audit Act (the Act) was created and became effective July 1, 1991, through passage of Public Act 91-401 (codified as Chapter 55b of the Connecticut General Statutes). Public Act 92-121 extended the period for compliance with the State Single Audit Act from fiscal years beginning on or after July 1, 1992 to fiscal years beginning on or after July 1, 1994 for non-profit entities.

The Act set a minimum dollar requirement of \$100,000 in combined Federal and State funding before an audit was required. This Act was modeled after the Federal Single Audit Act, which requires all entities receiving Federal grants over a specified amount to be audited under the Federal Single Audit guidelines. Similar to the Federal Single Audit, one audit satisfies the requirements for all grant funds that are received.

The passage of Public Act 98-143 changed the basis that determines when an audit pursuant to the Act has to be performed. For fiscal years beginning on or after July 1, 1998, the requirement was changed from the receipt of \$100,000 of combined Federal and State funding to expenditures totaling \$100,000 or more of State funding. Audits are not required by the Act if the total State funding expended is less than \$100,000.

The Secretary of the Office of Policy and Management is responsible for the administration of the State Single Audit Act. Certain responsibilities, assigned to the Secretary, are described in Chapter 55b of the General Statutes. Those duties include the adoption of State regulations to implement provisions of the Act and the designation of cognizant agencies for audits filed under the Act. In addition, Public Act 98-143 gave the Secretary the power to assess a penalty if an entity fails to file an audit report within six months after the end of the entity's fiscal year.

The Secretary has designated the Office of Policy and Management, the Department of Transportation, the Department of Education, and the Department of Economic and Community Development as cognizant agencies for different State programs. The Department of Transportation is the cognizant agency for the Council of Governments, the Regional Council of Elected Officials, the Regional Planning Agencies, and the Tourism Board. The Department of Education is responsible for the Regional Education Service Centers, the Charter Schools, and the Regional School Districts and the Department of Economic and Community Development is the cognizant agency for the Housing Authorities.

The Office of Policy and Management is the cognizant agency for all other recipients. This includes the municipalities, hospitals, private colleges and universities, and all other governmental and non-profit entities. The Municipal Finance Services Unit of the Office of Policy and Management's Intergovernmental Policy Division has been assigned the responsibility for assisting those entities in carrying out the requirements of the State Single Audit Act in addition to its other duties as advisor and liaison to the State's municipalities.

In accordance with Section 4-236 of the General Statutes, the Secretary of the Office of Policy and Management has issued State Single Audit regulations. The Regulations provide for State agencies to participate with their assigned cognizant agency in order to fulfill the cognizant agency's State Single Audit responsibilities. The Office of Policy of Management has issued a desk review checklist to assist State agencies in carrying out their duties, under the State Single Audit Act. The responsibilities of the grantor agencies, such as the Judicial Department, are outlined below:

- Ensure that their grantees are aware of and meet the State Single Audit Act filing requirements.
- Review the Schedule of State Financial Assistance or State Awards to determine that the agency's grants are properly reported on the Schedule.
- Check the Schedule of Financial Assistance or Awards to determine if any of the agency's grant programs are identified as major State programs under the provisions of Section 4-230 of the State Single Audit Act.
- Review the Report on Compliance with Specific Requirements Applicable to Major State Programs and determine if the specific requirements of the agency's major programs are listed.
- Review the Independent Auditor's Report on the Financial Statements and Notes to the Financial Statements to determine the existence of an explanatory paragraph or qualified opinion regarding the auditee's ability to continue as a going concern.
- Review the Cognizant Agency's Summary of Audit Findings for compliance findings, questioned costs, and internal control weaknesses for which the grantor agency is responsible, and evaluate their effect on the agency's programs.
- Evaluate Corrective Action Plans and follow-up to ascertain that they have been implemented.
- Determine the need for the recovery of any grant funds.

REVIEW OF STATE SINGLE AUDIT REPORTS

The Municipal Finance Services Section within the Intergovernmental Policy Division at the Office of Policy and Management, in conjunction with an outside contractor, reviews the State Single Audit reports for compliance with the Act. Desk reviews, which entail a review of the audit report itself, are performed on approximately ten percent of the audit reports received. The purpose of the desk review is to determine whether the report is in compliance with the terms outlined in Section 4-233 of the General Statutes. If deficiencies are found, the independent auditor is contacted and corrections are made before the grantor is notified that the audit has been filed. Finding reviews are done on all reports. The finding review consists of listing all the problems with the grantee's systems that were found by the independent auditor. If the findings affect more than one agency, the Office of Policy and Management becomes responsible for overseeing that findings are resolved. If the findings affect only one agency, the grantor and the affected agency, if different, are notified. Then the Office of Policy and Management files the report and the grantor agencies are responsible for follow-up on the auditor's findings.

The Judicial Department has designated as its State Single Audit agency contact person, the Director of the Internal Audit Division. The Office of Policy and Management forwards copies of its audit findings and directives to the Director of Internal Audit. Grantees are required to send copies of their audit reports to the Director of Internal Audit. The Director distributes the Office of Policy and Management's audit findings and correspondence, along with grantees' audit reports, to the appropriate Judicial divisions. Thus, the task of reviewing State Single Audit reports and the Office of Policy and Management's audit findings rest with the various Judicial divisions providing funding to the grantees.

JUDICIAL DEPARTMENT PROGRAMS REVIEWED

Section 1 of Public Act 90-213 called for the establishment, within available appropriations, of an Office of Alternative Sanctions within the Judicial Department, effective January 1, 1991. Further, this Section of the Public Act required the Office of Alternative Sanctions to oversee and coordinate the implementation of alternative sanctions for the regular criminal docket of the Superior Court. This required the Office of Alternative Sanctions to plan and establish new alternative sanctions programs, determine which types of offenders are suitable for placement in the alternative sanctions programs, and determine the effectiveness of programs. The Office of Alternative Sanctions is authorized to contract with nonprofit organizations that offer alternative incarceration programs, halfway houses and other similar services. In addition, the Office of Alternative Sanctions is authorized to contract for independent evaluations of the alternative sanctions programs. Section 1 was codified as Section 54-123a of the General Statutes. Public Act 95-225 amended Section 54-123a to include the docket for juvenile matters of the Superior Court. Public Act 95-225 is discussed in more detail in a subsequent paragraph.

In response to Section 1 of Public Act 90-213, the Office of Alternative Sanctions established the Alternative Incarceration Center Services program to provide services for adults accused of a criminal offense and adults convicted of a criminal offense. The Office of Alternative Sanctions

has contracted with non-profit organizations to provide the services of the Alternative Incarceration Center Services program. Under the Alternative Incarceration Center Services program, daily contact is to be maintained with clients. Clients are provided employment assistance and counseling, educational and vocational training, substance abuse counseling, family and group counseling, and life skills assistance. In addition, clients are to participate in community service activities. If not for the services provided under the Alternative Incarceration Center Services program, these adults would otherwise be incarcerated.

Public Act 95-225 gave significant responsibility for juvenile delinquency programs to the Office of Alternative Sanctions, as of July 1, 1996. The Public Act called for the Office of Alternative Sanctions to develop programs to prevent and reduce juvenile delinquency and to provide services to juvenile offenders not requiring incarceration. The treatment programs must cover chemical dependency, mental health needs, physical or sexual abuse, and educational needs, and provide treatment based on individual needs. Further, this Public Act required juvenile offenders to participate in community services activities.

In response to the passage of Public Act 95-225, the Office of Alternative Sanctions established the Alternative to Juvenile Detention Program, which offers both residential and non-residential programs. The Office of Alternative Sanctions has contracted with non-profit organizations to provide the Alternative to Juvenile Detention Program services. The Alternative to Juvenile Detention Program is designed to provide cost-effective, safe, community-based intermediate sanctions for juveniles who are detained for 10 to 20 days on a pre-trial basis and are deemed to be able, with appropriate services and supervision, to be maintained in a community program. Under Alternative to Juvenile Detention Program, juveniles are provided educational instruction, substance abuse education and treatment, mental health services, group and individual counseling. In addition, the juvenile clients participate in family focus groups, community service activities and recreational activities.

Early in 1998, the Judicial Department contracted with the National Center for State Courts to perform a comprehensive assessment of administrative and operative functions. The assessment was undertaken to discover potential opportunities to improve the level of services provided and to increase and enhance operating efficiencies. This assessment resulted in the merger of six former separate components of Judicial Department into the newly created Court Support Services Division. Operating functions that were formerly performed by the Office of Adult Probation, the Office of Alternative Sanctions, the Bail Commission, the Family Matters Unit, the Division of Juvenile Detention, and the Juvenile Probation Unit are now cared out by the Court Support Services Division.

Under the Court Support Services Division, five regions have been established to more effectively provide for the needs of judges, offenders and communities, and to more efficiently use existing resources. The regions operate under the direction of Regional Deputy Directors.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditors of Public Accounts, in accordance with Section 2-90 of the Connecticut General Statutes, are responsible for examining the performance of State entities to determine their effectiveness in achieving expressed legislative purposes. We conducted a performance audit of some aspects of the Judicial Department in accordance with Generally Accepted Government Auditing Standards. The audit of the Judicial Department covered economy, efficiency, and program issues, all of which are types of performance audits. The audit focused on two State financial assistance programs administered by the Court Support Services Division within the Judicial Department, and the Division's participation in the State's Single Audit monitoring process. The two programs selected were the Alternative Incarceration Center Services program and Alternative to Juvenile Detention Program.

Previously, we issued a performance audit on the Office of Policy and Management and the Agency's role as the administrator of and cognizant agency for the majority of recipients receiving State financial assistance. As noted in the Office of Policy and Management audit report, we planned to review the State Single Audit Program and other systems used to monitor the State financial assistance programs at several State agencies. This report is limited to our review of the Judicial Department, specifically the operation of the Court Support Services Division.

Our audit objectives were as follows:

- To determine if the goals of the State Single Audit Act, as it applies to the Judicial Department, specifically the Court Support Services Division, are being achieved.

Are the required audits received in a timely manner?

Are the Division's programs being properly covered in the audit reports?

- To determine if the State Single Audit provides an adequate monitoring tool to assure that the Agency's program goals are being met.
- To determine if procedures, which have been instituted by the Court Support Services Division to oversee the expending of the State financial assistance, are reasonable.
- To determine if allowable costs, including items that are billed as indirect costs, have been sufficiently addressed in Court Support Services Division's financial guidelines, agreements, and in its compliance supplement requirements.
- To determine if indirect costs are being sufficiently audited to obtain reasonable assurance that only allowable types of costs and equitable amounts are charged to the State programs.

To accomplish our objectives, we reviewed the Connecticut General Statutes, State Single Audit regulations issued by the Office of Policy and Management, Federal Office of Management and Budget circulars and a related guide, Office of Policy and Management policies and procedures, and our prior financial audit report and supporting workpapers pertaining to the Judicial Department. At the Court Support Services Division, we reviewed the Division's Financial Guideline Manual, accounting expenditure records, contractual agreements, budget documentation, non-profit expenditure reports, file correspondence, and non-profit audit reports. We interviewed officials and other personnel of the Agency within the scope of our audit. Certain Agency financial information was stored in computer databases. We did not rely on such information to achieve our audit objectives or to develop our audit findings, and it was determined that it was not necessary to assess the reliability of the computer-based data.

The field audit work was conducted from April 2000 through October 2000 by staff members Charles A. Bannon and Lynne A. Adler. Work was performed at the Court Support Services Division.

NOTEWORTHY ACCOMPLISHMENTS

We noted that an article published by the U.S. Department of Justice, Bureau of Justice Assistance in October 1998 commended the Judicial Department for establishing alternative sanctions programs for virtually every offender. The article indicated that both the Alternative Incarceration Center Services program and Alternative to Juvenile Detention Program, covered in our audit examination, are helping protect the public, assisting offenders in developing skills, saving money and reducing offender recidivism.

The article commended the Chief Court Administrator and the Judicial Department for doing an admirable job of “engaging the courts as a problem solver” in response to the prison crisis of the late 1980s. The article noted that the Office of Alternative Sanctions found a solution that promised meaningful benefits for everyone involved, including the communities, the judiciary, government officials, and offenders. The Office of Alternative Sanctions created programs that demonstrated to the community that offenders would be held accountable for their crimes. Further, the article stated that the Office of Alternative Sanctions provided an alternative to the endless expense of building and operating State prisons, while restoring the public’s faith in the efficacy of the criminal justice system.

RESULTS OF REVIEW

Item No. 1. The Judicial Department has not established formal procedures to ensure that non-profits failing to submit their State Single Audit reports are detected within a timely manner.

The State's Single Audit Act (the Act) requires that audit reports of audits conducted under the Act be submitted to the State within six months after the audited entity's fiscal year end. The Office of Policy and Management, as the cognizant agency for the State financial assistance awarded by the Judicial Department, is responsible for assuring that these audit reports are submitted in a timely manner. However, the Office of Policy and Management relies on the Judicial Department to inform it of what audits are due and when they are due, as it does not have any other independent source of this information. The grantor agency, in this case the Judicial Department, has a number of responsibilities related to the review of the audit reports. For example, the grantor agency must follow up on any findings that are reported. Other responsibilities are more fully detailed in the "Introduction" section of this report.

The Single Audit report is an important financial monitoring tool that is to be utilized by the grantor agencies to assure that State money was appropriately spent, that costs were allowable, and that grant financial requirements were met. In the Judicial Department, it is one of the primary monitoring tools for State financial assistance that is awarded under the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program (some \$14,600,000 was awarded for the fiscal year ended June 30, 1998). As a monitoring tool, its use is diminished or eliminated if the audit reports are not received and reviewed in a timely manner. To make effective use of the audit report as a monitoring tool, it is expected that the grantor agency would develop procedures that would track that an audit report is due, the date it is due, the date it is received, any follow-up action that is required, and so forth. The Judicial Department has not formulated procedures. We found that the receipt date of audit reports was not recorded in seven out of 11 instances that we reviewed. In three of the 11 instances, the dates marked as received were between 14 and 20 months after the fiscal year ended and in another instance, the report was not received until after we brought it to the Department's attention that it did not have an audit report on file (almost two years after the end of the entity's fiscal year).

We were told that because of other obligations, audit reports are often allowed to sit around in one Judicial unit for a month or two before they are distributed to the appropriate Judicial unit. Another reason for the inadequate tracking is the confusion about who has responsibility for monitoring the receipt of these reports. We have noted that there are different instructions in the contracts as to where the reports should be directed. Those should be clarified and procedures should be put into place to note the receiving date on all items and a tracking system for the prompt handling and follow-up of these reports should be put into place.

(See Recommendation No. 1.)

Agency's Response:

“The audit accurately notes that it is the cognizant agency, in this case the Office of Policy and Management (OPM), by statute if not always in practice, who has been responsible for assuring that audit reports are submitted in a timely manner. Nevertheless, the [Judicial] Branch is implementing a system to monitor the timely submission of such reports and notify OPM when submission is not timely. Additionally, a full-time position is being added within Internal Audit to track, review and follow-up these reports.

It should be noted as well that Judicial Branch grant agreements require the submission of audits even when State Single Audit provisions would not apply and do put recipients on notice regarding any instances of non-compliance with requirements.”

Item No. 2. The Judicial Department’s participation in the State Single Audit Act can be strengthened through the use of written procedures and/or a desk review checklist, the timely dissemination of information within the Agency, and by the accounting staff establishing a working relationship with their counterparts at the Office of Policy and Management.

Agency management is responsible for establishing policies and procedures, assigning job duties to employees, providing guidance to employees in carrying out their duties through written procedures, and for the coordination, communication and dissemination of information within the Judicial Department.

The Judicial Department has designated as its Agency contact person for the State Single Audit Act, the Director of the Internal Audit Division. Thus, the Office of Policy and Management sends any correspondence regarding the State Single Audit to the Director. The Director informed us that his only function was to coordinate meetings with the Office of Policy and Management, and to distribute Single Audit correspondence and audit reports to the applicable Judicial units. He indicated that he forwards the Office of Policy and Management’s correspondence to four or five Judicial divisions. If he is not sure which division may have provided funding to an organization, he forwards a copy of the Office of Policy and Management’s correspondence to all the divisions. Further, he indicated his normal procedure is to distribute Single Audit information on a monthly basis. Due to his workload, a back up of between one and one-half months to two months might occur in the distribution of information received from the Office of Policy and Management. This backlog may account for Court Support Services Division’s Manager of Grants and Contracts informing us that he was receiving the Office of Policy and Management’s “Delinquent Entities” listing on a quarterly basis. According to the Office of Policy and Management, the “Delinquent Entities” listing is distributed monthly.

Two Court Support Services Division accountants, presently responsible for reviewing audit reports of non-profit providers, assumed this task after their supervisor was assigned new job responsibilities. They assumed responsibility for reviewing audit reports covering the 1997-1998 fiscal year. The accountants informed us that they had never met with or had any meetings with the Director of Internal Audit regarding the State Single Audit process and his involvement.

Our audit examination revealed that the Court Support Services Division’s management had not provided its accountants with formal written procedures to follow in reviewing audit reports submitted by organizations receiving funding from the Court Support Services Division. Further, we learned that the accountants were unaware of how often the Office of Policy and Management issued the “Delinquent Entities” listing, and why they received the Office of Policy and Management’s correspondence for organizations that were not receiving any Court Support Services Division funding. In addition, they were unaware of the existence of the Office of Policy and Management’s “Grantor Agency Desk Review Checklist for Governmental and Nonprofit Entities.” The Office of Policy and Management’s desk review checklist is revised periodically to assist Agency personnel in reviewing audit reports and sent to individuals designated as the Single Audit contact person. During our discussions with the accountants, questions were raised about the Office of Policy and Management’s involvement in reviewing

audit reports, the possibility that they may be duplicating desk review procedures being carried out by the Office of Policy and Management's staff, and if the Office of Policy and Management offered any training pertaining to the State Single Audit. Unfortunately, the accountants have not attended any State Single Audit meetings with the Office of Policy and Management, and thus, they have not established a working relationship with their counterparts at the Office of Policy and Management, and therefore, were somewhat in the dark regarding the aforementioned matters.

Although the Director of Internal Audit was informed by the Office of Policy and Management's staff that the Office of Policy and Management did not offer Single Audit training, we have been informed by the Office of Policy and Management's staff that training would be provided to any State agency requesting such training. We have conveyed the Office of Policy and Management's apparent willingness to provide such training to members of the Judicial Department. The Director informed us that he has forwarded copies of the Office of Policy and Management's desk review checklist to the Court Support Services Division's management but not directly to staff personnel responsible for reviewing audit reports. Upon discussing with management the need for State Single Audit procedures to document the audit review process, management informed us that an accounting firm had been hired to develop procedures for use in reviewing audit reports. Management indicated that the accounting firm had developed a very extensive automated checklist for use in reviewing audit reports. Further, management indicated that the automated checklist was not currently being used due to the lack of resources to hire additional staff to complete the checklist tasks.

Based on our discussions with the Court Support Services Division accountants and our observations, it did appear that the accountants are conscientious about reviewing audit reports. However, due to the lack of written procedures or the use of a desk review checklist, no definitive record existed to document just what the accountants had reviewed an audit report for or if an audit report was reviewed for matters considered important by the Office of Policy and Management. The use of the Office of Policy and Management's desk review checklist, at a minimum, would provide a permanent record of problems, which may turn out to be recurring in nature. Some examples of recurring problems are the misuse of State funds, the failure of an auditor to identify Federal or State funds properly, the failure of an auditor to identify unspent State funds and/or substandard audit report filings.

There needs to be better coordination, communication and dissemination of information within the Judicial Department to ensure that all participants in the State Single Audit process are fully aware of the process and receive information in a timely manner. Also, the accountants should attend State Single Audit meetings between the Office of Policy and Management and the Judicial Department so that they can establish a working relationship with their counterparts at the Office of Policy and Management. Such interaction hopefully will prove beneficial to both agencies in fulfilling their duties under the State Single Audit Act.

(See Recommendation No. 2.)

Agency's Response:

“The State Single Audit Desk Review Checklist for Governmental and Nonprofit Entities has been set up as the basis for review of audit reports and follow-up of questioned items.

Interaction regularly occurs on a variety of subjects between the Director of Internal Audit and Court Support Services Division (CSSD) administration and notification is disseminated of meetings, when...required. Additionally, the fundamental change identified in response to Item #1 will lead to a more direct and consistent link between Internal Audit and CSSD, dramatically enhancing communication.”

Item No. 3. There is a need to require non-profits to submit a detailed reconciliation between their June 30 final program expenditure amount reported to the Court Support Services Division and the expenditure amount reported for the program on their State Single Audit Schedule of State Financial Assistance, whenever differences exist.

Whenever a difference exists between an audited expenditure amount and a recipient's reported expenditure amount for the same program and for a June 30 fiscal year or a fiscal year end other than June 30, a detailed reconciliation is required to explain the reason(s) for the difference(s). Such a reconciliation is needed in order for the accounting staff to determine if State funds have not been returned to the Court Support Services Division.

During our performance audit examination, we inquired of Court Support Services Division's accounting personnel what types of problems were being encountered due to some non-profit organizations having a fiscal year end that did not coincide with the State's fiscal year end of June 30. The accountants indicated that in the past they had attempted to reconcile audited financial expenditure amounts to final expenditure amounts reported to the Court Support Services Division by a non-profit. This process usually required them to call or write a letter requesting a breakdown of expenditures according to the State's fiscal accounting period (July 1 to June 30). Further, they indicated that the reconciliation process was very time consuming. Presently, they call a non-profit and request a reconciliation between the audit report expenditure amount and the non-profit's final quarterly expenditure amount reported to the Court Support Services Division. In addition, they request that the non-profit have their auditors sign off on the reconciliation.

As part of our audit examination, we compared a non-profit's audit report expenditures for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program against final quarterly expenditure reports submitted by the non-profit organization, and to the Court Support Services Division payments made to the non-profit. We performed this comparison for the 11 non-profits that received funding from the Court Support Services Division for the State fiscal year ended June 30, 1998. The comparison was also made for four of the 11 non-profits for the fiscal year ended June 30, 1999. Our review revealed the following situations:

- Four of the 11 non-profits had fiscal year ends different from the State's fiscal year end of June 30. Just one of the four non-profits' audit reports reflected fiscal year June 30 financial expenditure and unspent amounts that were in agreement with the final quarterly expenditure report submitted by the non-profit.

Two of the non-profits reported that they had fully expended their 1997-1998 fiscal year grant awards. Because the non-profits have a fiscal year end other than June 30, the 1997-1998 expenditure amounts were presented in two separate audit reports for each non-profit. According to the audit reports for the two non-profits, one non-profit had not spent \$153,444 of its 1997-1998 grant award. The other non-profit had not spent \$9,027 of its grant award.

The fourth non-profit's audit reports did not present expenditure amounts by the State grant period (fiscal year). Independent auditors are not required to provide supplemental schedules that detail total program expenditures presented for fiscal years that do end on June 30. Thus, no determination can be made as to whether or not a State grant was expended in full or if the non-profit has failed to return unspent State funds.

- The remaining seven non-profits had a fiscal year end of June 30, which is the same as the State's fiscal year end. For four of the seven non-profits, we noted variances between their audit report expenditure amounts and the final expenditure amounts reported to the Court Support Services Division by the non-profits.

One non-profit returned fiscal year 1997-1998 unspent funds of \$9,065. Whereas, the audit report indicated that this non-profit had over spent the grant award by \$64,718. For the 1998-1999 fiscal year, this non-profit indicated that it had spent \$980 more than its grant award. Whereas, the audit report indicated that the non-profit had expended \$158,368 less than the amount of State funds paid to the non-profit.

Another non-profit indicated that it had not spent \$4,754 of its State grant award and returned the amount to the Court Support Services Division. According to the audit report, the grant was fully expended.

- Our review of available information on file at Court Support Services Division did not reveal the cause for the aforementioned differences. The reliability of financial data being submitted to Court Support Services Division is in question. Further, it appears that unspent funds have not been returned to Court Support Services Division and that non-State funds are being commingled with State funds.

The above situations clearly point out the need to have a non-profit organization submit a formal reconciliation, if there are differences between the non-profit's final quarterly expenditure amount for a specific grant program and the corresponding amount reported in the State Single Audit Schedule of State Financial Assistance. The reconciliation should be filed at the same time as the audit report. The reconciliation should be certified by the non-profit's auditors or subject to verification by the non-profit's auditors to ensure the accuracy and completeness of the reconciliation. **(See Recommendation No. 3.)**

Agency's Response:

"Such reconciliations are currently requested. However, the requirement for such reconciliation is being formalized for inclusion in the SSA Compliance Supplement and/or Branch contracts."

Item No. 4. The Court Support Services Division's quarterly contractor monitoring process needs to be improved.

The Court Support Services Division's Operations Unit is responsible for monitoring the delivery of services provided by contractual providers. Five Regional Deputy Directors are responsible for overseeing the monitoring process. Each regional office is authorized two Criminal Sanctions Monitors, who are responsible for monitoring the operations of contractual providers.

In an effort to ensure contract compliance and quality service delivery by the providers, the Court Support Services Division has established a formal monitoring policy. The Court Support Services Division's staff is to conduct formal monitoring visits at contracted agencies four times a year at regular intervals. The formal monitoring visits are to be scheduled with the contractor in advance and documented on the appropriate form(s) according to the type of Court Support Services Division program. In addition, informal monitoring may occur in between the formal reviews as needed. These may include site visits, telephone contacts, and through contacts with other Judicial Department personnel.

After conducting a quarterly monitoring review, the Criminal Sanctions Monitor is required to issue the completed monitoring report to the appropriate Regional Deputy Director, the Program Manager for the Juvenile and Alternative Sanctions programs, and the contracted service provider to whom the report pertains. The service provider is required to sign and date the cover page of the report so as to acknowledge receipt of the monitoring report. If deficiencies are cited in the monitoring report, the service provider must respond in writing within 10 days of receipt of the report.

In reviewing the Court Support Services Division's monitoring process, we sought to determine the following:

- if monitoring reports were properly completed and in a timely manner,
- if monitoring reports were being signed and dated by representatives of the providers in acknowledgement that they had received a copy of the reports,
- if required corrective action plans or written responses were submitted by providers and reviewed by the Court Support Services Division's staff for acceptance or rejection, and
- if monitoring reports were being signed by Deputy Directors in acknowledgement that they had seen the quarterly monitoring reports.

Our initial review of the monitoring process revealed an organizational problem. Prior to a Judicial Department reorganization in February 1999, Criminal Sanctions Monitors reported to supervisors. The supervisors were responsible for determining what types of reviews were required for contractual providers and directing monitors to conduct the necessary reviews. Since the reorganization, this management responsibility has fallen to the Criminal Sanctions Monitors. Consequently, there was no official listing of which Court Support Services Division

programs and providers each Criminal Sanctions Monitor was responsible for overseeing. Thus, we contacted Criminal Sanctions Monitors for said information with the assistance of another Court Support Services Division staff member. On June 2, 2000, an E-mail was sent to all Criminal Sanctions Monitors asking them to identify the Alternative Incarceration Center Services program and Alternative to Juvenile Detention Program providers that they were responsible for monitoring. Also, we requested a copy of the latest quarterly monitoring reports completed for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program providers. If the third quarter (January through March 2000) monitoring report had not yet been completed, we requested an explanation as to why the report had not been completed. We also requested copies of corrective action plans or any written responses submitted by a provider in response to a quarterly monitoring report being provided to us.

Our review of quarterly monitoring reports for 10 Alternative Incarceration Center Services providers (all non-profits) revealed the following situations or problems:

No quarterly monitoring reports were available for two Alternative Incarceration Center Services non-profit providers, Project More, Inc. and The Connection, Inc. We were informed that no adult monitor was assigned to the South Central Region at the time the reviews should have been conducted. Management informed us that the Court Support Services Division was in the process of hiring someone to monitor these two non-profit providers.

Fourteen quarterly monitoring reports were provided to us for the other eight Alternative Incarceration Center Services providers. This was due to services being provided at more than one location by some Alternative Incarceration Center Services non-profit providers. Seven of the quarterly monitoring reports covered the most recent quarter (January through March 2000) subject to a formal monitoring visit. Four other quarterly monitoring reports reflected the combined results of the second and third quarter monitoring reviews. The monitor informed us that the consolidating of quarterly monitoring reviews was due to an increased workload for monitors Statewide. Further, the monitor stated that the Program Manager for Alternative Sanctions had approved the combining of the quarterly monitoring reviews. We were provided second quarter (October through December 1999) monitoring reports for three other locations because the third quarter exit interviews had not yet taken place. The monitor indicated that the exit interviews had not taken place, in part, due to monitors' workloads.

Three of the 14 Alternative Incarceration Center Services quarterly monitoring reports appeared to have been prepared in a timely manner, within one month after the end of the quarter. It appeared that the three second quarter (October through December 1999) monitoring reports were not issued in a timely manner. The Criminal Sanctions Monitor did not sign the reports until either March 17 or March 23, 2000. Eight of the quarterly monitoring reports were not signed by a Regional Deputy Director. Included in the eight unsigned reports were the four combined second and third quarter reports mentioned in the preceding paragraph. We were informed that these four monitoring reports did not

contain the Deputy Director's signature in order to accommodate our request for copies of the monitoring reports.

Five of the 14 Alternative Incarceration Center Services quarterly monitoring reports appeared to have been properly completed. Some reports had missing pages and others had pages that were left blank with no explanation as to why the pages were not completed. Three monitoring reports were missing the first of three pages that pertain to client files. Three quarterly reports were missing the "Tally Sheet." Another monitoring report contained a blank "Tally Sheet." This page provides a recap by section reviewed (such as facility/equipment, client files, client supervision, etc.) and whether the section reviewed prompted the need for corrective action by the provider.

Five of the 14 Alternative Incarceration Center Services quarterly monitoring reports required the non-profit provider to file a corrective action plan. Four of the providers filed a corrective action plan or written response. The Court Support Services Division's staff made no notations on the written responses to indicate if the responses addressed the problems cited in the monitoring reports. As of July 10, 2000, one non-profit had yet to file a corrective action plan for a third quarter (January through March 2000) review that was apparently completed on May 8, 2000. A representative for the provider signed the quarterly monitoring report on June 5, 2000.

The cover sheet for the quarterly Alternative Incarceration Center Services monitoring report, in addition to requiring the date the monitor, and that the provider's representative and a Deputy Director signed the report, also requires the date the report was distributed to the Operations Unit and Administration Unit. The distribution section of the cover sheet was not completed for any of the fourteen monitoring reports provided to us.

Our review of four Alternative to Juvenile Detention Program quarterly monitoring reports revealed the following situations or problems:

Alternative to Juvenile Detention Program services are provided at four locations by four non-profit organizations. Just one of the four quarterly monitoring reports provided to us covered the third quarter (January through March 2000). For the other three providers, we received second quarter monitoring reports (October through December 1999). We were informed that one of the third quarter reviews had not been performed at the time of our request for copies in June, another third quarter review had not yet been typed, and the other third quarter review had been conducted with an independent auditor but had not been issued.

We were unable to determine if the third quarter monitoring report had been issued on a timely basis because the monitoring report cover sheet was missing. Because the cover sheet was missing, we could not determine if the provider's representative and a Deputy Director had been provided copies of the monitoring report.

We were unable to determine if two-second quarter monitoring reports had been issued on a timely basis. The two non-profits' representatives failed to date their signatures, as required. The two monitoring reports were not signed by a Regional Deputy Director.

One of the monitoring reports called for the filing of a corrective action plan. Court Support Services Division's staff made no notations on the written responses to indicate if the responses addressed the problems cited in the monitoring report.

All three available cover sheets for the quarterly Alternative to Juvenile Detention Program monitoring reports failed to indicate if copies of the monitoring reports had been distributed to the Operations Unit and Administration Unit, as required.

In reviewing quarterly monitoring reports for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program, we noted that only the cover sheet for the quarterly reports divulged the quarter reviewed, the name of the provider and the program reviewed. Some quarterly monitoring reports were clipped together rather than stapled together, heightening the chance that pages could become separated and possibly misidentified as to what period, provider and/or program that they happened to represent.

If quarterly monitoring reports are to be an effective tool in monitoring for compliance with contractual terms, the delivery of quality services each quarter, and for ensuring community safety; the quarterly monitoring reports need to be issued in a timely manner. The monitoring reports should contain all required pages, each page should identify the period covered and the contractor's name, and the reason for not completing a page should be noted on the page. No quarterly monitoring report should be accepted as completed by management unless it reflects a dated signature for both the provider's representative and the monitor. Deputy Directors should be required to sign the quarterly monitoring reports to indicate that they have reviewed them and note their acceptance or rejection of a report. Court Support Services Division's procedures should require monitors and Deputy Directors to indicate their acceptance or rejection of corrective action plans or written responses submitted by providers.

(See Recommendation No. 4.)

Agency's Response:

"Prior to the audit, CSSD had established a committee to review the contract monitoring process and instruments. As a result the system was revised and a Contract Monitoring policy was developed. The new policy establishes specific time standards and clear accountability for contract monitoring. The policy is in the final stage of review and will be implemented by October 2001."

Item No. 5. The lack of State uniform cost standards or principles has resulted in the Judicial Department developing its own approach for allowing or disallowing indirect costs to be charged against a State financial assistance award.

Indirect costs are costs incurred for common or joint purposes benefiting more than one cost objective and the costs cannot be readily assigned to a particular cost objective or project specifically benefited.

On April 28, 2000, the General Assembly passed Public Act 00-125, which requires the Secretary of the Office of Policy and Management to adopt regulations establishing uniform standards that prescribe the cost accounting principles to be used in the administration of State financial assistance by recipients of such assistance. The establishment of uniform standards that prescribe cost accounting principles, including allowable/unallowable costs and an indirect cost allocation plan, to be used in the administration of State assistance awards by non-profit organizations, local governments and other recipient organizations could improve accountability over State financial awards.

Prior to the passage of Public Act 00-125, the Office of Policy and Management's staff indicated that there was no clear authority to establish uniform cost standards. Further, management stated that it was not clear that such authority was part of the State Single Audit process. However, it does appear that the Office of Policy and Management's staff did consider cost standards part of the State Single Audit process prior to our performance audit examination of the Office of Policy and Management's administration of the State Single Audit Act. During our review of non-profit audit reports on file at the Court Support Services Division, we noted that one non-profit's audit reports recommended the development of a systematic and rational allocation system for the allocation of common costs to State grant programs. This recommendation was contained in the non-profit's audit reports covering the fiscal years ended September 30, 1997 and 1998. As a result of reviewing these two audit reports, the Office of Policy and Management issued its desk review results in April 1998 and 1999 for the aforementioned 1997 and 1998 audit reports, respectively. The two desk reviews were sent to the Judicial Department, the Department of Social Services, the Department of Mental Health and Addiction Services and the Department of Labor. The two audit reports indicated that the Judicial Department, the Department of Social Services and the Department of Mental Health and Addiction Services provided major State expenditure funding to this non-profit. The Office of Policy and Management provided nonmajor State expenditure funding and the least amount of State funding to this non-profit in each of the two fiscal years. The two desk reviews indicated that the Office of Policy and Management (the cognizant agency) was the State agency responsible for monitoring the resolution process for the cost allocation finding.

Since there are no State directives for allowing the charging of indirect costs, the Judicial Department relies on the Federal Office of Management and Budget's Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" for guidance in permitting the charging of costs to State grants. The Court Support Services Division's Financial Guideline Manual states that organizations are encouraged to account for expenses as direct cost whenever possible. The Court Support Services Division permits a contractor to charge indirect costs to Judicial Department programs. The contractor must file with the Court Support Services

Division, a letter from the cognizant agency approving its indirect cost rate and stating that the indirect cost allocation plan has been prepared in accordance with applicable policies and procedures. We found that the Court Support Services Division's initial contractual agreements and most recent agreements with non-profits stated that the cognizant organization is normally the Federal agency or the Federal pass through funding agency that provides the most funding to the organization. If no Federal funds are supporting the organization, the plan should be submitted to the State agency or the municipality that provides the most funding to the organization. The Judicial Department's superseded July 1998 Financial Guideline Manual contained the same definition of cognizant agency as the Judicial agreements. The current Financial Guideline Manual states that the cognizant agency is normally defined as the agency that provides the most funding to the organization. The Court Support Services Division will allow an organization to charge indirect costs at a rate not to exceed 10.0 percent of direct charges pending approval of its indirect cost allocation plan and indirect cost rate. The organization must secure approval of its indirect cost allocation plan within one year from the inception of an agreement. An approved indirect cost rate becomes effective at the beginning of the reporting quarter in which the indirect cost plan was approved.

As previously mentioned above, one non-profit's audit reports, covering the fiscal years ended September 30, 1997 and 1998, contained a recommendation calling for the development of a systematic and rational allocation system for the allocation of common costs to State grant programs. Further, we noted that the Office of Policy and Management was the State agency responsible for monitoring the resolution process. Our audit examination revealed that the Court Support Services Division's management had corresponded with this same non-profit in July 1996 regarding its September 30, 1995 audit report, which indicated that the non-profit had no consistent method for allocating indirect costs among its funding sources. The Court Support Services Division's management requested a prompt resolution of the matter and reminded the non-profit that the Alternative Incarceration Center Services agreement required the non-profit to seek approval for its indirect cost allocation plan. The non-profit indicated that it had tried unsuccessfully for some time to get the Department of Health and Human Services and the Department of Social Services to approve an indirect cost rate. In addition, the non-profit submitted a letter (dated June 26, 1996) sent to the Department of Social Services requesting approving of its proposed indirect cost rate. The non-profit's correspondence stated that a number of its funding sources, along with its auditor, are requiring an indirect cost rate from our cognizant agency. The non-profit claimed, "OMB guidelines require the cognizant agency to be the federal or state agency from which we receive the majority of our funds. In our case, it is the Department of Social Services." Approximately three months after being reminded by the Court Support Services Division that it was required to seek approval for its indirect cost allocation plan, the non-profit submitted a payroll based indirect cost allocation plan to the Judicial Department, now considered the cognizant agency for this non-profit. Since the Court Support Services Division prohibited the use of a payroll based indirect cost allocation plan; the allocation plan was rejected.

Another non-profit indicated to the Court Support Services Division that its indirect costs are computed under cost accounting procedures contained in the Federal Office of Management and Budget's Circular A-133 and the State Single Audit Act. Further, the non-profit stated, "this plan though approved under Federal Circular A-133 will also be submitted to the Department of

Social Services (where Perception Programs gets most of its Federal funding) or the Judicial Department for review and approval.” Approximately three months later, the non-profit informed the Court Support Services Division that its current cognizant agency was the Department of Mental Health and Addiction Services. The non-profit submitted a letter from the Department of Mental Health and Addiction Services, which stated “we have reviewed and approved your methodology for indirect cost allocation. Feel free to communicate this to those agencies who require this approval.” The Department of Mental Health and Addiction Services’ letter made no mention of the allocation method approved or if an indirect cost rate had been approved. Quarterly expenditure reports submitted to the Court Support Services Division by the non-profit reflected indirect cost charges. A Court Support Services Division employee tried unsuccessfully to find out from the Department of Mental Health and Addiction Services what the approved indirect cost rate was for the non-profit. We called the Department of Mental Health and Addiction Services more than once in our attempts to find out the approved indirect rate for the non-profit. Finally, a Department of Mental Health and Addiction Services employee responded to our inquiry and stated that the Department of Mental Health and Addiction Services had approved only the non-profit’s cost allocation plan and that no indirect rate had been approved. We contacted the non-profit’s auditor and were informed that the non-profit did not use an indirect cost rate to allocate administrative costs to Judicial programs. The auditor stated that the non-profit used direct costing in charging administrative cost to programs and that there were no indirect costs being charged to Judicial programs. Further, the auditor indicated that the non-profit had received approval from the Department of Mental Health and Addiction Services for their method of charging administrative cost directly to programs. However, correspondence from the non-profit indicated that indirect costs were computed by applying its approved indirect cost rate to actual expenditures in the administrative cost center.

Normally under Federal guidelines, cost allocation plans are prepared for the purpose of identifying costs benefiting a number of activities, projects, programs or grants and the method of distributing joint costs to the benefiting activities, projects, programs or grants. In certain situations a governmental unit may be required to develop a cost allocation plan that distributes indirect (and in some cases, direct) costs not using rates. We called the Department of Mental Health and Addiction Services to determine just what had been submitted by the non-profit and approved by the Department of Mental Health and Addiction Services. We were unsuccessful in our effort.

The above situations clearly point out that confusion will reign until the Office of Policy and Management develops cost principles and takes full responsibility for being the cognizant agency for non-profits or designates other State agencies to act as the cognizant agency. Until uniform cost standards are issued by the Office of Policy and Management, State agency personnel are free to permit recipients of State financial assistance to use Federal indirect cost rates for charging indirect costs to State programs. Also, State agencies will formulate their own conclusion as to which State agency is the cognizant agency for a non-profit with regard to approving a non-profit’s indirect cost allocation plan and indirect cost rate.

No recommendation is presented in this audit report since it is the responsibility of the Office of Policy and Management (the cognizant agency for the State Single Audit Act) to develop cost

principles. However, a copy of this audit report is being submitted to the Office of Policy and Management for their consideration.

Agency's Response:

“Judicial Branch indirect cost standards were established to provide consistency among the many and varied contracts that exist, in the absence of any statewide standards. They are periodically reviewed and any guidance provided by the Office of Policy and Management as the cognizant agency is welcomed.”

RECOMMENDATIONS

- 1. The Judicial Department should establish a procedure, which alerts staff that a non-profit has failed to submit a State Single Audit report within six months after the end of the non-profit's fiscal year, unless a filing extension is granted by the cognizant agency.**

Comments:

Our performance audit examination revealed the lack of a system to ensure that audit reports were being received from non-profits subject to the State Single Audit Act not later than six months after the end of a non-profit's fiscal year.

We were unable to determine if seven of the 11 non-profits' audit reports selected for review had been filed within six months after the end of the non-profits' fiscal year. No record existed to indicate when these seven audit reports had been received by the Judicial Department. Of the remaining four audit reports, two were received by the Court Support Services Division 14 months after the end of the non-profits' fiscal year. The third non-profit's audit report was received 20 months after the end of its fiscal year. The fourth non-profit's audit report was received 22 months after the end of the non-profit's fiscal year.

- 2. The Judicial Department should improve its participation in the State Single Audit process by utilizing written procedures and/or a desk review checklist for reviewing audit reports. There needs to be better coordination, communication and dissemination of State Single Audit information within the Judicial Department to ensure that all participants are fully aware of the process and receive information in a timely manner.**

Comments:

Management has not provided its accountants, who are responsible for reviewing State Single audit reports, with written procedures and/or a desk review checklist for use in reviewing State Single Audit reports. Consequently, no definitive record existed to document exactly what an audit report had been checked for and if any problems were noted that needed to be addressed by the non-profit or by the Judicial Department's management.

Our audit examination revealed that State Single audit reports and correspondence are often allowed to sit around in one unit of the Judicial Department for a month or two before they are distributed to the appropriate units within the Judicial Department. Further, we learned that accountants, who are responsible for reviewing State Single audit reports, had never met with the Agency's designated State Single Audit contact person or attended any State Single Audit meetings held by the Office of Policy and Management.

3. **The Judicial Department should require a non-profit organization to submit a formal reconciliation, if there are differences between the non-profit's final quarterly expenditure amount for a specific grant program and the corresponding amount reported in the State Single Audit Schedule of State Financial Assistance. The reconciliation should be filed at the same time as the audit report. The reconciliation should be certified by the non-profit's auditors or subject to verification by the non-profit's auditors to ensure the accuracy and completeness of the reconciliation.**

Comments:

As noted in Recommendation Number One, we selected for review the audit reports for 11 non-profits. For these 11 non-profits, we compared program expenditure amounts stated in a non-profit's audit report to its final quarterly expenditure reports for two grant programs. This comparison revealed a number of discrepancies between final quarterly expenditure reports and expenditure amounts reflected in audit reports for seven of the 11 non-profits.

4. **The Court Support Services Division's quarterly contractor monitoring process needs to be improved to ensure compliance with contractual terms, the delivery of quality services each quarter, and to ensure community safety.**

Comments:

Our review of the Court Support Services Division's monitoring process for the Alternative Incarceration Center Services program and the Alternative to Juvenile Detention Program revealed a number of problems.

Due to a Judicial Department reorganization in February 1999, the management responsibility for determining what types of reviews were required for contractual providers has fallen to the Criminal Sanctions Monitors. Consequently, there was no official listing of which Court Support Services Division programs and providers each Criminal Sanctions Monitor was responsible for overseeing.

Our review of quarterly monitoring reports for 10 Alternative Incarceration Center Services and four Alternative to Juvenile Detention Program providers (all non-profits) revealed the following situations or problems. Many monitoring reports were not completed in a timely manner. Some monitoring reports were missing pages and others contained blank pages. Many monitoring reports lacked the signature of a Regional Deputy Director. Court Support Services Division's staff failed to indicate acceptance or rejection of corrective action plans or written responses submitted by service providers.

CONCLUSION

In conclusion, we wish to express our appreciation of the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the Judicial Department in making their records readily available and in explaining transactions greatly facilitated the conduct of this examination.

Charles A. Bannon
Principal Auditor

Approved:

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Auditor of Public Accounts

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