



COMPLIANCE AND CONTROL AUDIT REPORT

Department of Corrections

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
August 2004**

Legislative Post Audit Committee

Legislative Division of Post Audit

The **Legislative Post Audit Committee** and its audit agency, the **Legislative Division of Post Audit**, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by **Legislative Post Audit** helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the **Legislative Post Audit Committee**.

The **Legislative Post Audit Committee** is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the **Legislative Post Audit Act** which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the **Legislative Division of Post Audit**. The firm is selected by the **Contract Audit Committee**, which comprises three members of the **Legislative Post Audit Committee** (including the Chairman and Vice-

Chairman), the Secretary of Administration, and the **Legislative Post Auditor**. This audit work also meets the State's audit responsibilities under the federal **Single Audit Act**.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the **Legislative Post Audit Committee**.

LEGISLATIVE POST AUDIT COMMITTEE

Representative John Edmonds, Chair
Representative Tom Burroughs
Representative Bill McCreary
Representative Frank Miller
Representative Dan Thimesch

Senator Derek Schmidt, Vice-Chair
Senator Bill Buntin
Senator Anthony Hensley
Senator Dave Kerr
Senator Chris Steineger

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August 16, 2004

To: Members, Legislative Post Audit Committee

Senator Derek Schmidt, Chair
Senator Bill Bunten
Senator Anthony Hensley
Senator Dave Kerr
Senator Chris Steineger

Representative John Edmonds, Vice-Chair
Representative Tom Burroughs
Representative Bill McCreary
Representative Frank Miller
Representative Dan Thimesch

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Department of Corrections.

The report includes one recommendation for improving the Department's oversight and administration of community corrections grants to local governments. We would be happy to discuss this recommendation or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

Get the Big Picture

Read these Sections and Features:

1. **Executive Summary** - an overview of the questions we asked and the answers we found.
2. **Conclusion and Recommendations** - are referenced in the Executive Summary and appear in a box after each question in the report.
3. **Agency Response** - also referenced in the Executive Summary and is the last Appendix.

Helpful Tools for Getting to the Detail

- In most cases, an “**At a Glance**” description of the agency or department appears within the first few pages of the main report.
- **Side Headings** point out key issues and findings.
- **Charts/Tables** may be found throughout the report, and help provide a picture of what we found.
- **Narrative text boxes** can highlight interesting information, or provide detailed examples of problems we found.
- **Appendices** may include additional supporting documentation, along with the audit **Scope Statement** and **Agency Response(s)**.

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Has the Department of Corrections Provided Adequate Oversight for Local Spending of Grants?

The Department of Corrections generally had appropriate procedures to ensure adequate oversight for local spending of grants. page 3
One aspect of the Department's oversight that needs to be strengthened is its on-site reviews of grantees. With one exception, our tests of local grant spending found that moneys were used for appropriate and allowable purposes. One grantee inadvertently paid \$90 twice for the same counseling services. The Department is taking steps to correct this error.

Recommendation page 4

Appendix A: Agency Response page 5

This audit was conducted by Randy Tongier. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Department of Corrections

The Legislative Division of Post Audit has conducted compliance and control audit work at the Department of Corrections. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on the Department's oversight of grants to local organizations. The audit addresses the following specific question:

Has the Department of Corrections provided adequate oversight for local spending of grants?

To answer this question, we reviewed applicable statutes and regulations, and identified standard grant oversight practices. We also interviewed appropriate Department staff members, and reviewed grant files and records.

In conducting this audit, we followed all applicable government auditing standards

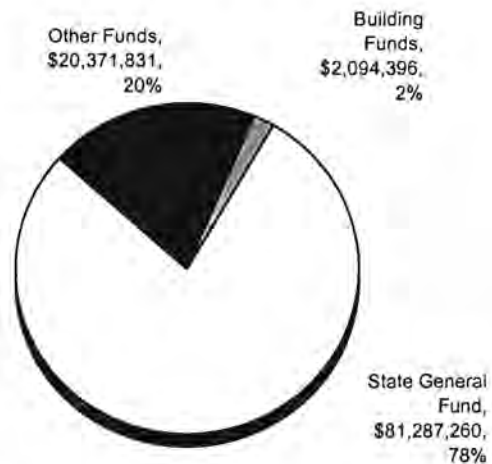
Department of Corrections AT A GLANCE

- Authority:** Created by K.S.A. 75-5203. The Community Corrections Program is established by K.S.A. 75-5290.
- Staffing:** The Department has about 345 full-time-equivalent positions, not including staff at the State correctional facilities. The Community Supervision Program, which includes community corrections, has about 150 positions.
- Budget:** The Department's major funding comes from General Fund appropriations. The Authority also receive moneys from other sources, including federal grants and correctional facility building funds. For fiscal year 2003, the Department took in and spent about \$104 million as shown below. About \$15.6 million represents aid to local governments for community corrections activities.

FY 2003 Expenditures

<u>Type</u>	<u>Amount</u>	<u>% of Total</u>
Contractual Services	\$54,839,741	53%
Aid to Local Governments	\$15,564,850	15%
Salaries and Wages	\$14,438,643	14%
Capital Outlay and Improvements	\$11,932,357	12%
Commodities	\$3,965,779	4%
Debt Service	\$2,845,506	3%
Other	\$166,611	0%
Total Expenses:	\$103,753,487	100%

Sources for Funding for Expenditures



Total Funding: \$103,753,487

Source: *The Governor's Budget Report*, Vol. 2, FY 2005.

Has the Department of Corrections Provided Adequate Oversight for Local Spending of Grants?

ANSWER IN BRIEF

The Department of Corrections' procedures for overseeing how local organizations spent grants received from the Commission generally were well-designed and operating effectively during the period we reviewed. Although the Department didn't conduct any on-site reviews during that period, it plans to do such reviews in the future. That added procedure will further reduce the risk of inappropriate use of grant moneys. In testing a sample of grants, we found one instance where the local program used grant moneys to pay for the same services twice. The amount involved was only \$90, and the Department indicated it would take steps to correct this error. These findings are discussed in more detail in the sections that follow.

The Department of Corrections Generally Had Adequate Procedures To Ensure Adequate Oversight for Local Spending of Grants

The Department is responsible for developing and implementing procedures to ensure that the local organizations it provides grants to spend those grant moneys appropriately. The Department makes grants to counties to fund community corrections programs, including residential facilities in Johnson County and Sedgwick County. To help ensure that the counties spend those moneys properly, the Department should do the following:

- identify the applicable programs for the local organizations
- inform local organizations about applicable compliance requirements
- monitor local organizations' spending of grant moneys
- respond appropriately to any problems found with the local organizations

To identify and evaluate the procedures used by the Department, we interviewed Department staff, reviewed the program manual provided to the counties, examined applicable accounting records and files, and tested a sample of grants to local organizations. The Department's monitoring activities generally address all of the above aspects of ensuring appropriate spending by local organizations.

One aspect of the Department's oversight that needs to be strengthened is its on-site reviews of grantees. One available tool for monitoring local spending of grants is to conduct periodic on-site reviews. According to Department officials, the Department had done that only intermittently in the past because of limited resources. In fact, for fiscal year 2002 grants, no on-site reviews were done. Since that time, the Department has allocated more resources to oversight of the program, and it plans to begin more systematic on-site reviews. That action will help reduce further the risk of inappropriate local spending of grant moneys.

Recommendation To further reduce the risk of inappropriate local spending of grant moneys, the Department of Corrections should continue with its plan to conduct periodic on-site reviews of local grantees on a systematic basis.

With one exception, our tests of a sample of local grant spending found that grant moneys had been spent for appropriate and allowable purposes. State law (K.S.A. 75-5291) limits the use of community corrections grants to community corrections services, including victim services, preventive or diversionary programs, and detention or confinement centers. That same law also specifically prohibits the use of grant moneys for conservation camps.

For fiscal year 2002, the Department of Corrections made 43 community corrections grants for adult intensive supervision, residential centers, and programs for condition violators. To determine whether local spending of grant moneys adhered to these restrictions, we tested the use of grant moneys at Montgomery County, Sedgwick County, and the 4th District (coordinated by Franklin County). The six grants we reviewed accounted for \$3.4 million (14%) of the grant moneys awarded. This sample of grantees was designed to be representative of community corrections grants made by the Department. But, because spending decisions are made at the individual grantee level, the results of audit work on the sample chosen can't reflect the appropriateness of spending for all grantees. We chose fiscal year 2002 grants to allow enough time for the Department to have completed its oversight activities. With one minor exception, we found no inappropriate or unallowable uses of grant moneys.

The one exception was that the 4th District's program paid for the same counseling services twice. According to local officials, in June 2002 the District was terminating one of its counseling contracts. The contractor hadn't provided a bill for his final charges on a timely basis, so the District got the necessary information by phone and paid the amount due. Shortly after that, the contractor provided the written bill by mail. The District inadvertently also paid that bill, which was for the same services already paid for. The amount of the duplicate payment was \$90. We informed the Department of Corrections of this duplicate payment, and the Department indicated its intent to reduce the amount of future grants to the 4th District to correct the overpayment made with grant moneys.

APPENDIX A

Agency Response

On July 28, 2004, we provided a copy of the draft audit report to the Department of Corrections. The Department's response is included as this Appendix.



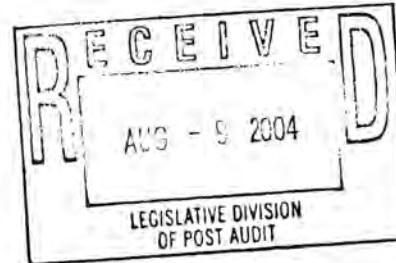
KANSAS

KANSAS DEPARTMENT OF CORRECTIONS
ROGER WERHOLTZ, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

August 3, 2004

Barbara J. Hinton
Legislative Post Auditor
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Re: Draft Compliance and Control Audit Report

Dear Ms. Hinton:

I am in receipt of and have reviewed the draft compliance and control audit report documenting the performance of the Community Corrections Services Section of the Kansas Department of Corrections. Thank you for this opportunity to respond to the content of that report.

I would like to commend Randy Tongier for the professionalism and thoroughness of his review. We always appreciate opportunities to examine and improve our practices. The department strives to ensure all applicable requirements are met and that we operate as effectively and efficiently as possible. Towards that end, we are in agreement with all of the draft Compliance and Control Audit recommendations. In order to address the areas mentioned in the audit, we will strengthen our onsite review of grantees and reduce the second FY 2005 allocation payment of the 4th Judicial District Community Corrections by the amount of their FY 2002 overpayment (i.e., \$90).

Prior to March 2002, the Department had four (4) staff working in the community corrections section. When one position became vacant, it was held open for approximately 22 months to help meet agency shrinkage requirements.

We concur that there was insufficient staffing to provide the level of oversight recommended during the time period covered by the audit. To address this, a State Auditor II dedicated to financial oversight, including on-site financial audits of grantees, was hired and began work January 2004. Because this level of staffing still does not allow a detailed audit to be performed on every program every year, the Department plans to employ a risk based strategy whereby programs identified as having a higher risk for potential problems will be selected for more frequent audits. Criteria for selection will include level of audit controls provided by the county, quality and timeliness of reporting, and history of prior problems. This strategy will be implemented during fiscal year 2005.

Sincerely,



Roger Werholtz
Secretary of Corrections

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