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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

CRIME CONTROL DIVISION

REPORT ON AUDIT

Conducted Under Contract By
Anderson, ZurMuehlen and Company, CPA's

Fiscal Years Ended June 30, 1975 and June 30, 1976

NCJRS

APR 9 1979

ACCOUNTING

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

December 2, 1976

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS
ELLEN FEAVER
FINANCIAL COMPLIANCE AND
CONTRACTED AUDITS
STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Crime Control
Division for the years ended June 30, 1975 and June 30, 1976.

The audit was conducted by Anderson, ZurMuehlen and Company, CPA's,
under a contract between the firm and our office. The comments and
recommendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Crime Control Division is included in the back of this report.

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The board's staff make inquiries of the Department of Administration to determine how a more effective use of SBAS might be best accomplished.	8
<u>Agency Reply:</u> Concur. See page 39.	
Evaluate the information input to the in-house system to ensure that no massive duplication of data bases result.	9
<u>Agency Reply:</u> Concur. See page 41.	
Develop a standard procedure under which subgrantees would maintain their records of grant receipts and expenditures. Additionally, the Supervisory Board should require and enforce, primarily through field audits, full reporting of all grant receipts and disbursements on a timely basis.	11
<u>Agency Reply:</u> Concur. See page 42.	
Develop a property management control system to be implemented by all grantees purchasing equipment.	13
<u>Agency Reply:</u> Concur. See page 44.	
The Supervisory Board require all grantees to retroactively complete property records for all equipment purchased under subgrants since the organization of the board.	14
<u>Agency Reply:</u> Concur. See page 44.	
The Supervisory Board institute an expanded program for field staff to assist the subgrantees in the implementation of an inventory system and that the field staff work under the direction of the internal auditor to physically observe equipment purchased by subgrantees in all regions of the state.	14
<u>Agency Reply:</u> Concur. See page 44.	

SUMMARY OF RECOMMENDATIONS (Continued)

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The board's staff design and implement a standardized form of subgrantee reporting. The implementation of the new format should require that subgrantees be educated as to what is expected of them and appraised as to why the information is required.	15
<u>Agency Reply:</u> Concur. See page 45.	
The allocation of the \$1,309.50 to the recipients newsletter be formally approved by the Supervisory Board. Additionally, it is recommended that the Supervisory Board develop a definitive policy with regard to budget amendments to ensure that items similar to this would require formal approval by the Supervisory Board.	16
<u>Agency Reply:</u> Do not concur. See page 46.	
In compliance with the board's stated policies the recipient should be notified that he must either supply the board's staff with documentation supporting his expenditures or refund to the board monies received.	17
<u>Agency Reply:</u> Concur. See page 47.	
The board's staff review the exceptions for possible followup by the appropriate level of staff.	19
<u>Agency Reply:</u> Concur. See page 48.	
All copies of the warrant and transfer warrant requests should be signed so that responsibility can be fixed and controlled at the board level.	20
<u>Agency Reply:</u> Do not concur. See page 48.	
The accounting department duplicate pertinent documentation forwarded to the Department of Administration, that would not otherwise be retained.	21
<u>Agency Reply:</u> Concur. See page 49.	
Payroll warrants should be received, listed and distributed by someone other than the payroll clerk.	22
<u>Agency Reply:</u> Concur. See page 50.	

SUMMARY OF RECOMMENDATIONS (Continued)

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W-2 forms prepared by central payroll at the end of each year should be received, reviewed and distributed by an officer of the board.	22
<u>Agency Reply:</u> Concur. See page 50.	
All employee time cards other than those of officers of the board should be reviewed and approved by the appropriate level of authority prior to submission to the payroll clerk.	23
<u>Agency Reply:</u> Concur. See page 51.	
The board's staff should post to the fixed asset inventory log insuring that the period in which the item is recognized for inventory purposes corresponds to the period in which the expenditure is recognized for book purposes.	23
<u>Agency Reply:</u> Concur. See page 51.	
Employees who occasionally become involved in loaning equipment to other agencies should be made aware of and be instructed to utilize the board's stated procedures. Additionally, it is also recommended that the accounting department review the transactions included in the checkout file on a semi-annual basis to ensure that it is being utilized properly.	24
<u>Agency Reply:</u> Concur. See page 52.	
Implement a policy under which equipment owned by the board must be maintained at the board's office when not in use.	25
<u>Agency Reply:</u> Concur. See page 52.	
Initiate correspondence with the office of the Secretary of State to alleviate this exception condition.	25
<u>Agency Reply:</u> Concur. See page 53.	
To reduce the chance of duplicate payment all paid invoices be so marked.	26
<u>Agency Reply:</u> Partially concur. See page 54.	
Remind employees that there are reasons for following procedures.	26
<u>Agency Reply:</u> Concur. See page 54.	

GEORGE D. ANDERSON
CARL ZURNUEHLEN
JOSEPH G. LOENDORF
GARY CARLSON
DENNIS LAWRENCE
DAVID K. JOHNSON

Anderson ZurMuehlen & Co.

CERTIFIED PUBLIC ACCOUNTANTS

HELENA, MONTANA 59601

NO. 1 NORTH LAST CHANCE GULCH
TELEPHONE 442-3540
AREA CODE 406
P. O. BOX 1147

Legislative Audit Committee
of the Montana State Legislature

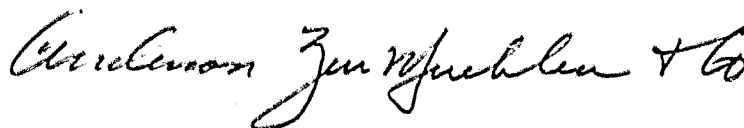
We have examined the accompanying balance sheets of the Montana Board of Crime Control as of June 30, 1976 and 1975 and the related statements of grant revenue, expenditures and obligations and fund balances for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 of the Notes to Financial Statements, the Board overstates Administrative Federal Funds Available and Award Obligations and Accrued Expenditures, Part-C. As explained in Note 3 of the Notes to Financial Statements, the Board overstates Matching Receivables and Administrative Grant Reserve Balances. The Board overstates these amounts to control subgrant revenue and expenditures and fulfill certain reporting requirements. These overstatements are not in accordance with generally accepted accounting principles.

As explained in Note 4 of the Notes to Financial Statements, the Board expenses travel advances. In our opinion this results in an overstatement of expenditures and an understatement of certain reserve balances, and is not in accordance with generally accepted accounting principles.

In our opinion, because of the effects on the financial statements of the matters mentioned in the preceding paragraphs, the balance sheets and statement of fund balances do not present fairly, in conformity with generally accepted accounting principles, the financial position and fund balances of the Montana Board of Crime Control at June 30, 1976 and 1975.

In our opinion, however, the statements of grant revenue and expenditures and obligations mentioned above present fairly the results of operations of the Montana Board of Crime Control, except as indicated in Note 4 of the Notes to Financial Statements, for the years ended June 30, 1976 and 1975 in conformity with generally accepted accounting principles applied on a consistent basis.



Helena, Montana
October 29, 1976

GENERAL COMMENTS REGARDING THE
MONTANA BOARD OF CRIME CONTROL

The Montana Board of Crime Control was initially established by Executive Order of the Governor on August 23, 1968. The Executive Order outlined the basic function of the Board as follows:

"IT IS HEREBY ORDERED that the Montana Law Enforcement Planning Committee be herewith created and designated as the sole State agency to administer funds, to create plans and to otherwise exercise the functions required under the said Omnibus Crime Control and Safe Streets Act of 1968."

Ultimately, under executive reorganization, the Board was statutorily created in Section 82A-1207, R.C.M. 1947:

"(1) The administratively created agency known as the governor's crime control commission is hereby created by law as the board of crime control, and its functions are outlined."

The Supervisory Board is composed of sixteen (16) members appointed by the Governor. The Supervisory Board's membership is representative of state and local law enforcement agencies and units of general local government. The Board's primary role is supervisory in nature since it oversees the development of the Comprehensive Plan and its implementation. The

Comprehensive Plan is approved by the Board as are all programs funded within the Plan.

The State Planning Agency (SPA) is a staff of professional planners and researchers responsible for the development and implementation of the Comprehensive Law Enforcement Improvement Plan as approved by the Board of Crime Control. The objective and purpose of the SPA is to develop innovative approaches to law enforcement improvement and provide funding incentives to carry out these programs.

The Board's operations are funded by the Federal Government through the Law Enforcement Assistance Administration and appropriations by the State of Montana. Subgrants approved by the Supervisory Board to qualified recipients are funded by the two previously mentioned sources plus a contribution or match by the recipient. The maximum subgrant funding ratio established by the Federal Government is:

90%	Federal
5%	State
<u>5%</u>	Local
<u>100%</u>	Total

The actual funding ratio, as approved by the Supervisory Board within the aforementioned limitations, varies from subgrant to subgrant.

The programs funded by the Supervisory Board vary greatly, depending on state and local needs and problems. Examples of major areas of involvement and action includes the creation of a viable law enforcement communications network. Police Departments and Sheriff's Offices throughout the State now have a modern tool which has improved their function greatly. This tool is the necessary link between the police officer on the street and others who provide supporting roles. Prior to the creation of the Board and its funding capability, car to car communication or even car to Department base station was quite weak. In stress situations the officer was too often placed in jeopardy due to his inability to contact other units and request assistance or advise on the nature of the situation. This gap in communications has reversed itself to the point where quality communications equipment is now available to at least 90% of all law enforcement personnel working in the criminal justice system. Further examples of the Board's involvement are the Law Enforcement Teletype System and the Law Enforcement Academy. At the time the Board became involved, both programs were on-going, but they were minor programs or part-time ventures. The Teletype System, offering hard copy communications between police agencies and the national hook-up to the Crime Information Center in Washington, D.C., was quite limited in scope until restructured with funding incentives from the Board. Presently, it covers all of the major cities and counties of the state, and has been improved to provide faster information processing. In this regard, the major achievement was to centralize the coordination

of the system in a state agency having the capability of providing continuity in overall development and control. The Law Enforcement Academy was basically a part-time venture, although instruction offered was of a quality nature. Again, funding incentives of the Board has created a full-time law enforcement training program. The Academy, now a unit of State Government, has a full-time professional staff, providing training programs in all fields and components of law enforcement.

In May 1976 we entered into a contract with the Office of the Legislative Auditor under which we would perform financial compliance examinations of the Montana Board of Crime Control for the fiscal years ended June 30, 1976 and 1975. Most of the field work was performed at the Board's office in Helena. Field work relative to the examination of specific subgrantees records was performed at:

Big Timber Police Department
Billings Police Department
Carbon County Sheriff's Office
Department of Institutions
Department of Justice - Prosecutor Training Coordinator
Hill County Probation Officer
Hill County Sheriff's Office
Judith Basin County

Lewis & Clark County Group Home
Missoula Police Department
Missoula County Sheriff's Office
Montana Bar Association
Powell County Attorney
Sweetgrass County Sheriff's Office
Yellowstone County Sheriff's Office

During the course of our examination, a number of exceptions in the areas of recording transactions, internal accounting control, management reporting and efficiency and the accounting records of subgrantees were noted.

AUDIT FINDINGS AND RECOMMENDATIONS

MAJOR RECOMMENDATIONS

As a result of our examination, a number of major recommendations have been formulated concerning the Board's accounting system, grant management data and subgrantees recordkeeping systems, fixed asset controls and reports. It is our opinion that the implementation of these recommendations will result in increased efficiency and reduce the possibility of compliance violations.

MANUAL RECORDKEEPING SYSTEM

The Board relies on a manual accounting system for recording transactions. This system, implemented during the formative stages of the

Board's existence, can no longer efficiently meet the financial and management reporting requirements of the Board. This deficiency is not a result of poor administration of the existing system, but rather of the tremendous growth in both dollar and program volume experienced by the Board during the past several years. The existing system cannot generate on a timely basis, information required by project managers and subgrant administrators to allow them to critically review their operations and render objective evaluations necessary for efficient management. Symptomatic of the existing system problems is that it takes 3 to 4 days to post a month's transactions to the general ledger.

All cash transactions recorded on the books of the Board are also recorded on the State Budgeting and Accounting System (SBAS). Theoretically, SBAS should be able to replace the existing manual system because it was designed to serve as an integrated accounting/management reporting system. Unfortunately, the information input to SBAS by the Board's staff is not presently organized and coded in such a manner that comprehensive reports can be prepared from information within the system. As a part of our examination, inquiries were made of other state agencies who use SBAS. One agency with grant reporting problems similar to those of the Board has replaced their manual system with SBAS.

RECOMMENDATION

Based upon the results of our examination and of inquiries made of

other state agencies with similar reporting problems, it is our opinion that a substantial portion of the Board's recordkeeping requirements can be fulfilled by SBAS. It is our recommendation that the Board's staff make inquiries of the Department of Administration to determine how a more effective use of SBAS might be best accomplished. We feel that a great deal of time and effort will be required to accomplish this transition. Even after the transition is completed the Board's staff may still be required to keep supplementary records prepared either manually or with the Board's in-house computer capacity to fulfill all reporting requirements.

The implementation of the SBAS system will have a number of direct benefits.

- . The time devoted to recording transactions should be reduced greatly, allowing accounting personnel more time to deal with subgrantee reporting problems and management reporting requirements.
- . Alleviate the existing duplication of certain information contained in the manual system and SBAS.
- . Provide management with the opportunity of generating meaningful reports by using the SBAS MK.IV programs.
- . Eliminate the need of reconciling manually prepared data with SBAS reports.

It was beyond the scope of our examination to determine the cost or

time required to changeover to SBAS. Such transition will encounter a number of problems, however, to assist management in carrying out the Board's long-term goals and objectives, the transition must be made, since the existing system is outdated and cannot efficiently meet the demands placed on it.

GRANT MANAGEMENT DATA

As indicated in the preceding point, the Board's accounting system does not generate timely information for the efficient administration of subgrants. To supplement the accounting system the Board's staff is currently using an in-house computer terminal to control awards and certain statistical data. To some extent, this system duplicates information contained in the manual system. The computer system has been valuable to management because it has provided timely reports in a usable format.

RECOMMENDATION

As the Board changes to the SBAS system of accounting, they should critically evaluate the information input to the in-house system to ensure that no massive duplication of data bases result. It was brought to our attention that the Board's staff might be able to integrate the in-house data base with the SBAS data base. This possibility should be thoroughly investigated since it would result in a reporting capacity limited only by the users imagination.

It is imperative that all data input to the in-house system be coordinated through the financial department to ensure an orderly transfer of data.

SUBGRANTEE ACCOUNTING RECORDS

All subgrantees have attempted to use existing recordkeeping systems for reporting to the Board. Many of the subgrantees do not have adequate systems to reconcile receipt and expenditure records to the actual reports submitted to the Board. Generally the recordkeeping system for local governments does not readily provide information necessary for Board reporting. Some subgrantees have established supplemental records to document receipts and expenditures of grant funds. Without supplemental recordkeeping the subgrantees usually do not have records which directly support expenditures reported. In the case of one subgrantee, it was not possible to reconstruct their records to reach agreement with reported expenditures. Through the use of a standardized reporting system the Board would receive more reliable reporting. In addition a direct audit trail would be established to facilitate easier verification of the accuracy of the reporting by auditors (either internal or outside contractors). A uniform system would result in complete grant expenditure reporting and would alleviate a problem of subgrantees not reporting expenditures in excess of grant budgets, thereby resulting in more complete reporting to LEAA.

Within many of the localities receiving subgrants, there seems to be confusion as to the personnel responsible for the preparation of reports for submission to the Board. If a simple, standardized supplemental system was devised for the general use by the group it appears certain that the Board would have better control over subgrant expenditures and that this procedure would result in a greater degree of accuracy in reporting.

RECOMMENDATION

The Board's staff should develop a standard procedure under which subgrantees would maintain their records of grant receipts and expenditures. Additionally, the Supervisory Board should require and enforce, primarily through field audits, full reporting of all grant receipts and disbursements on a timely basis.

The implementation of this recommendation will result in subgrantee reports conforming to the Board's reporting requirements and facilitate the Board's processing of these reports.

SUBGRANTEE EQUIPMENT INVENTORY

Grant award letters condition the expenditure of funds for equipment as follows: "Equipment purchased with grant funds must be identified and incorporated into an inventory system". This condition is obviously a necessary part of the subgrants in order to satisfy the

Federal Property Guidelines. These guidelines (Property Management Standards, Attachment N of Circular A-102; ref. M7100.1A, Appendix 9, Part 5) are as follows:

"5. The grantees' property management standards for nonexpendable personal property shall also include the following procedural requirements:

- a) Property records shall be maintained accurately and provide for: a description of the property; manufacturer's serial number or other identification number; requisition date and cost; source of the property; percentage of Federal funds used in the purchase of property; location, use, and condition of the property; and ultimate disposition data including sales price or the method used to determine current fair market value if the grantee reimburses the grantor agency for its shares.
- b) A physical inventory of property shall be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization, and continued need for the property.
- c) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft to the property. Any loss, damage, or theft of nonexpendable property shall be investigated and fully documented.

- d) Adequate maintenance procedures shall be implemented to keep the property in good condition.
- e) Proper sales procedures shall be established for unneeded property which would provide for competition to the extent practicable and result in the highest possible return."

Field audits of subgrantees revealed that the group taken as a whole does not have or maintain a physical inventory system satisfactory to meet the requirements set forth for Federal Property. The situation of having no system whatsoever was prevalent in all small cities, towns and counties reviewed. Larger entities gave lip service to having an inventory system, but there were indications that they had never reconciled records to an actual physical inventory. It appears that the Board cannot rely upon the present accounting systems generally in use by local governments to satisfy the requirements set forth in the Federal Property Guidelines. It appears that the Board's staff should take action to develop a required inventory system to be implemented by all recipients purchasing equipment with Board funding. It is apparent that this system will generally have to be maintained as a supplemental record to the accounting systems presently functioning within local government entities.

RECOMMENDATIONS

1. That the Board's staff develop a property management control system to be implemented by all grantees purchasing equipment.

2. That the Supervisory Board require all grantees to retroactively complete property records for all equipment purchased under subgrants since the organization of the Board.
3. That the Supervisory Board institute an expanded program for field staff to assist the subgrantees in the implementation of an inventory system and that the field staff work under the direction of the internal auditor to physically observe equipment purchased by subgrantees in all regions of the State.

SUBGRANTEE REPORTS

During our examination we performed field audits of the reports of a number of subgrantees. It became apparent that there was a lack of standardization in the manner in which subgrantees managed grant funds at the local level. This inconsistency in management by the recipients carries through to the reports that the various subgrantees prepare for the Board. Additionally, the timeliness of the subgrantees reporting of expenditures to the Board is not well controlled. In some cases the data reported to the Board appeared to be haphazardly prepared by the subgrantee and reported to the Board at the subgrantee's convenience.

The Board is required by the LEAA to file certain reports with that agency on a quarterly basis. Included within the information required is the amount of expenditures made by the subgrantees during the reporting period. As long as untimely and inconsistent data is submitted to the

Board by subgrantees the Board's staff will have a difficult time rendering meaningful reports to the LEAA.

RECOMMENDATION

It is recommended that the Board's staff design and implement a standardized form of subgrantee reporting. The implementation of the new format should require that subgrantees be educated as to what is expected of them and appraised as to why the information is required. It is our opinion that the implementation of such a program will protect the subgrantees, since compliance errors which might trigger grant re-funds would be eliminated.

SUBGRANT RECORD EXCEPTIONS

During our examination of subgrant records at office and field locations a number of exceptions were noted.

OFFICE EXCEPTIONS

LAWYERS SEMINAR

In October 1975 the Supervisory Board approved a grant to the Montana Criminal Defense Lawyers Association to hold a seminar for defense attorneys. The seminar was awarded \$13,125. After the seminar was held the recipient indicated that \$1,309.50 of the grant had not been spent. Officers of the Board approved the recipients application to spend this balance on the recipients quarterly newsletter. In this particular case the

question arises as to whether or not the authorization to spend the \$1,309.50 was merely a budget amendment or represented an expenditure for a different purpose. If the expenditure was for a different purpose, Supervisory Board approval should have been obtained as all subgrants in excess of \$1,000 require formal Board approval.

RECOMMENDATION

It is recommended that the allocation of the \$1,309.50 to the recipients newsletter be formally approved by the Supervisory Board. Additionally, it is recommended that the Supervisory Board develop a definitive policy with regard to budget amendments to ensure that items similar to this would require formal approval by the Supervisory Board.

JUDGES SEMINAR

The Supervisory Board approved a grant to send a Supreme Court Justice to a seminar. The Justice was issued a warrant, attended the seminar and refunded unused grant monies. The Board's staff closed out the subsequent file without receiving invoices supporting the judges expenditures. Two exception conditions were present in this grant.

- . The Board's staff closed out the file without receiving supporting invoices.
- . The judge did not supply the Board with invoices as required by the subgrant application.

RECOMMENDATION

In compliance with the Board's stated policies the recipient should be notified that he must either supply the Board's staff with documentation supporting his expenditures or refund to the Board monies received.

The Board's existing review procedures should have pointed out this exception. All files are reviewed by Standards prior to issuance of the final certification. It is suggested that management review procedures with these employees to insure they understand the importance of their review function.

FIELD EXCEPTIONS

The following exceptions were observed during our examination of the subgrantees records. These items have already been turned over to the Board's staff for resolution.

1. In one county, no single official would assume the responsibility for preparing the expenditure report submitted to the Board. In this case there was no reconciliation between county expenditure detail and the report submitted to the Board.
2. A sheriff's department processed a claim for payment of equipment purchased before delivery of the equipment. An expenditure report was filed indicating the grant was completed when in fact, almost two thirds of the equipment had not been re-

ceived. As of the audit date, two months after the authorized completion date, the equipment had not been delivered to the department.

3. A state agency purchased a Tone Input system under Board funding, however, only a portion of the system was purchased under an MBCC grant and the remainder was funded by the Agency. It would appear that the entire expenditure should have been involved in the grant in order to increase the amounts reported to LEAA for the local match. In our opinion, the system purchased could only function taken as a whole and therefore the entire purchase should have been reported showing the Agency share as matching funds.
4. Documentation in one grant involving a consultants services was weak. The grantees records did not provide any documentation supporting percentage of completion or acceptance of performance which would be necessary for payment authorization.

This grantee was also drawing down their award, even though they were aware that the entire grant could not be expended. In fact, they were encouraged by MBCC staff to draw the remaining award balance, apparently because the timeframe for obligation of the Part C monies was to expire at June 30, 1976.

5. One County Sheriff department was very weak in compliance with Board requirements. Of four grants reviewed, three were in

violation of established policies including the inventory system deficiency.

- a) One grant was a clear case of after the fact funding. None of the equipment was ordered or received during the grant duration.
 - b) One grant involved 1973 funds which were obligated at June 30, 1975, but were not expended prior to September 30, 1975. Also, the calculated refund returned to the Board was in error.
 - c) The third grant was not completed during the grant duration. The invoice date on the equipment purchased was 75 days after the duration expiration and payment was 141 days after the duration expiration.
6. One grant was not followed up by staff for compliance with reporting requirements. The expenditure period ended August 31, 1975 and as of September 1976 the MBCC had not received an expenditure report. Our audit revealed that the Board is due a refund.

RECOMMENDATION

We recommend that the Board's staff review the exceptions for possible followup by the appropriate level of staff.

ACCOUNTING PROCEDURES AND CONTROLS

ADEQUATE DOCUMENTATION

A number of exception conditions relating to the support of expenditures were noted during the course of our examination. These exceptions centered around the fact that certain original support documentation is transferred to the Department of Administration along with the warrant request. Because of these exception conditions, we were required to increase the scope of our examination in certain areas.

SIGNATURES ON WARRANT REQUESTS

Copies of the warrant and transfer requests maintained at the Board's office are not signed by the approving officer. Only the original request which is forwarded to the Department of Administration is signed. The original warrant request is separated from the copies prior to being signed.

RECOMMENDATION

It is our opinion that all copies of the warrant and transfer warrant requests should be signed so that responsibility can be fixed and controlled at the Board level. The implementation of this procedure will provide for more complete documentation of transactions.

ORIGINAL EXPENDITURE SUPPORT DOCUMENTATION

In certain instances documentation supporting expenditures is for-

warded to the Department of Administration without retaining a copy for the Board's file. We encountered one instance where receipt of office supplies was verified by the receptionist on the vendors original invoice, per the Board's stated policy. That invoice was forwarded to the Department of Administration and was not available at the Board's office for our inspection. The duplicate invoices did not bear evidence of receipt.

RECOMMENDATION

The preponderance of the support files maintained by the Board's staff contain adequate documentation to ensure that all the support files contain all information required to adequately verify expenditures. It is proposed that the Accounting Department duplicate pertinent documentation forwarded to the Department of Administration, that would not otherwise be retained.

PAYROLL PREPARATION

Payroll preparation and personnel record maintenance functions are performed by one payroll clerk. The payrolls prepared by this clerk are reviewed by the accounting supervisor and approved by an officer of the Board. After the payroll warrants have been prepared by Central Payroll they are returned to the payroll clerk who distributes them. Unclaimed warrants are maintained by this same clerk. Additionally, the payroll clerk receives and distributes the employees W-2 forms at the end of the year.

RECOMMENDATION

Because of the relatively small number of employees of the Board and the checks involved in the payroll preparation system, the fact that the payroll functions are concentrated in one individual is not considered a major weakness, per se.

We feel that internal accounting controls surrounding payrolls would be significantly strengthened if the following two procedures were implemented:

- A. Payroll warrants prepared by Central Payroll should not be returned to the payroll clerk. These warrants should be received, listed and distributed by someone other than the payroll clerk. This procedure would strengthen controls surrounding payroll and present no hardship to the Board in its implementation.
- B. W-2 forms prepared by Central Payroll at the end of each year should be received, reviewed and distributed by an officer of the Board.

TIME CONTROL FOR PAYROLL PURPOSES

Individuals submit weekly time cards to the payroll clerk for hours worked during the preceding week. These time cards are signed by the employee but not by an approving supervisor.

RECOMMENDATION

It is our recommendation that all employee time cards other than those of officers of the Board should be reviewed and approved by the appropriate level of authority prior to submission to the payroll clerk. The implementation of this procedure should ensure that hours claimed by employees do in fact represent hours worked.

FIXED ASSET INVENTORY

The fixed asset inventory maintained by the Board's staff did not reconcile to the general ledger at June 30, 1976 and 1975. This exception existed because the period of posting to the fixed asset inventory control log did not necessarily correspond to the period the expenditure was recognized on the books. As a part of our examination we reconciled the fixed asset inventory to the general ledger expenditures.

RECOMMENDATION

In the future the Board's staff should post to the fixed asset inventory log insuring that the period in which the item is recognized for inventory purposes corresponds to the period in which the expenditure is recognized for book purposes.

LOANING EQUIPMENT TO OTHER GOVERNMENTAL UNITS

During our testing of the fixed asset inventory maintained by the Board, we were unable to locate a movie projector or any documentation

as to its disposition. It was subsequently determined that the projector had been loaned out to another law enforcement agency and we examined the projector upon its return to the Board.

The Board's staff has stated procedures relative to the loaning of equipment to other agencies of government. It consists of a checkout sheet signed by the borrower and maintained by the Board's receptionist. It was noted that this system was last utilized in 1974. Because of this deviation from stated procedure, we expanded our scope in the testing of the fixed asset inventory. No further exceptions relating to borrowed equipment were encountered.

RECOMMENDATION

Those Board employees who occasionally become involved in loaning equipment to other agencies should be made aware of and be instructed to utilize the Board's stated procedures. Additionally, it is also recommended that the accounting department review the transactions included in the checkout file on a semi-annual basis to ensure that it is being utilized properly. It is our opinion that the implementation of these procedures will better safeguard the assets of the Board.

INDIVIDUALS CONTROL OVER EQUIPMENT

During our testing of the fixed asset inventory maintained by the Board, we were unable to locate a pair of binoculars. It was determined

that an employee had them in his possession. The employee brought the binoculars in and their existence was verified.

RECOMMENDATION

The Board's staff should implement a policy under which equipment owned by the Board must be maintained at the Board's office when not in use. The institution of this policy would make equipment more available for utilization by other employees and agencies and provide the accounting department with criteria for determining an exception condition should the asset not be available for utilization.

BOARD MEMBERSHIP

As a part of our examination, we confirmed the Supervisory Board's membership with the Secretary of State. The list confirmed by the Secretary's office differed from that provided us by the Board. It was determined that the listing maintained by the Secretary of State's office was out of date.

RECOMMENDATION

The Board's staff should initiate correspondence with the office of the Secretary of State to alleviate this exception condition.

CANCELLATION OF PAID INVOICES

Copies of paid invoices maintained by the Board's staff are stapled

to the warrant claim. These paid invoices bear no evidence of cancellation.

RECOMMENDATION

To reduce the chance of duplicate payment, it is recommended that all paid invoices be so marked.

SUBGRANT FILING CONTROL

The Board's staff has a stated policy under which the user is to sign out all subgrant documentation removed from the Accounting Department's files. During the course of our examination, we noticed several instances where this procedure had been abused. Documents were not in the files nor had they been checked out.

RECOMMENDATION

Management should remind employees that there are reasons for following procedures. In this particular case, time was wasted searching for files rather than going directly to the user. All files sought were eventually located.

IMPLEMENTATION OF PRIOR AUDITORS RECOMMENDATIONS

As a part of our examination, we reviewed the recommendations proposed in the audit reports prepared by the Law Enforcement Assistance Administration at June 30, 1974 and Anderson ZurMuehlen & Co. at June

30, 1972. Based upon the results of this review and discussions with various officers of the Board, it is our conclusion that the Board has implemented or otherwise acted on all major recommendations contained in the prior audits. Several points relating to specific subgrants are still open, but the appropriate action has been initiated. One point concerning the allocation of administrative costs to grants is still being reviewed by LEAA. A summary of major recommendations made by prior audits and the Board's actions follow:

RECOMMENDATION

COMMENT

. The Board's by-laws be amended to meet certain Federal requirements.

. Accomplished

. That the Board formally delegate certain responsibilities and functions within the SPA.

. Accomplished

. That the Supervisory Board Chairman and his secretary be terminated and that a refund of compensation, as deemed appropriate, be obtained.

. The Chairman and his secretary resigned. No compensation refund was deemed appropriate.

. That the Board negotiate a settlement with the State Merit System for SPA employees.

. Accomplished

RECOMMENDATION

- . That the Board allocate more time to the preparation of the Comprehensive Plan.

- . That the Board institute procedures that guarantee a timely review of subgrant applications.
- . That the Board reduce funding ratios on continuing projects.
- . That the Board institute a checklist to insure technical compliance of subgrantee reports.
- . That the Board adopt a written policy with regard to the purchase of fixed assets.
- . Actual expenditures by subgrantees should be supported by invoices.
- . That the Board hire a field auditor to review subgrantees records.
- . Exception conditions relating to specific subgrants.

COMMENT

- . We reviewed the LEAA response to the 1976 Planning/Budget. The reply was generally laudatory indicating that the planning was well organized and presented.

- . Accomplished

- . Accomplished

- . Accomplished

- . Accomplished

- . Accomplished

- . Accomplished

- . Accomplished

- . Appropriate action initiated.

RECOMMENDATION

. That the Board develop a plan for the equitable distribution of administrative costs for sub-grants where the Board is the recipient.

COMMENT

. The Board developed and implemented a plan. This plan was not approved by LEAA. The Board is developing another plan to meet all specifications required by LEAA.

COMMENT

We wish to express our appreciation to the Supervisory Board and its staff for the cooperation and assistance we received while conducting our examination. Additionally, we wish to complement the Board for its positive attitude in dealing with certain problems that arose.

FINANCIAL STATEMENTS

.

BOARD OF CRIME CONTROL
BALANCE SHEETS
June 30, 1976 and 1975

<u>ASSETS</u>	<u>1976</u>	<u>1975</u>
Cash In Treasury		
Action - General Fund	\$ 121,932	\$ 158,943
Action - Part C	10,575	3,640
Action - Part E	1,130	17,982
Discretionary	12,327	1,006
Administrative	<u>156,277</u>	<u>110,253</u>
	<u>302,241</u>	<u>291,824</u>
 Federal Funds Available (Note 2)		
Action - Part C	2,049,204	2,410,300
Action - Part E	498,000	339,000
Discretionary	670,120	566,461
Juvenile	335,000	-
Administrative	<u>287,193</u>	<u>582,558</u>
	<u>3,839,517</u>	<u>3,898,319</u>
 Matching Receivables (Note 3)	62,909	40,181
Fixed Assets (Note 1)	<u>65,655</u>	<u>56,873</u>
	<u>128,564</u>	<u>97,054</u>
	 <u>\$4,270,322</u>	 <u>\$4,287,197</u>
 <u>LIABILITIES</u>		
Award Obligations and Accrued Expenditures (Note 2)		
Action - General Fund	\$ 23,675	\$ 57,314
Action - Part C	1,117,046	1,779,109
Action - Part E	96,664	162,513
Discretionary	682,446	567,467
Juvenile Action	<u>54,365</u>	<u>-</u>
	<u>1,974,196</u>	<u>2,566,403</u>
 Grant - Reserve and Fund Balances		
Action - General Fund	98,256	58,274
Action - Part C	942,734	694,639
Action - Part E	402,466	194,470
Juvenile	280,635	-
Administrative (Notes 3 and 4)	<u>506,380</u>	<u>716,538</u>
	<u>2,230,471</u>	<u>1,663,921</u>
 Fixed Asset Fund	<u>65,655</u>	<u>56,873</u>
	 <u>\$4,270,322</u>	 <u>\$4,287,197</u>

The Notes to Financial Statements are an integral part of these statements.

BOARD OF CRIME CONTROL
STATEMENTS OF GRANT REVENUE
Years Ended June 30, 1976 and 1975

	<u>1976</u>	<u>1975</u>
General Fund Actions	\$ 75,300	\$ 100,000
Part C Action	1,548,000	1,790,000
Corrections, Part E	264,000	192,000
Discretionaries	561,654	407,655
Juvenile	340,000	-
Support and Planning	921,836	792,895
	<u>\$3,710,790</u>	<u>\$3,282,550</u>

The Notes to Financial Statements are an integral part of these statements.

BOARD OF CRIME CONTROL
 STATEMENTS OF EXPENDITURES AND OBLIGATIONS
 Years Ended June 30, 1976 and 1975

	<u>1976</u>	<u>1975</u>
Expenditures		
General Fund Action	\$ 85,274	\$ 121,382
Part C Action	1,285,265	2,260,978
Corrections, Part E	54,664	263,639
Discretionaries	561,654	407,655
Juvenile	59,365	-
Support and Planning (Note 4)	1,133,531	963,378
Fixed Assets	8,783	22,927
	<u>3,188,536</u>	<u>4,039,959</u>
Less Overmatch and Refunds		
General Fund Action	49,957	-
Part C Action	38,418	59,730
Correction, Part E	9,059	326
Support and Planning	10,320	5,728
	<u>107,754</u>	<u>65,784</u>
	<u>\$3,080,782</u>	<u>\$3,974,175</u>

The Notes to Financial Statements are an integral part of these statements.

BOARD OF CRIME CONTROL
 STATEMENTS OF FUND BALANCES
 Years Ended June 30, 1976 and 1975

	<u>GENERAL FUND ACTION</u>	<u>PART C ACTION</u>	<u>PART E ACTION</u>
Balance, June 30, 1974	\$ 80,112	\$1,152,765	\$ 268,032
Appropriations and grants	100,000	1,790,000	192,000
Less: Expenditures and obligations, net of overmatch	121,382	2,201,248	263,313
Less: Refunded LEAA	<u>456</u>	<u>46,878</u>	<u>2,249</u>
Balance, June 30, 1975	58,274	694,639	194,470
Appropriations and grants	75,300	1,548,000	264,000
Less: Expenditures and obligations, net of overmatch	35,318	1,246,847	45,605
Less: Refunded LEAA	<u>-</u>	<u>53,058</u>	<u>10,399</u>
Balance, June 30, 1976	<u>\$ 98,256</u>	<u>\$ 942,734</u>	<u>\$ 402,466</u>

The Notes to Financial Statements are an integral part of these statements.

<u>DESCRECTIONARIES</u>	<u>JUVENILE</u>	<u>ADMINISTRATIVE</u>	<u>TOTAL</u>	<u>FIXED ASSETS</u>
\$ -	\$ -	\$ 904,219	\$2,405,128	\$ 33,946
407,655	-	792,895	3,282,550	-
407,655	-	980,576	3,974,174	22,927
-	-	-	49,583	-
-	-	716,538	1,663,921	56,873
561,654	340,000	921,835	3,710,789	-
561,654	59,365	1,131,993	3,080,782	8,782
-	-	-	63,457	-
<u>\$ -</u>	<u>\$ 280,635</u>	<u>\$ 506,380</u>	<u>\$2,230,471</u>	<u>\$ 65,655</u>

MONTANA BOARD OF CRIME CONTROL
NOTES TO FINANCIAL STATEMENTS
June 30, 1976 and 1975

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Montana Board of Crime Control uses a modified accrual method of accounting to record transactions. Under this system grant revenues and expenditures are recorded in the period in which they are determinable.
- B. Fixed assets are recorded at cost. No depreciation expense or reserve for accumulated depreciation is reported in the accompanying financial statements.
- C. Program supplies are expensed when purchased. The Board does not maintain supply inventory records.
- D. The Board does not accrue vacation and sick leave benefits earned by employees.

NOTE 2. FEDERAL FUNDS AVAILABLE

The Board's method of recording Federal Funds Available and Award Obligations and Accrued Expenditures result in an overstatement of both. Monies that the Board has awarded itself for the administration of certain qualifying projects, reported as Federal Funds Available-Administrative, are also included in Federal Funds Available - Part C. A similar duplication occurs when the Board obligates the funds to itself and then to a specific project. As a result of recording transactions in this manner, Federal Funds Available-Administrative and Award Obligations and Accrued Expenditures, Action - Part C are overstated by \$68,833 and \$89,136 at June 30, 1976 and 1975, respectively.

NOTE 3. MATCHING RECEIVABLES

The Board's method of recording State matching funds results in the overstatement of Matching Receivables and the Administrative Grant Reserve Balance. The Matching Receivables and Administrative Grant Reserve Balance are overstated by \$62,909 and \$40,181 at June 30, 1976 and 1975, respectively.

MONTANA BOARD OF CRIME CONTROL
 NOTES TO FINANCIAL STATEMENTS (CONT'D)
 June 30, 1976 and 1975

NOTE 4. TRAVEL ADVANCES

It is the Board's policy to record travel advances as a grant expenditure in the period paid. At the end of a grant period the balance is transferred to a successor grant. As a result of this procedure, Administrative Fund Balances are understated by \$7,000 and \$6,500 at June 30, 1976 and 1975, respectively and Support and Planning expenditures are overstated by \$500 and \$1,100 for the years then ended.

NOTE 5. COMMITMENTS

The Board's minimum future lease obligations at June 30, 1976 were:

1977	\$ 48,240
1978	48,240
1979	<u>36,180</u>
	<u>\$132,660</u>

NOTE 6. GRANT AWARDS

During the two year reporting period ending June 30, 1976 the Board received the following grants from the Law Enforcement Assistance Administration.

<u>Grant Number</u>	<u>Date of Award</u>	<u>Amount</u>
73-P-08-0004	June 30, 1975	\$ 21,000
75-DF-08-0005	March 5, 1975	49,660
75-DF-08-0009	March 5, 1975	163,000
75-DF-08-0013	April 2, 1975	19,404
75-DF-08-0021	June 30, 1975	17,435
75-ED-08-0003	June 30, 1975	90,882
75-ED-08-0004	June 30, 1975	230,274
75-SS-08-0002	June 30, 1975	137,858
75-TA-08-0001	June 30, 1975	7,625
75-JF-08-0030	August 29, 1975	200,000

MONTANA BOARD OF CRIME CONTROL
 NOTES TO FINANCIAL STATEMENTS (CONT'D)
 June 30, 1976 and 1975

NOTE 6. GRANT AWARDS (CONT'D)

<u>Grant Number</u>	<u>Date of Award</u>	<u>Amount</u>
76-DF-08-0012	January 2, 1976	203,800
76-DF-08-0016	January 8, 1976	142,000
76-DF-08-0021	April 26, 1976	40,000
76-DF-08-0022	June 3, 1976	151,948
76-ED-08-0003	November 14, 1975	140,985
76-ED-08-0008	June 3, 1976	65,121
76-JS-08-0002	August 29, 1975	15,000
76-TA-99-6020	October 7, 1976	17,560
76-NI-99-0004	July 28, 1975	10,000
75-A-530	March 5, 1975	1,627,000
75-E-530	March 5, 1975	192,000
76-JF-08-0030	June 29, 1976	200,000
76-TA-08-0010	June 29, 1976	18,900
76-PF-08-0030(S-1)	September 11, 1975	285,000
76-PF-08-0030	July 18, 1975	83,000
75-P-530(S-1)	January 30, 1975	266,000
75-P-530	July 15, 1974	83,000
76-AF-08-0030(S-1)	June 21, 1976	16,000
76-AF-08-0030	January 8, 1976	1,390,000
76-EF-08-0030(S-1)	June 21, 1976	100,000
76-EF-08-0030	January 8, 1976	164,000
76-TA-08-0002(S-1)	June 21, 1976	2,500
76-TA-08-0002	February 11, 1976	7,500
76-DF-08-0027	June 24, 1976	57,846

AGENCY REPLY



BOARD OF CRIME CONTROL

1336 HELENA AVENUE

HELENA, MONTANA 59601

TELEPHONE No. 449-3604

November 30, 1976

IN REPLY REFER TO.

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

NOV 30 1976

Dear Mr. Brusett:

Enclosed is our response to the just completed audit of this agency. The response format is in compliance with your instructions.

I feel that the audit team was thorough and impartial in its audit activities and that their findings are fair and constructive in intent.

Thank you for the cooperation of your staff with this agency, the contract auditors and the federal auditors monitoring the audit.

Sincerely,

BOARD OF CRIME CONTROL

A handwritten signature in cursive script that reads "Mike".

Mike A. Lavin
Administrator

MAL/dmb

Enclosure

LEGISLATIVE AUDIT RESPONSE

RECOMMENDATION (page 7)

Based upon the results of our examination and of inquiries made of other state agencies with similar reporting problems, it is our opinion that a substantial portion of the Board's recordkeeping requirements can be fulfilled by SBAS. It is our recommendation that the Board's staff make inquiries of the Department of Administration to determine how a more effective use of SBAS might be best accomplished. We feel that a great deal of time and effort will be required to accomplish this transition. Even after the transition is completed the Board's staff may still be required to keep supplementary records prepared either manually or with the Board's in-house computer capacity to fulfill all reporting requirements.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

Shortly after SBAS was implemented, the Board of Crime Control conferred with Management Systems to obtain information with which to make a transfer from a manual accounting system to a computerized system. The majority of the recommendations made by Management Systems were adopted by the Board. At this time, the Board utilizes SBAS to an extent where it satisfies

all state accounting requirements. The manual system to which the audit refers, has been maintained to accommodate Federal reporting/accounting requirements. Though the Board did attempt to adapt its manual system to SBAS in total, the results for Federal accountability were not satisfactory.

Currently, the financial section of the Board has plans to expand its use of the SBAS System in certain areas of Federal accounting requirements. One segment of the Board's accounting needs is not suitable to the SBAS System, as it accumulates expenditure data from subgrant recipients and incorporates expenditures of local funds (county, city, etc.) into the overall reporting spectrum.

In light of the recommendations made in the audit, the Board will meet with other State agencies which are apt to encounter similar accounting requirements and investigate these agencies' use of SBAS. The Board has conferred with Management Systems to determine whether a full transfer to SBAS is possible. A plan for implementation is in the process of being developed.

As predicted in the audit, such a transition will be time-consuming and will require considerable effort. Whatever can be accomplished in this area will not alleviate the need for manual controls and periodical reconciliations between State and Federal transactions.

RECOMMENDATION (page 9)

As the Board changes to the SBAS System of accounting, they should critically evaluate the information input to the in-house system to ensure that no massive duplication of data bases result. It was brought to our attention that the Board's staff might be able to integrate the in-house data base with the SBAS data base. This possibility should be thoroughly investigated, since it would result in a reporting capacity limited only by the users imagination.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

The Board began design and implementation of an in-house system July 1, 1975. This system is not limited to the accounting area, but will also serve to provide management information for such things as date of grant expiration, reporting status, total project costs, and purpose of expenditure.

In order to obtain a complete picture of Board activity, it was necessary to collect data retroactively to incorporate all subgrant awards granted by the Board. This, along with the programming, has been an onerous task, and though it is nearly at a current status, it is still in process.

Steps have been taken to avoid duplication with the SBAS

System, though in a few areas it will be necessary to enter the same data into each system. The Board will take necessary precautions to ascertain that such duplication is kept to a minimum.

RECOMMENDATION (page 11)

The Board's staff should develop a standard procedure under which subgrantees would maintain their records of grant receipts and expenditures. Additionally, the Supervisory Board should require and enforce, primarily through field audits, full reporting of all grant receipts and disbursements on a timely basis.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

Since inception of the program and with the aid of the Department of Community Affairs (Local Government Services Division), we have tried to implement a standard procedure for local units of government to handle subgrant programs, however, local units for the most part are reluctant to maintain accounting records in any way that deviates from their long established practices.

Effective with all subgrants awarded after September 1,

1976, the Board staff implemented new subgrant reporting and fund disbursement procedures. Funds are reimbursed to the subgrantee contingent upon receipt of properly executed financial reports.

The financial reports required from local units of government are designed to provide the Board of Crime Control with proof of expenditure for single expenditure type subgrants and for projects of long duration and multiple expenditures, a financial summary report supported by detailed cash disbursements journal and cash receipts journal is required. As stated earlier, these reports must be properly executed before payment can be made.

Preliminary observations indicate that this system is working as planned, and will give the Board staff a direct audit trail and eliminate the problem of accountability and record construction.

RECOMMENDATIONS (page 13)

(1) That the Board develop a property management control system to be implemented by all grantees purchasing equipment.

(2) That the Board require all grantees to retroactively complete property records for all equipment purchased under subgrants since the organization of the Board.

(3) That the Board institute an expanded program for field staff to assist the subgrantees in the implementation of an

inventory system and that the field staff work under the direction of the internal auditor to physically observe equipment purchased by subgrantees in all regions of the State.

RESPONSE

The Board is in general agreement with the above recommendations.

CORRECTIVE ACTION

The Board staff has implemented an automated Management Information System and one of the components of this system is a detail listing of all equipment purchased with subgrant funds. We are in the process of entering historic data, and all current information is entered as the subgrant enters the system. In the near future, we will be able to generate listings of all equipment purchased by a department for any local unit of government. It is our intention to produce this listing as soon as possible, and have our field staff use it to assist local units in establishing an inventory control system, and as a guide for physically verifying the existence, condition, use, etc., of equipment.

RECOMMENDATION (page 15)

It is recommended that the Board's staff design and implement a standardized form of subgrantee reporting. The implementation of the new format should require that subgrantees be educated as to what is expected of them and appraised as to

why the information is required. It is our opinion that the implementation of such a program will protect the subgrantees, since compliance errors which might trigger grant refunds would be eliminated.

RESPONSE

The Board is in agreement with the above recommendation.

CORRECTIVE ACTION

The Board's staff has designed new subgrantee reporting forms and all subgrants awarded after September 1, 1976 are required to use these forms. The field staff were involved in the design and have been working with the subgrantees on proper use of the forms. In our opinion the detail required on the new reporting forms is the key to correct expenditure reporting.

As we are now on a reimbursement basis for the release of funds, we feel that the money is enough incentive for the majority of subgrantees to report on a timely basis. In those instances where this is not true, our management information system is capable of periodically generating a listing of all subgrants that are delinquent in reporting.

RECOMMENDATION (page 16)

It is recommended that the allocation of the \$1,309.50 to the recipients newsletter be formally approved by the Supervisory Board. Additionally, it is recommended that the Supervisory Board develop a definitive policy with regard to budget

amendments to ensure that items similar to this would require formal approval by the Supervisory Board.

RESPONSE

The Board disagrees with the finding to the extent that the budget amendment was clearly within our administrative authority. Subgrants are awarded to recipients based on their statement of needs, goals and objectives. The basic objective of this subgrant was the dissemination of trial information among defense attorneys.

While the costs of the specific publication were not spelled out in the budget, the program narrative stated that "excess funds will be utilized to underwrite the costs of a publication for criminal defense lawyers to keep them up to date on current developments in the law." The subgrantee subsequently asked to expend excess funds for that purpose and permission was granted.

CORRECTIVE ACTION

The subgrant in question was taken to the Supervisory Board on October 28, 1976. The Supervisory Board determined that the budget amendment was proper and they formally approved the administrative action.

With regard to future budget amendments, the Board staff is preparing criteria for the approval of budget amendments and this will be presented to the Supervisory Board at the next regularly scheduled meeting.

RECOMMENDATION (page 17)

In compliance with the Board's stated policies, the recipient should be notified that he must either supply the Board's staff with documentation supporting his expenditures or refund to the Board monies received.

The Board's existing review procedures should have pointed out this exception. All files are reviewed by Standards prior to issuance of the final certification. It is suggested that management review procedures with these employees to insure they understand the importance of their review function.

RESPONSE

The Board is in general agreement with the above recommendations.

CORRECTIVE ACTION

The applicant agency has been requested to submit supporting documentation on the grant in question.

Management has apprised appropriate staff of the above recommendation and has reviewed procedures for processing of grants leading to final certification; thus, insuring they understand the importance of the review function.

RECOMMENDATION (page 19)

We recommend that the Board's staff review the exceptions for possible follow-up by the appropriate level of staff.

RESPONSE

The Board is in agreement with the recommendation.

CORRECTIVE ACTION

All exceptions are being reviewed by the Bureau of Grant Administration. Review and appropriate follow-up will be completed within 30 days of this response.

RECOMMENDATION (page 20)

It is our opinion that all copies of the warrant and transfer warrant requests should be signed so that responsibility can be fixed and controlled at the Board level. The implementation of this procedure will provide for more complete documentation of transactions.

RESPONSE

The Board does not agree with the above recommendation. As the original copy of warrant requests is on file at the Department of Administration, the Board feels that the requirement for availability of proper signatures has been met. To determine whether or not the proper signatures have been used can be reviewed at the Department of Administration upon request. A request for warrant transfer will not be processed by that department if an improper signature appears on the request. To maintain signed copies at the Board level appears to facilitate audit only, and would increase the time necessary for completion of payment process.

RECOMMENDATION (page 21)

The preponderance of the support files maintained by the Board's staff contain adequate documentation to ensure that all the support files contain all information required to adequately verify expenditures. It is proposed that the Accounting Department duplicate pertinent documentation forwarded to the Department of Administration, that would not otherwise be retained.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

The Board does duplicate pertinent documentation forwarded to the Department of Administration. Only items for which the Department of Administration does not require copies have no documentation in the Board's file, e.g., payment of rental contracts and insurance. Any file without proper documentation would be the result of human error, not standard procedure.

RECOMMENDATION (page 22)

Because of the relatively small number of employees of the Board and the checks involved in the payroll preparation system, the fact that the payroll functions are concentrated in one individual is not considered a major weakness, per se.

We feel that internal accounting controls surrounding payrolls would be significantly strengthened if the following pro-

cedures were implemented:

A. Payroll warrants prepared by Central Payroll should not be returned to the payroll clerk. These warrants should be received, listed and distributed by someone other than the payroll clerk. This procedure would strengthen controls surrounding payroll and present no hardship to the Board in its implementation.

B. W-2 forms prepared by Central Payroll at the end of each year should be received, reviewed and distributed by an officer of the Board.

RESPONSE

The Board is in general agreement with the above recommendations.

CORRECTIVE ACTION

A. The Finance Officer will receive, list and distribute the payroll warrants.

B. The W-2 forms will be distributed by the Administrator.

RECOMMENDATION (page 23)

It is our recommendation that all employee time cards other than those of officers of the Board should be reviewed and approved by the appropriate level of authority prior to submission to the payroll clerk. The implementation of this procedure should ensure that hours claimed by employees do in fact represent hours worked.

RESPONSE

The Board is in general agreement with this recommendation.

CORRECTIVE ACTION

A line for supervisory approval has been added to the current time and attendance forms. The staff has been apprised of the change in procedure by means of a general office memo.

RECOMMENDATION (page 23)

In the future the Board's staff should post to the fixed asset inventory log insuring that the period in which the item is recognized for inventory purposes corresponds to the period in which the expenditure is recognized for book purposes.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

Efforts will be made in the future to integrate the grant activity when the master inventory is updated and pay particular attention to calenderic entry of information.

RECOMMENDATION (page 24)

Those Board employees who occasionally become involved in loaning equipment to other agencies should be made aware of and be instructed to utilize the Board's stated procedures, Addi-

tionally, it is also recommended that the accounting department review the transactions included in the checkout file on a semi-annual basis to ensure that it is being utilized properly. It is our opinion that the implementation of these procedures will better safeguard the assets of the Board.

RESPONSE

The Board is in general agreement with the above recommendation.

CORRECTIVE ACTION

A general memo has been disbursed throughout the staff acquainting individuals with the check-out inventory. Responsibility for maintenance of the check-out inventory has been assigned to the Administrative Aide. The fiscal department will conduct a semi-annual performance check to ensure that the equipment on loan is being properly accounted for.

RECOMMENDATION (page 25)

The Board's staff should implement a policy under which equipment owned by the Board must be maintained at the Board's office when not in use. The institution of this policy would make equipment more available for utilization by other employees and agencies and provide the accounting department with criteria for determining an exception condition should the asset not be available for utilization.

RESPONSE

The Board is in general agreement with this recommendation.

CORRECTIVE ACTION

A Management Memo has been directed to all employees advising them of this policy. The substantive component of the Memo (Policy) is as follows:

"All equipment owned by the Board shall be maintained at the Board's office, or satellite offices, at all times, unless removed for purposes directly related to the operations of the SPA. At no time shall equipment be removed for personal reasons."

RECOMMENDATION (page 25)

The Board's staff should initiate correspondence with the office of the Secretary of State to alleviate this exception condition.

RESPONSE

The Board is in agreement with the above recommendation.

CORRECTIVE ACTION

The office of the Secretary of State has been contacted and the error has been corrected.

RECOMMENDATION (page 26)

To reduce the chance of duplicate payment, it is recommended that all paid invoices be so marked.

RESPONSE

The Board is in partial agreement with the above recommendation.

CORRECTIVE ACTION

As the Department of Administration will accept nothing but original invoices and the Board maintains a copy only, this seems to be an unnecessary precaution. However, in the future, the Board will mark paid on all invoices where more than one original copy has been presented.

RECOMMENDATION (page 26)

Management should remind employees that there are reasons for following procedures. In this particular case, time was wasted searching for files rather than going directly to the user. All files sought were eventually located.

RESPONSE

The Board is in general agreement with this recommendation.

CORRECTIVE ACTION

At the time of the audit, arrangements were in process to assign responsibility of the files to one individual. That assignment has been made and the system implemented.

END