

STATE OF MONTANA  
DEPARTMENT OF JUSTICE  
CRIME CONTROL DIVISION

Report on Examination of  
Financial Statements  
For the two fiscal years  
Ended June 30, 1978

Conducted under contract by  
KINDRED, HOLLAND & LINDBERG  
Certified Public Accountants

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APR 9 1979

ACQUISITIONS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59601  
406/449-3122



MORRIS L. BRUSETT  
LEGISLATIVE AUDITOR

September 6, 1978

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, 1977 and June 30,  
1978.

The audit was conducted by Kindred, Holland, and Lindberg, 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,

A handwritten signature in cursive script that reads "Morris L. Brusett".

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

STATE OF MONTANA  
DEPARTMENT OF JUSTICE  
CRIME CONTROL DIVISION

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STATE OF MONTANA  
DEPARTMENT OF JUSTICE  
CRIME CONTROL DIVISION

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Board of Crime Control:

	<u>Term Began</u>	<u>Term Expires</u>
Mike Abley	See page 9	See page 9
Jack H. Anderson	April 12, 1977	January 5, 1978
Arthur W. Ayers, Jr.	January 10, 1977	January 5, 1978
Donald E. Bjertness	January 10, 1977	January 5, 1978
Gordon Browder	January 10, 1977	January 5, 1978
Ludvig Browman	January 10, 1977	January 5, 1978
Roger W. Crist	January 10, 1977	January 5, 1978
Mike Greely	February 1, 1977	January 1, 1979
Frank T. Haswell	March 10, 1977	January 5, 1981
Frank W. Hazelbaker	January 23, 1975	January 1, 1979
Jeremiah F. Johnson	April 26, 1976	January 1, 1979
Peter M. (Mike) Meloy	August 20, 1977	January 5, 1981
Mario Micone	January 29, 1975	January 1, 1979
Carle O'Neil	See page 9	See page 9
John Pfaff, Jr., M.D.	January 10, 1977	January 5, 1981
Alfred C. Rierson	January 10, 1977	January 5, 1981
M. James Sorte	January 10, 1977	January 5, 1981
Geraldine W. Travis	January 29, 1975	January 1, 1979
Lawrence M. Zanto	August 26, 1977	January 1, 1979

Administrative:

Mike Greely, Attorney General (Department Director)

Michael A. Lavin, Administrator

Charles W. Wolfe, Deputy Administrator

## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of the audit report, we have included 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 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.

1. The agency should contact the Department of Administration in regard to their accounting problems. We suggest that two avenues be explored. Either modify SBAS to provide the capability for reasonably efficient accounting, or further develop the in-house system to provide data relative to receivables, liabilities and revenues and supply the data to SBAS in summary fashion at the end of each month.

Agency Reply: Concur. See page 25.

2. Consider providing subgrantee employees informal, basic level training sessions relative to subgrant management and reporting. Develop procedures to improve the timeliness of subgrantee reporting and for prompt follow-up on delinquent reports.

Agency Reply: Concur. See page 25.

3. Assist subgrantees in the development of property management control systems through education and by providing available fixed asset records from GMIS.

Agency Reply: Partially concur. See page 26.

4. Improve both the subgrant review procedures and the documentation of the reviews. We suggest that equipment grants and short term projects be thoroughly reviewed at least upon close-out. Long term and construction projects should be thoroughly reviewed quarterly, upon receipt of the subgrantees financial reports.

Agency Reply: Concur. See page 27.

5. Instruct the accounting staff as to which procedure the agency intends to follow, and follow it consistently, to prevent confusion, and possible loss of documents.

Agency Reply: Concur. See page 27.

6. W-2's should be reviewed and distributed by someone other than the payroll clerk.

Agency Reply: Concur. See page 28.

7. Adhere to established policies relative to supervisory approval of time sheets.

Agency Reply: Concur. See page 28.

Summary of Recommendations - Continued

8. Adjust the fixed asset inventory for items traded upon recording the newly acquired asset. Reconcile fixed asset records to SBAS at least annually to verify the accuracy of the manual record.

Agency Reply: Concur. See page 28.

9. Perform another physical inventory to determine if any of the missing items can now be located. Strengthen procedures to insure that losses such as this do not occur in the future. Strengthened procedures might include instruction to the staff, more frequent physical inventories, and staff reprimands for those who were responsible for the items not located in subsequent inventories.

Agency Reply: Concur. See page 29.

10. Take the necessary steps to correct the records at the Secretary of State's office. Request to legislature to expand the board in accordance with federal requirements.

Agency Reply: Concur. See page 29.

11. When the supervisor reviews invoices prior to signing a claim, he or she should mark all invoices paid.

Agency Reply: Do not concur. See page 30.

12. Again, remind employees of the importance of following established procedures, but further, provide for increased supervision at all levels to ensure that the procedures are followed.

Agency Reply: Concur. See page 31.

13. Improve the field audit function through the use of written programs, problem-oriented subgrantee selection, and emphasis on well documented working papers.

Agency Reply: Concur. See page 31.

14. Provide for increased technical assistance for subgrantees by grants management staff, not only by offering assistance but also by requiring it for subgrantees with known problems.

Agency Reply: Do not concur. See page 32.

15. Improve reporting procedures to comply with LEAA requirements by (a) following up on delinquent reports and gradually getting each subgrantee on a current basis and (b) reporting actual results on the basis of subgrantees financial reports for the quarter being reported on.

Agency Reply: Concur. See page 32.

16. Take steps necessary to comply with LEAA recommendations pertaining to subgrant monitoring.

Summary of Recommendations - Continued

Agency Reply: Concur. See page 33.

17. Provide for separation of duties in the recording of receivables and the subsequent receipt of the refund. Make SBAS general ledger entries reducing the receivable balance on the collection report with the deposit of the refund instead of writing the receivable off at a later date. Establish procedures for supervisory approval and review of receivable write-offs and month end balances.

Agency Reply: Concur. See page 33.

18. Require employees to submit a Request for Leave of Absence form for all leave taken and periodically reconcile the forms to employee leave records.

Agency Reply: Concur. See page 34.

19. Revise compensatory time policies to conform to federal and state statutes and management memo I-75-17A.

Agency Reply: Concur. See page 35.

20. Require better documentation on travel claims of the reason for travel and justification of the mode of transportation. Advise the staff, board and regional council members of the need for economy and suggest car pooling and other money saving methods.

Agency Reply: Concur. See page 35.

*Kindred  
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ANN J. KINDRED  
MICHAEL W. HOLLAND  
TODD M. LINDBERG

September 7, 1978

Legislative Audit Committee  
of the Montana State Legislature

We have examined the financial statements of the various funds and account groups of the Crime Control Division for the two years ended June 30, 1978, listed in the table of contents of this report. Our examination was made in accordance with generally accepted auditing standards, and applicable provisions of Standards for Audit of Government Organizations, Programs, Activities and Functions and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The statements do not reflect substantial grants receivable, deferred revenue and liabilities. As a result, the revenue and expenses as shown on the statements are not presented in accordance with generally accepted accounting principles. Further explanation is contained in the Notes to the Financial Statements.

In our opinion, because of the material effect on the statements of the matters discussed in the preceding paragraph, the aforementioned financial statements do not present fairly the financial position of the General, Federal and Private Revenue, and Federal and Private Grant Clearance Funds of the Crime Control Division at June 30, 1978, and the results of operations of such funds for the two year period then ended.

In our opinion, the Statement of General Fixed Assets and the related Statement of Changes in General Fixed Assets present fairly the financial position of the General Fixed Assets Fund at June 30, 1978, and the results of operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Kindred, Holland & Lindberg*  
Kindred, Holland and Lindberg  
Certified Public Accountants



STATE OF MONTANA  
DEPARTMENT OF JUSTICE  
CRIME CONTROL DIVISION

COMMENTS AND RECOMMENDATIONS

I. General Comments

The Crime Control Division, initially established in 1968 by Executive Order of the Governor, is now a part of the Department of Justice and is designated by the Governor as the State Planning Agency under the Omnibus Crime Control and Safe Streets Act of 1968. The transfer to the Department of Justice was part of Section 82A-1207, R.C.M., 1947, under executive reorganization.

The agency is primarily governed by a Supervisory Board of eighteen members representative of law enforcement and criminal justice agencies of state and local government.

The agency's activities are conducted in two program areas. The first, the planning program, encompasses six basic components: comprehensive state planning, subgrant management, fiscal management, subgrant auditing, regional advisory councils and project evaluation.

The second program, action, exists to reduce crime in Montana by funding various programs and projects throughout the state.

The agency's funding is provided primarily by the Law Enforcement Assistance Administration, and by general fund appropriations. A major portion of the funding is then passed through to state and local governmental agencies for manpower development, training, construction of law enforcement and correctional facilities, information systems development, equipment purchases, improved treatment and justice techniques, and other criminal justice improvement programs.

The division operates with a staff of thirty-five, and receives input from regional advisory councils of seventy other individuals involved in law enforcement and criminal justice agencies throughout Montana.

Our study and evaluation of the agency's system of internal accounting control and compliance with applicable statutory restrictions and regulations would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed the following conditions that we believe to be material weaknesses and problems that require corrective action.

II. Prior Audit Recommendations

The last independent audit of the division was for the two fiscal years ended June 30, 1976. That report contained twenty-one recommendations for improving internal control, accounting procedures, and compliance problems. The following is a summary of those recommendations and the agency's progress in implementing the recommendations.

### Prior Recommendation

"The board's staff make inquiries of the Department of Administration to determine how a more effective use of SBAS might be best accomplished."

While the agency concurred with the recommendation, they have not made use of SBAS to account for grant receivables, subgrant award obligations, or to properly account for revenue and expense. Subsidiary accounting has been maintained on an in-house computer system, but this system serves primarily as a management information system, providing detailed information relative to the federal grants and subgrants.

As a result, the SBAS general ledger reflects no federal grants receivable nor subgrant award obligations, and revenue recorded on SBAS reflects only cash received from the LEAA.

The National Committee on Governmental Accounting exposure draft on grant accounting provides the following excerpts relative to recording revenue:

"Grants recorded in governmental funds should be recognized as revenue when (1) the right of the receipt has become irrevocable, and (2) they become both available and objectively measurable (modified accrual basis). If expenditure determines eligibility for the grant, revenue should be recognized at the time of the expenditure. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements. Grant proceeds accrued or received prior to meeting these revenue recognition criteria should be recorded and reported as deferred revenue."

"Revenue is not recognized in Agency Funds. Grant proceeds initially recorded in Agency Funds subsequently are paid to other funds and should be recognized as revenue in the ultimate use fund."

The Crime Control Division currently recognizes all cash received from the LEAA as revenue immediately upon receipt, and not when it is earned.

We briefly discussed the SBAS upgrade with supervisory staff of the Department of Administration and found that even with the SBAS improvements, no provision has been made for proper grant accounting needed by the Crime Control Division. The accounting can be handled by SBAS, but as it stands now, the system would be cumbersome and time consuming.

### Our Recommendation

1. The agency should contact the Department of Administration in regard to their accounting problems. We suggest that two avenues be explored. Either modify SBAS to provide the capability for reasonably efficient accounting, or further develop the in-house system to provide data relative to receivables, liabilities and revenues and supply the data to SBAS in summary fashion at the end of each month.

### Prior Recommendation

"Evaluate the information input to the in-house system to ensure that no massive duplication of data bases result."

As was noted above, the in-house system serves as a management information system, and although the data bases might be similar, little duplication exists.

### Prior Recommendation

"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 agency's new report forms and procedures have undoubtedly resulted in vast improvements in the accuracy and timeliness of subgrantee reporting. More needs to be done, however, because a substantial number of subgrantee agencies still do not provide timely or accurate reports.

The field auditor has found and we also found that subgrant reports are often prepared from such sources as memory, reconstruction, and invoices not even billed to the subgrantee. The individuals preparing the reports range from police dispatchers to part-time clerical staff, and few have knowledge of accounting or grants management. The problem, therefore, is one of simplification and education of subgrantee employees.

The second aspect of subgrantee reporting problems is the timeliness of the reports. According to information supplied by the Law Enforcement Assistance Administration, at January 31, 1978, the agency had not received 122 of the 212 subgrantee reports due for the quarter ended December 31, 1977. Throughout the subgrantee files are memos and correspondence concerning late reports.

Typically, no disbursement is made to a subgrantee until a report has been received. This is not always the case, however, and federal reporting requires that accurate, timely information be passed on to them whether or not a subgrantee needs funds prior to the deadline for submitting a quarterly report to the LEAA. The division has a computer system for ensuring timely, periodic reporting by subgrantees, and for follow-up of delinquent reports, but due to programming problems, it has not been usable.

### Our Recommendation

2. Consider providing subgrantee employees informal, basic level training sessions relative to subgrant management and reporting. Develop procedures to improve the timeliness of subgrantee reporting and for prompt follow-up on delinquent reports.

Prior Recommendation

"Develop a property management control system to be implemented by all grantees purchasing equipment."

"The Supervisory Board require all grantees to retroactively complete property records for all equipment purchased under subgrants since the organization of the Board."

"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."

As part of the agency's Grants Management Information System (GMIS), equipment purchases under all subgrants are recorded and also classified according to location. The agency, therefore, has access to a master list, by location, of all equipment purchased through LEAA grants, for use by field representatives and the field auditor.

No statewide property management control system exists, however, for use by subgrantees. Each local government is expected to maintain its own inventory records. The State of Montana itself has no uniform statewide property management policy, and has provided little guidance to individual agencies in managing equipment inventories.

Our Recommendation

3. Assist subgrantees in the development of property management control systems through education and by providing available fixed asset records from GMIS.

Prior Recommendation

"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."

The agency has designed and implemented an improved reporting form. The results of our examination lead us to believe that further and on-going education of the subgrantees is essential. Refer to our recommendation number two for additional comments on this subject.

Prior Recommendation

"The allocation of the \$ 1,309.50 to the recipient's 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."

The agency did not concur with this recommendation, and the Supervisory Board determined the amendment to be proper and formally approved the administrative action. In addition, the Board clarified the criteria and policies for staff approval of subgrants and budget amendments.

#### Prior 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 agency indicated in their response that staff had been instructed on the importance of the review function, and asked for documentation from the subgrantee. During our review of subgrant files we noted numerous minor problems and errors on subgrants that could have been clarified or corrected if the staff's review had been sufficiently thorough.

In one file we noted a subgrantee's vague budget narrative seemed to provide for mileage reimbursements to 22.7 individuals driving 58 automobiles to a training session. Other problems included small amounts of expense incurred after the expiration of the subgrant term, expenses differing substantially from budgeted line item amounts, and so on.

The entire staff could be kept busy endlessly answering questions raised by a single auditor reviewing subgrant files. These questions should all be raised and answered at least prior to closing out the grant. A checklist completed upon grant close-out could prove helpful not only by aiding the staff in their review, but also by providing documentation that a thorough review has been performed and all the significant problems resolved.

The field auditor or another staff member can be saved hours of answering questions or understanding problems that arose years earlier.

#### Our Recommendation

4. Improve both the subgrant review procedures and the documentation of the reviews. We suggest that equipment grants and short term projects be thoroughly reviewed at least upon close-out. Long term and construction projects should be thoroughly reviewed quarterly, upon receipt of the subgrantees financial reports.

#### Prior Recommendation

"The board's staff review the exceptions for possible follow-up by the appropriate level of staff."

The agency has complied with this recommendation.

Prior Recommendation

"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 agency did not concur, feeling that the additional work involved served only to facilitate an auditor's examination. Our examination disclosed that approximately half of the agency's copies of accounting documents contain the copy of a signature. It appears that the staff is not certain what their procedures are. We concur that only the original of each document need be signed, since they are retained by the accounting division.

Our Recommendation

5. Instruct the accounting staff as to which procedure the agency intends to follow, and follow it consistently, to prevent confusion, and possible loss of documents.

Prior Recommendation

"The accounting department duplicate pertinent documentation forwarded to the Department of Administration, that would not otherwise be retained."

The agency has complied.

Prior Recommendation

"Payroll warrants should be received, listed, and distributed by someone other than the payroll clerk."

"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."

The agency has removed the distribution of payroll warrants from the duties of the payroll clerk. W-2's are still not controlled adequately, however, since the payroll clerk distributes the W-2's directly upon receipt. The W-2's should be distributed by someone other than the payroll clerk, after having been compared to SBAS totals for accuracy and to personnel records.

Our Recommendation

6. W-2's should be reviewed and distributed by someone other than the payroll clerk.

Prior Recommendation

"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."

While the agency's policies and procedures provide for supervisory approval of employees' time sheets, nearly one-third of our sample of time sheets did not contain the supervisor's signature.

Our Recommendation

7. Adhere to established policies relative to supervisory approval of time sheets.

Prior Recommendation

"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."

The agency has complied with this recommendation except that the fixed asset inventory had not been adjusted for several assets disposed of through trade-ins and sale.

Our Recommendation

8. Adjust the fixed asset inventory for items traded upon recording the newly acquired asset. Reconcile fixed asset records to SBAS at least annually to verify the accuracy of the manual record.

Prior Recommendation

"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."

"Implement a policy under which equipment owned by the board must be maintained at the board's office when not in use."

Although the agency seems to have complied with this recommendation, ten items amounting to \$ 575 could not be located during the physical inventory. Items missing range from pocket calculators to folding tables. It would appear that while policies and written procedures may be adequate, in practice they are not being followed.

Our Recommendation

9. Perform another physical inventory to determine if any of the missing items can now be located. Strengthen procedures to insure that losses such as this do not occur in the future. Strengthened procedures might include instruction to the staff, more

frequent physical inventories, and staff reprimands for those who were responsible for the items not located in subsequent inventories.

#### Prior Recommendation

"Initiate correspondence with the office of the Secretary of State to alleviate this exception condition."

The recommendation refers to a difference between the agency's and the Secretary of State's records relative to board membership. This supposedly had been corrected by the Secretary of State's office. Our examination revealed, however, several differences between the two records.

The Secretary of State's records indicate that Mr. Robert H. McKay remains a member of the board. Mr. McKay has retired from the State and apparently neglected to send a letter of resignation. Further, two members of the board, Mike Abley and Carle O'Neil are not on record at the Secretary of State's office.

Both individuals' memberships are provided for by federal regulation. Mr. Abley has replaced the previous Supreme Court Administrator and completes the eighteen man board. Mr. O'Neil sits as an ad hoc member, awaiting the 1979 legislature's expansion of the board to 19 members.

#### Our Recommendation

10. Take the necessary steps to correct the records at the Secretary of State's office. Request the legislature to expand the board in accordance with federal requirements.

#### Prior Recommendation

"To reduce the chance of duplicate payment all paid invoices be so marked."

The agency did not completely agree with this recommendation, since the Accounting Division's policy is to pay only from original invoices. This is not always possible, however, as vendors do not always submit an original invoice. The agency adopted a policy of cancelling invoices where more than one original copy has been presented. This policy has not been followed, however.

Considering the volume of claims prepared and submitted for supervisory approval and signature, it would be reasonably easy to submit an uncanceled invoice twice to a supervisor for approval. To rely on the Accounting Division of the Department of Administration to catch all the agency's errors is not practical. They are not familiar with the agency's operations, and cannot be expected to catch every error. Cancellation of the invoice ensures and documents that it has received proper supervisory review.

#### Our Recommendation

11. When the supervisor reviews invoices prior to signing a claim, he or she should mark all invoices paid.



### Prior Recommendation

"Remind employees that there are reasons for following procedures."

The recommendation related to the problem of finding files, but can be used to describe a general problem in the agency. A great deal of time has been spent developing and establishing policies and procedures to improve internal control and efficiency. These procedures are often ignored or shortcut, and the purpose is defeated.

### Our Recommendation

12. Again, remind employees of the importance of following established procedures, but further, provide for increased supervision at all levels to ensure that the procedures are followed.

## III. Additional Recommendations

### Field Auditor

While the field auditor performs a valuable function, some improvement needs to be made in the procedures under which he works.

Selection of subgrantees for audit is done by location for practicality's sake. More consideration should be given and input provided relative to subgrantees with known or anticipated problems.

The auditor has discontinued use of a written audit program. While many subgrants are small and the auditor has thorough knowledge of the audit steps required, an audit program provides a checklist for the auditor, documentation of the work performed, and may increase efficiency, particularly for larger subgrantees.

Workpapers should be very clear as to the source of data, work performed, and conclusions.

The most important problem is that of the volume of work. The subgrantees typically do not have knowledgeable accounting personnel available to account for and manage grant activities. The field auditor is relied on to not only perform audits but also to provide technical assistance to subgrantees and is relied on heavily to help correct noted exceptions.

The most successful method of maintaining accurate and timely financial reporting by subgrantees and of providing for proper subgrant management by subgrantees is through personal, informal site visits by agency staff. This should not be a part of the auditor's duties, but performed by grants management staff.

### Our Recommendation

13. Improve the field audit function through the use of written programs, problem-oriented subgrantee selection, and emphasis

on well documented working papers.

14. Provide for increased technical assistance for subgrantees by grants management staff, not only by offering assistance but also by requiring it for subgrantees with known problems.

#### LEAA Reports

Federal auditors have noted, as did we, that quarterly reports to the LEAA do not accurately represent the activity of the agency during the quarter. The reports are prepared on the basis of subgrantees financial reports received during the quarter with no consideration given to delinquent reports. For certain sections of the report, a formula is used to approximate actual results of operations.

It should be noted that the LEAA is currently attempting to improve and simplify its reporting requirements, which may significantly affect agency reporting procedures.

#### Our Recommendation

15. Improve reporting procedures to comply with LEAA requirements by (a) following up on delinquent reports and gradually getting each subgrantee on a current basis and (b) reporting actual results on the basis of subgrantees financial reports for the quarter being reported on.

#### Subgrantee Evaluation and Monitoring

As with financial reviews, the agency's subgrantee monitoring and evaluations are not adequate to provide reasonable assurance that subgrants are properly and efficiently administered, to evaluate the results achieved by the various programs funded by the agency, or to satisfy federal requirements.

The reviews are not adequate in terms of volume or documentation. Volume may be limited due to available staff, but proper documentation is a necessary part of any review. Federal auditors have recommended that the agency "establish procedures and criteria for the operational control and systematic selection of subgrants for on-site programmatic or fiscal monitoring and revise the checklist to cover fiscal matters..."and"...transfer the fiscal monitoring function to personnel responsible for the fiscal management of subgrants".

#### Our Recommendation

16. Take steps necessary to comply with LEAA recommendations pertaining to subgrant monitoring.

#### Refunds

The grants management staff is responsible for determining that a refund is due from a subgrantee and requesting the refund by letter. A copy of the letter is given to an accounting clerk to record the receivable and

to keep track of collections.

As the refunds are received, the money is recorded by the same accounting clerk, who also then writes off the receivable on the SBAS general ledger at a later date.

Due to misinformation, receivables still outstanding at June 30, 1978, were written off to be reestablished in the subsequent year. Controls need to be established to assure that receivables are properly recorded, and not written off except by receipt or audit committee instruction.

#### Our Recommendation

17. Provide for separation of duties in the recording of receivables and the subsequent receipt of the refund. Make SBAS general ledger entries reducing the receivable balance on the collection report with the deposit of the refund instead of writing the receivable off at a later date. Establish procedures for supervisory approval and review of receivable write-offs and month end balances.

#### Employee Leave

The agency does not make use of the standard Request for Leave of Absence form to be used by employees to document leave taken. Lacking this documentation can result in errors, arguments and personnel problems.

The agency's compensatory time policies do not conform to the Federal Labor Standard Act or Title 41, Chapter 23, R.C.M., 1947. While the staff does not make use of compensatory time policies to a great degree, the clerical employees are the predominant users. Employers are required to pay time and one-half for overtime to all non-supervisory and non-professional staff.

#### Our Recommendation

18. Require employees to submit a Request for Leave of Absence form for all leave taken and periodically reconcile the forms to employee leave records.
19. Revise compensatory time policies to conform to federal and state statutes and management memo I-75-17A.

#### Travel Expense

In our examination of travel claims, two general problems were noted. First, documentation does not always provide the necessary information relative to the reason for travel and the most economical mode of travel. Better instruction of staff, board and regional council members, is needed to improve documentation and to emphasize that the most economical mode of

transportation is to be used.

The second general condition is that of duplication of expenses. As an example, when a board meeting is held in Helena, two members come from Bozeman, two from Great Falls, and four from Missoula. Each member receives mileage reimbursement for driving his or her automobile, and all stay in separate rooms for a varying number of nights. A great deal of money could be saved by merely asking board members from the same area to join and travel in a single automobile.

#### Our Recommendation

20. Require better documentation on travel claims of the reason for travel and justification of the mode of transportation. Advise the staff, board and regional council members of the need for economy and suggest car pooling and other money saving methods.

#### Fixed Assets

We noted the Department of Administration has not published Chapter 2-1700 of the Montana Administrative Manual relating to property accountability and management. This lack of policy and guidelines has caused problems at the agency level.

#### Our Recommendations

21. By coordination with the Department of Administration, general ledger control accounts should be established for all fixed assets as of July 1, 1978. Our audit report contains the dollar values for fixed assets.
22. We recommend that the Department of Administration expedite the publication of uniform statewide policies regarding property management and accountability.

We wish to express our appreciation to the staff of the Crime Control Division for their cooperation in the performance of our examination.

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
COMBINED BALANCE SHEET - ALL FUNDS  
June 30, 1978

EXHIBIT A

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>General Fixed Assets Fund</u>	<u>Memo: Total</u>
<u>Assets:</u>					
Cash in treasury		\$ 208,045	\$ 167,473		\$ 375,518
Accounts receivable (Note 2)	\$ 5,550				5,550
Interentity loans receivable			85,000		85,000
General fixed assets				\$ 66,628	66,628
<b>Total</b>	<u>\$ 5,550</u>	<u>\$ 208,045</u>	<u>\$ 252,473</u>	<u>\$ 66,628</u>	<u>\$ 532,696</u>
<u>Liabilities, Reserves and Fund Balances:</u>					
Accrued support expenditures	\$ 14,181	\$ 10,328			\$ 24,509
Accrued local assistance ex- penditures			\$ 25,273		25,273
Interentity loans payable		85,000			85,000
Contingent liabilities (Note 7)					
Investment in general fixed assets				\$ 66,628	66,628
Reserve for continuing appropriations (Note 5)	176,911	744,969	3,658,866		4,580,747
Reserve for reverted ap- propriations		94,922	199,104		294,024
Fund balances	<u>(185,542)</u>	<u>(727,174)</u>	<u>(3,630,770)</u>		<u>(4,543,486)</u>
<b>Total</b>	<u>\$ 5,550</u>	<u>\$ 208,045</u>	<u>\$ 252,473</u>	<u>\$ 66,628</u>	<u>\$ 532,696</u>

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL FUNDS

Page 1 of 2

For the Year Ended June 30, 1978

EXHIBIT B

	<u>General</u>	<u>Federal and</u> <u>Private</u>	<u>Federal and</u> <u>Private Grant</u>	<u>Memo:</u> <u>Total</u>
	<u>Fund</u>	<u>Revenue Fund</u>	<u>Clearance Fund</u>	
Revenues	\$ 444	\$ 1,853,442	\$ 8,011,956	\$ 9,865,842
Less prior year totals (Note 5)		<u>(1,140,259)</u>	<u>(5,214,260)</u>	<u>(6,354,519)</u>
Current year revenue	<u>444</u>	<u>713,183</u>	<u>2,797,696</u>	<u>3,511,323</u>
 Expenditures	 (381,334)	 (1,494,122)	 (3,214,095)	 (5,089,551)
Add back prior year totals (Note 5)	<u>177,298</u>	<u>788,188</u>	<u>501,037</u>	<u>1,466,523</u>
Current year expenditures	<u>(204,036)</u>	<u>(705,934)</u>	<u>(2,713,058)</u>	<u>(3,623,028)</u>
Excess of revenues over (under) expenditures	(203,592)	7,249	84,638	(111,705)
Other changes in fund balances:				
Net cash disbursed from general fund appropriations	197,427			197,427
Prior year's appropriation reverted to the general fund on July 1, 1977		77,486	45,440	306,096
Remainder of current year's appropriation to be reverted to the general fund on July 1, 1978		(94,922)	(199,104)	(294,025)
Appropriations continued to 1978-9	(176,911)	(744,969)	(3,658,866)	(4,580,746)
Appropriations continued from 1976-7	<u>183,170</u>	<u>734,775</u>	<u>3,466,763</u>	<u>4,201,538</u>
	94	(20,381)	(261,129)	(281,415)
Fund balance, July 1, 1977	(185,636)	(706,793)	(3,369,641)	(4,262,070)
Fund balance, June 30, 1978	<u>\$ (185,542)</u>	<u>\$ (727,174)</u>	<u>\$ (3,630,770)</u>	<u>\$ (4,543,485)</u>

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL FUNDS

Page 2 of 2

For the Year Ended June 30, 1977

EXHIBIT B

	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>Memo: Total</u>
Revenues	\$ 3,668	\$ 1,192,832	\$ 5,939,698	\$ 7,136,198
Less prior year totals (Note 5)		(386,278)	(3,242,680)	(3,628,958)
Current year's revenue	<u>3,668</u>	<u>806,554</u>	<u>2,697,018</u>	<u>3,507,240</u>
Expenditures	(303,169)	(2,032,210)	(4,253,579)	(6,588,958)
Add back prior year totals (Note 5)	<u>119,273</u>	<u>1,202,448</u>	<u>1,673,990</u>	<u>2,995,711</u>
Current year expenditures	<u>(183,896)</u>	<u>(829,762)</u>	<u>(2,579,589)</u>	<u>(3,593,247)</u>
Excess of revenues over (under) expenditures - current year	(180,228)	(23,208)	117,429	(86,007)
Other changes in fund balances:				
Net cash disbursed from general fund appropriations	190,950			190,950
Prior year's appropriations reverted to the general fund on July 1, 1976	141,015	15,984	50,437	207,436
Remainder of current year's appro- priations to be reverted to the general fund on July 1, 1977		(77,486)	(45,440)	(122,926)
Appropriations continued to 1977-8	(183,170)	(734,775)	(3,466,763)	(4,384,708)
Appropriations continued from 1975-6	<u>(31,433)</u>	<u>480,272</u>	<u>296,010</u>	<u>776,282</u>
	(31,433)	(339,213)	(3,048,327)	(3,418,973)
Fund balance, July 1, 1976	<u>(154,203)</u>	<u>(367,580)</u>	<u>(321,314)</u>	<u>(843,097)</u>
Fund balance, June 30, 1977	<u><u>\$(185,636)</u></u>	<u><u>\$(706,793)</u></u>	<u><u>\$(3,369,641)</u></u>	<u><u>\$(4,262,070)</u></u>

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENT OF GENERAL FIXED ASSETS  
June 30, 1978

EXHIBIT C

General Fixed Assets - At Cost:

Office furniture and equipment	\$ 56,980
Library	214
Special law enforcement and communications equipment	<u>9,434</u>
General fixed assets	<u>\$ 66,628</u>
Investment in general fixed assets	<u>\$ 66,628</u>

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



CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENTS OF REVENUES BY OBJECT WITH BUDGET COMPARISONS  
For the Years ended June 30, 1977 and June 30, 1978

EXHIBIT D

	<u>June 30, 1978</u>			<u>June 30, 1977</u>		
	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>
<u>Revenues</u>						
LEAA Admin. funds		\$ 455,833		\$ 141,617		\$ 153,516
LEAA Comprehensive Plan grant		1,107,556	\$ 51,936	854,152		
LEAA discretionary grants		240,555	752,060	166,250		523,766
LEAA improvement of justice grants		26,092	6,522,699	22,810		4,901,741
LEAA juvenile justice grants		23,406	300,755			
LEAA correctional services technical assistance			406,052			414,362
Other revenues - refunds, etc.	\$ 444			\$ 3,668		
Prior year adjustments	—	—	(21,546)	—	8,003	(53,687)
Total revenues, including prior year amounts (Note 5)	444	1,853,442	8,011,956	3,668	1,192,832	5,939,698
Estimated revenues	<u>-0-</u>	<u>2,132,782</u>	<u>12,538,162</u>	<u>-0-</u>	<u>1,529,087</u>	<u>10,102,382</u>
Excess of actual over (under) estimated	<u>\$ 444</u>	<u>\$ (279,340)</u>	<u>\$ (4,526,206)</u>	<u>\$ 3,668</u>	<u>\$ (336,255)</u>	<u>\$ (4,162,684)</u>

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENT OF EXPENDITURES BY PROGRAM COMPARED WITH APPROPRIATIONS  
For the Years Ended June 30, 1977 and June 30, 1978

EXHIBIT E

Administrative Program

	<u>June 30, 1978</u>			<u>June 30, 1977</u>		
	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fun</u>
Appropriations continued from from the preceding fiscal year	\$ 145,868	\$ 1,522,962		\$ 129,988*	\$ 1,682,720	
Prior year support expend- itures	<u>(103,364)</u>	<u>(788,187)</u>		<u>(100,118)</u>	<u>(1,202,448)</u>	
Unexpended balance, July 1	42,504	734,775		29,870	480,272	
Current year appropriations	<u>151,723</u>	<u>811,050</u>		<u>145,868</u>	<u>1,161,956</u>	
Total available	194,227	1,545,825		175,738	1,642,228	
Current year support ex- penditures	<u>(153,059)</u>	<u>(705,934)</u>		<u>(133,234)</u>	<u>(829,967)</u>	
Adjustments to prior year expenditures				<u>4,118</u>	<u>205</u>	
Unexpended balance, June 30	41,168	839,891		46,622	812,466	
Appropriation continued to the subsequent fiscal year	<u>(41,168)</u>	<u>(744,969)</u>		<u>(42,504)</u>	<u>(734,775)</u>	
Prior year adjustments				<u>(4,118)</u>	<u>(205)</u>	
Reverted appropriations /	<u>\$ -0-</u>	<u>\$ 94,922</u>		<u>\$ -0-</u>	<u>\$ 77,486</u>	

\*Reestablished July 1

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE

STATEMENT OF EXPENDITURES BY PROGRAM COMPARED WITH APPROPRIATIONS  
For the Years Ended June 30, 1977 and June 30, 1978

Page 2 of 2

EXHIBIT E

Action Program

	<u>June 30, 1978</u>			<u>June 30, 1977</u>		
	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>General Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>
Appropriations continued from the preceding fiscal year	\$ 214,600		\$ 3,967,800	\$ 130,300*		\$ 1,970,000
Prior year local assistance expenditures	(73,934)		(501,037)	(19,155)		(1,673,990)
Unexpended balance, July 1	140,666		3,466,763	111,145		296,010
Current year appropriation	46,054		2,719,554	84,300		3,777,800
Total available	186,720		6,186,317	195,445		4,073,810
Current year local assistance expenditures	(50,977)		(2,328,347)	(54,779)		(561,607)
Adjustments to prior year expenditures			25			5,037
Unexpended balance, June 30	135,743		3,857,995	140,666		3,517,240
Appropriation continued to the subsequent fiscal year	(135,743)		(3,658,866)	(140,666)		(3,466,763)
Prior year adjustments			(25)			(5,037)
Reverted appropriations	\$ -0-		\$ 199,104	\$ -0-		\$ 45,440

Memo: Non-budgeted expenditures

\$ 384,737

\$ 2,023,019

\*Reestablished July 1

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

CRIME CONTROL DIVISION  
DEPARTMENT OF JUSTICE  
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS  
For the Years Ended June 30, 1977 and June 30, 1978

EXHIBIT F

Balance, July 1, 1976		\$ 65,655
Additions, July 1, 1976 - June 30, 1977		1,524
Dispositions, July 1, 1976 - June 30, 1977		
By trade	\$ 250	
By sale	<u>301</u>	<u>(551)</u>
Balance, June 30, 1977		<u>\$ 66,628</u>
Balance June 30, 1978		<u>\$ 66,628</u>

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

CRIME CONTROL DIVISION  
Notes to the Financial Statements  
June 30, 1978

Note 1. Significant Accounting Policies:

The statements are prepared from reports generated by the Statewide Budgeting and Accounting System (SBAS).

The State of Montana utilizes a modified accrual basis of accounting for the general, federal and private revenue, and federal and private grant clearance funds, which are three types of funds used to account for the operations of the Crime Control Division. Although expenditures are recorded during the fiscal year on the basis of claims paid and revenues are recorded when received in cash, all valid obligations against an appropriation are accrued at the end of the fiscal year.

Fixed assets are expensed as purchased in the various funds, and capitalized at cost in the General Fixed Assets Fund. No depreciation is recorded.

Note 2. Accounts Receivable and Revenue:

The accounts receivable in the general fund are outstanding travel advances to employees. The agency has additional receivables for federal grants receivable which are not recorded on SBAS and, therefore, not reflected in these statements. These receivables, according to manual records maintained at the agency, totalled \$ 2,287,639 at June 30, 1978 and \$ 3,451,584 at June 30, 1977.

Revenues were recorded, in accordance with state accounting policies, as cash was received.

As is discussed in the comments section of this report, generally accepted accounting principles require that material revenues which are both measurable and available, be accrued at year end.

The effect of unrecorded receivables on the agency's revenues is illustrated in the following schedule:

	<u>Unrecorded receivable</u>	<u>Overstatement (understatement) of revenue</u>
June 30, 1976	\$ 3,839,517	
June 30, 1977	3,451,584	(\$ 387,933)
June 30, 1978	2,287,639	( 1,163,945)

As was noted in the recommendations, refunds receivable from subgrantees were written off at June 30, 1978 but remain outstanding and valid receivables. The amount of refunds receivable not reflected in these statements is \$ 577.

Note 3. Subgrant Award Obligations and Expenditures:

As was noted for revenues in Note 2, the financial statements do not reflect the liability for subgrant awards not fully disbursed as follows:

	<u>Unrecorded liability</u>	<u>Overstatement (understatement) of expenditures</u>
June 30, 1976	\$ 1,974,196	
June 30, 1977	2,020,903	\$ 46,707
June 30, 1978	1,601,860	(419,043)

Generally accepted accounting principles require the statements to reflect material liabilities, and to reflect expenditures on the basis of the date incurred rather than the date paid.

Note 4. Accrued Support Expenditures:

Since it was not legally required because of the agency's continued appropriations, the agency did not accrue significant support expenditures at June 30, 1977, that were incurred but unpaid at year-end.

While the agency had spending authority to pay these expenses in the subsequent fiscal year, generally accepted accounting principles require that expenses be recorded or accrued in the year incurred. Expenditures for that year were materially understated and overstated in the year ended June 30, 1978.

Note 5. Continued Appropriations:

LEAA grants are available for expenditure over periods extending beyond the traditional single year ending on June 30. As a result, the legislature has authorized the agency to continue unexpended appropriations into succeeding years to provide spending authority for federal grant monies and necessary matching funds.

As a result, prior years' expenditures against continuing appropriations are reestablished on July 1 of each year to provide adequate accounting for the appropriations and to control unexpended balances. The same is true of prior years' revenues.

Prior year amounts have been shown separately in the statements to reflect the results of current year's operations along with the necessary budget comparisons.

Amounts shown as prior year adjustments are refunds and adjustments of prior year revenues and expenditures during the current year. Since they relate to continuing appropriations and budgeted revenues, they have been reflected on the statements as adjustments to revenues and expenditures rather than having been charged directly to fund balances.

Note 6. LEAA Match, Pass Through and Expenditure Restrictions:

LEAA grants are subject to many restrictions, conditions, and regulations. The Crime Control Division has complied with all federal regulations and grant conditions placed on the grant awards, to the best of its ability, including applicable pass through requirements, matching requirements, and regulations contained in the following publications:

LEAA Guideline Manual M4100.1, State Planning Agency Grants;  
LEAA Guideline Manual M7100.1, Financial Management for Planning and Action Grants;  
LEAA Guideline Manual M4500.1, Guide for Discretionary Grant Programs;  
Federal Management Circular 74-4, Cost Principles Applicable to Grants and Contracts with State and Local Units of Government;  
Federal Management Circular 74-7, Uniform Administrative Requirements for Grants - In - Aid to State and Local Governments.

Note 7. Contingent Liabilities:

The agency has a contingent liability for unused accumulated sick leave and annual leave. The state's policy is to pay terminating employees for their unused annual leave and one-fourth of their unused sick leave. The liability for and the expense of the accumulated leave, is not reflected in these statements.

Note 8. Retirement Plan:

Employees of the Crime Control Division are covered by the Public Employees Retirement Division, a contributory retirement plan under which the agency contributed 5.95% of the employees' salary and the employee contributes 6% to the plan. The agency incurred pension costs of \$ 30,795 and \$ 31,893 for the fiscal years ended June 30, 1977, and June 30, 1978, respectively.

Note 9. Lease Commitments::

The agency's minimum future lease obligations at June 30, 1978, were \$ 53,260 for its office space at 1336 Helena Avenue, under a lease to expire August 5, 1979.

**AGENCY REPLIES**





## BOARD OF CRIME CONTROL

1336 HELENA AVENUE

HELENA, MONTANA 59601

TELEPHONE No. 449-3604

October 3, 1978

IN REPLY REFER TO:

Mike Holland  
Kindred Holland & Lindberg  
P. O. Box 245  
Room 520  
Power Block  
Helena, Montana 59601

Dear Mike:

Enclosed is the Montana Board of Crime Control response to the various audit findings presented in your audit.

You will note that each of our responses is numbered to correspond to each of your numbered recommendations. We have also reiterated the recommendation for ease of review. In all cases we have limited our response to the recommendation and have not responded to any commentary leading to the recommendation.

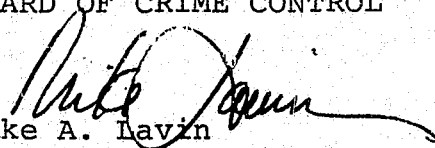
I want to thank you and other members of your firm for executing your audit in a very professional manner. There was an absolute minimum of interruption in our daily work activities for which you deserve a special thanks.

If you have any questions in regard to any of the responses please contact me at any time.

Thanks again for a job well done.

Sincerely,

BOARD OF CRIME CONTROL

  
Mike A. Lavin  
Administrator

MAL:DAC:pmw  
Enclosures

Recommendation #1

"The agency should contact the Department of Administration in regard to their accounting problems. We suggest that two avenues be explored. Either modify SBAS to provide the capability for reasonable efficient accounting, or further develop the in-house system to provide data relative to receivables, liabilities and revenues and supply the data to SBAS in summary fashion at the end of each month."

Response: It is the intent of the Montana Board of Crime Control (MBCC) to initiate further contact with the Department of Administration in regard to our accounting system.

The two avenues of exploration suggested by the audit are still questionable. They are questionable only from the view that it is doubtful that SBAS can be modified to accommodate the full accounting needs of the MBCC. The MBCC is required by federal mandate to account for all monies in projects funded with L.E.A.A. dollars, including all required match. SBAS does not have the capability of accounting for local match dollars. Thus, a secondary, or supporting system is necessary.

As far as modifying the MBCC in-house system and providing summary data to SBAS it would be possible, but not practical. Since SBAS is the accepted state accounting system it would be more appropriate to utilize SBAS to the greatest extent possible.

Recommendation #2

"Consider providing subgrantee employees informal, basic level training sessions relative to subgrant management and reporting. Develop procedures to improve the timeliness of subgrantee reporting and for prompt follow-up on delinquent reports."

Response: MBCC staff does offer and/or provide training to subgrantees. This can be requested by subgrantee or if staff feels necessary it will provide training on its own initiative.

Recommendation #2 - Response (Continued)

At the time of award, each subgrantee is presented with a packet including a "Financial Guide." This guide covers the accounting system requirements. The packet also includes the proper reporting forms with instructions on completion and timing for submission. Most subgrantees realize that they must report before any money is released. A card file is maintained on each grant which acts as a tickler to reports due. A more formal procedure for review of reporting deadlines will be developed and utilized to improve response on reports. If reports are delinquent staff contacts applicants by phone or by letter with documentation to the file in either case.

Recommendation #3

"Assist subgrantees in the development of property management control systems through education and by providing available fixed asset records from GMIS."

Response: The MBCC does not feel it is our responsibility to assist subgrantees in the development of a property management control system in the general terms implied in the audit.

The MBCC will assist grantees in developing an inventory system to insure the equipment purchased with Federal funds will be subject to a property control system. One avenue being pursued as a procedure is to provide federal fund recipient agencies with a computerized listing of equipment purchased with grant funds, which will act as a building block to the local property control system. The computerized listing is presently established as a part of the MBCC computerized grant management system.

#### Recommendation #4

"Improve both the subgrant review procedures and the documentation of the reviews. We suggest that equipment grants and short term projects be thoroughly reviewed at least upon close-out. Long term and construction projects should be thoroughly reviewed quarterly, upon receipt of the subgrantees financial reports."

Response: All subgrants are reviewed thoroughly, both financially and programmatically. The audit findings appear to be a result of lack of documentation on procedure and formal file verification.

The MBCC intends to formalize the procedure and insure appropriate file documentation.

Short-term or equipment grants must supply invoices or supportive documentation to show proper expenditures. Each is checked for dates, money and a cross check to the grant to insure that the two are compatible. Also, the subgrant is checked for Federal, State regulation compliance. Long term grants are checked for bid requirements as well as other special conditions placed on the grant. Each budget category is checked to make sure all expenditures are in the proper budget categories. When problems or questions arise staff contacts subgrantee by letter or phone (with memos to the file). If the problems are severe, money is held up until the problem is resolved.

#### Recommendation #5

"Instruct the accounting staff as to which procedure the agency intends to follow, and follow it consistently, to prevent confusion, and possible loss of documents.

Response: The accounting staff will be advised by formal memorandum as to the procedure that will be followed. The procedure will be that all warrant and transfer warrants will be signed in duplicate so that responsibility can be fixed and controlled at the Board level.

Recommendation #6

"W-2's should be reviewed and distributed by someone other than the payroll clerk."

Response: The W-2 forms are computer generated and forwarded to the agency in sealed "snap-out" forms. To review these forms for accuracy is redundant since the datum which would be used to confirm the W-2's is the same computerized datum which generates the form itself.

The Board of Crime Control will establish a policy which includes verification of personnel and employment (by name only) and the forms will be distributed by other than the payroll clerk. W-2 forms for the period ending December 31, 1977 were distributed by the Finance Officer.

Recommendation #7

"Adhere to established policies relative to supervisory approval of time sheets.

Response: 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.

We concur with the recommendation. Determination of those persons who are "officers of the Board" will be made and all others will submit supervisory approved time cards.

Recommendation #8

"Adjust the fixed asset inventory for items traded upon recording the newly acquired asset. Reconcile fixed asset records to SBAS at least annually to verify the accuracy of the manual record."

Response: The inventory will be adjusted in accordance with those two items noted by the audit. A written procedure will be implemented by which trade-ins will be included in the SBAS system and the inventory adjusted. The Board of Crime Control has reconciled

Recommendation #8 - Response (Continued)

its manual record of the inventory to the entries made to SBAS object of Expenditure 3000, on an annually basis and will continue to do so in the future.

Recommendation #9

"Perform another physical inventory to determine if any of the missing items can now be located. Strengthen procedures to insure that losses such as this do not occur in the future. Strengthened procedures might include instruction to the staff, more frequent physical inventories, and staff reprimands for those who were responsible for the items not located in subsequent inventories."

Response: The physical inventory conducted for the equipment on hand as of June 30, 1977 was a very thorough one and extensive efforts were made to locate the missing items. One or two of the items have been missing for more than one year.

The Board will take steps to determine which of the items should be segregated from the normal inventory, due to the fact that they have not been located over a given period of time. The Board is in all probability scheduled to relocate its offices from a privately owned building to a public one. When this move occurs it will be necessary to "perform another physical inventory" to ascertain that all items have been accounted for in the transition from one location to another. This should take place prior to the normally scheduled inventory for the end of Fiscal Year 1979. Every effort will be made to locate the missing items.

Recommendation #10

"Take the necessary steps to correct the records at the Secretary of State's office. Request to legislature to expand the board in accordance with federal requirements."

Response: The Administrator, MBCC, will contact the Secretary of State and have all records corrected to encompass present Board

Recommendation #10 - Response (Continued)

membership. This will be done in coordination with the Governor's office due to the requirement of appointment of Board members.

At this point it is not necessary to expand the Board membership through legislative action. The Board, by statute, is fixed at 18 members. The present composition of the Board is adequate to comply with Federal mandate.

If present Board membership will not comply with Federal Regulations, the Legislature will be requested to expand the membership by one.

Recommendation #11

"When the supervisor reviews invoices prior to signing a claim, he or she should mark all invoices paid."

Response: The audit states in the section entitled prior recommendations "it would be reasonably easy to submit two originals or two invoices appearing to be originals to a supervisor for signature..." In the Board's estimation there would be nothing to prevent "both" invoices from being submitted for signature, perhaps to two separate signators, having both marked paid by the supervisors as the claim was signed and the net result would still be a duplication of payment. Moreover, if a circumstance involved collusion between the individual preparing the claims and the signator, marking of an invoice paid (or invoices) would accomplish nothing. The agency must rely on the thoroughness and prudence of the individual signing claims to prevent duplication of expenditure and the accuracy of ensuring audits to confirm that no such duplication has taken place. In brief, the only tangible effect in marking invoices paid is a visible notation that can be readily confirmed from computerized SBAS reports.

Recommendation #12

"Again, remind employees of the importance of following established procedures, but further, provide for increased supervision at all levels to ensure that the procedures are followed."

Response: We concur with the recommendation. Employees will be reminded of need for following established procedures and increased supervision will be provided where needed.

Recommendation #13

"Improve the field audit function through the use of written programs, problem-oriented subgrantee selection, and emphasis on well documented working papers."

Response: The audit function will develop a new audit program which will be used for City, County and State agency audits that encompass more than one subgrant and/or more than one department. The present audit program will be retained for individual project type subgrants.

Selection of City, County or State agencies to be audited has been and will continue to be done by the auditor with input from the Grant Administration Bureau. The selection process has attempted to choose grantee units of government that receive large amounts of grants as a priority, with consideration given to regions of the state and known problem areas. In addition to regularly scheduled audits, a number of recommendations for subgrant audits are generated through the Grant Administration Bureau and the Administrator. These audits are generally done based on the Administrators determination that the apparent problem warrants an audit.

Any deficiencies noted in workpapers will be corrected on future audits.

Recommendation #14

"Provide for increased technical assistance for subgrantees by grants management staff, not only by offering assistance but also by requiring it for subgrantees with known problems."



Recommendation #14 - Response (Continued)

Response: Present technical assistance is adequate and substantial based on present staff complement.

Technical assistance is always available to subgrantees upon request, or initiated by staff if problems are foreseen within particular agencies. The MBCC staff has noted that more subgrantees as well as prospective subgrantees, are requesting aid before proceeding with certain types of action. If upon reviews of any type, done by MBCC staff, a problem is noted, Grants Management staff contacts the subgrantee and pursues the problem. This is accomplished by phone (memos to file), letter, or on-site assistance.

Recommendation #15

"Improve reporting procedures to comply with LEAA requirements by (a) following up on delinquent reports and gradually getting each subgrantee on a current basis and (b) reporting actual results on the basis of subgrantees financial reports for the quarter being reported on.

Response: We concur in this recommendation to the extent of improving follow-up on delinquent reports. Procedures will be implemented to insure improvement and compliance.

Reporting actual results on subgrantee financial reports is possible but presently not acceptable to L.E.A.A. since the time frame for actual reporting varies between required federal reporting and state reporting. L.E.A.A. is presently reviewing reporting requirements, especially in the area of grant obligations, and will be providing new directives in the near future that will identify reporting requirements. When L.E.A.A. develops their new procedures, the MBCC will institute appropriate action to insure compliance.

Recommendation #16

"Take steps necessary to comply with LEAA recommendations pertaining to subgrant monitoring.

Response: We concur with the recommendation. We will establish new procedures and criteria for monitoring of subgrantees. The proposed new method will not necessarily increase the number of subgrants monitored, but will be a more comprehensive monitoring of the types of subgrants that tend to need direction.

Recommendation #17

"Provide for separation of duties in the recording of receivables and the subsequent receipt of the refund. Make SBAS general ledger entries reducing the receivable balance on the collection report with the deposit of the refund instead of writing the receivable off at a later date. Establish procedures for supervisory approval and review of receivable write-offs and month end balances.

Response: All checks, other than Federal Draw Down warrants, are first received by the Chief of Grant Administration. The checks are duly noted at the time of receipt. Information relative to checks which constitute refund from the subgrantees is also forwarded to the Planning Technician. (Providing a double check)

The Chief of Grant Administration maintains copies of the Accounts Receivable Billing Summary (Form 261) and will in the future make a notation on his copy that said refund check has been received.

This activity in essence, logs the warrants in and provides a source for comparison should a question arise regarding whether or not a refund has been deposited.

Only after the refund has been noted by the Grant Administration Chief are the physical checks forwarded to the Accounting Technician for deposit, who is also the same individual who records the receivable.

Recommendation #17 - Response (Continued)

A change in practice will be made relative to reducing the receivable balance. This transaction will be recorded on the collection report immediately following the entry which deposits the refund.

Procedures are established and each transaction is reviewed, prior to receivable write-offs. Receivable write-offs only occur through resolution of audit recommendations or action taken by the Board's audit committee. Receivable write-offs are implemented through written communications only.

Federal Draw Down Warrants are made payable to the State of Montana, and the requests are signed by individuals other than those depositing the funds.

Recommendation #18

"Require employees to submit a Request for Leave of Absence form for all leave taken and periodically reconcile the forms to employee leave records.

Response: The Board of Crime Control will strengthen its procedures relative to submission of Leave of Absence request forms. A procedure will be developed to assure that all employees prepare said documents, gain the required approval, and place them on file with the payroll clerk prior to taking annual leave. These documents will not be used to record sick leave. The Board has designed a bi-weekly reporting form which is currently in use and is providing sufficient documentation to verify leave taken for both sick and annual leave. In other words, the employee is required to submit a signed report attesting to attendance.

Recommendation #19

"Revise compensatory time policies to conform to federal and state statutes and management memo I-75-17A.

Recommendation #19 - Response (Continued)

Response: Management Memo I-75-17a is no longer in effect, it has been superseded by Policy 3-0210, Management Operations Manual. In pursuing the interpretation of the term "professional" with staff of the Department of Labor and Industries it has been determined that this varies with the type work being done, the amount of supervision required and the technical skills required to perform specific duties. The Board will pursue the matter in order to ascertain which of its employees are to be classified as exempt and which will be subject to overtime compensation. Once this determination has been made the compensatory time policies will be revised to conform with the findings.

Recommendation #20

"Require better documentation on travel claims of the reason for travel and justification of the mode of transportation. Advise the staff, board and regional council members of the need for economy and suggest car pooling and other money saving methods."

Response: The Board does adhere to the above recommendation at its staff level. The Board will again remind the Region Councils of the need for economy, suggest car pooling and other money saving devices. In compliance with the audit recommendation the staff will relay the recommendation to the Board's Executive Committee for its consideration.



THOMAS L. JUDGE, Governor

STATE OF MONTANA  
DEPARTMENT OF ADMINISTRATION  
DIRECTOR'S OFFICE  
MITCHELL BUILDING  
HELENA, MONTANA 59601

September 28, 1978

Michael W. Holland, C.P.A.  
Kindred, Holland & Lindberg  
P. O. Box 245  
Helena, Montana 59601

Dear Mr. Holland:

In response to your request for our reaction to your audit recommendations, I would offer the following:

- (1) I object to your statement that SBAS must be modified to provide "the capability for reasonably efficient accounting." I believe that SBAS has this capability now and that further modifications are not needed at this time. Perhaps the auditor is not aware that we have recently completed a rather massive revision of the entire system.

It certainly is true that we do not allow agencies to accrue revenue from reimbursable grants. However, that is a policy decision, not a lack of capability in SBAS. This department has steadfastly refused to deviate from our very conservative policy of accounting for revenue on a cash basis only. However, I am aware of the concerns the Legislative Auditor has about reimbursable grants and I will reconsider our policy. I want to stress that SBAS can handle the accrual of revenue and does not need modification if we decide to change our revenue accounting policy.

- (2) A fixed asset accounting system has been completed and will be implemented before the end of FY 79.

Sincerely,

*Dave Lewis*  
Dave Lewis,  
Director

DML/emw

cc: Doyle B. Saxby

