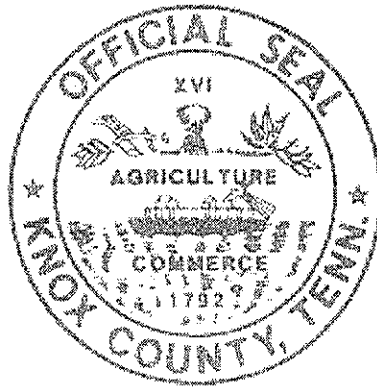


KNOX COUNTY AUDITOR



Drug Court Audit

July 6, 2011

File Number 03-2011-03

Knox County

KNOX COUNTY COMMISSION



KNOX COUNTY AUDITOR

July 6, 2011

To the Knox County Commission and Knox County Audit Committee

Ladies and Gentlemen:

In accordance with the responsibilities set forth in Knox County Ordinance O-02-8-105, my office has prepared a report on the audit of the Drug Court.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audits such as this provide a means of ensuring that County resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact the office of the county auditor at 865-215-2892.

Very truly yours,

A handwritten signature in cursive script that reads 'Richard Walls'.

Richard Walls
Knox County Auditor

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OFFICE OF THE KNOX COUNTY AUDITOR

Drug Court Audit

Audit Number 03-2011-03

INTRODUCTION

Background

In accordance with requests from the Knox County Law Director and Commission, we have undertaken an audit of the Knox County Drug Court. The audit covered financial transactions during fiscal years 2010 and 2011.

The Drug Court serves as an alternative approach to incarceration for nonviolent offenders dependent on alcohol and other drugs. Its purpose is to promote public safety and health by providing comprehensive care to substance abuse offenders through a partnership between the judiciary, government, corrections, law enforcement, the faith community, and health care providers. The program presents the participants with a prescribed range of drug treatment services, as well as other social service programs, in a three-tiered, highly-structured case management approach in a non-adversarial atmosphere.

The Drug Court is primarily funded through a grant received from the State of Tennessee – Department of Finance and Administration – Office of Criminal Justice Programs (OCJP). During the period audited, an additional OCJP grant was received that was funded through the American Recovery and Reinvestment Act of 2009 Edward Byrne Memorial Justice Assistance Grant (ARRA/JAG).

Drug Court participants also pay a onetime Drug Court Fee and fees for mandatory random drug screens. In addition, the Drug Court also receives additional fees from individuals found guilty of violating Title 39, Chapter 17, Part 4, Tennessee Code Annotated, of the Tennessee Drug Control Act.

According to the Tennessee Drug Court Annual Report for the period between July 1, 2009 and June 30, 2010, the Knox County Drug Court has admitted 506 participants in the program and has graduated 120 participants since its start in 1999.

Objectives

We performed an audit of the financial transactions of the Knox County Drug Court. The key audit objectives are as follows:

1. Were all cash receipts that should be received collected?
2. Were all cash receipts received accurately deposited and forwarded to the finance department for entry into the accounting system?
3. Were cash receipts being properly safeguarded?
4. Was employee payroll properly calculated?
5. Was employee leave time applied according to Knox County Employee Handbook?
6. Were expenditures approved, supported by documentation and for a valid business purpose?
7. Were travel related expenditures made in accordance with Knox County's Travel Policy?

Procedures

Our procedures included the following:

1. Reviewed available policy and procedures.
2. Reviewed accounting records.
3. Reviewed budget.
4. Reviewed selected documentation supporting revenue, expenditures and payroll for adequacy, appropriateness and approvals.
5. Reviewed laws, regulations and contracts.
6. Toured drug court facilities.
7. Interviewed appropriate personnel and board members.

SUMMARY OF REVENUES AND EXPENDITURES

A summary of the revenues and expenditures for the Drug Court during fiscal year 2010 are as follows:

Knox County Drug Court				
Summary of Revenues and Expenditures				
Fiscal Year 2010				
	Drug	OCIP	ARRA/	
	Court	Residential	JAG	
	Operations	Grant	Grant	Total
Revenues				
Drug Court Fee	\$ 57,047	\$ -	\$ -	\$ 57,047
Program and Drug Screen Fees	26,547	-	-	26,547
Grant Awards	-	477,314	45,151	522,465
TOTAL REVENUES	\$ 83,594	\$ 477,314	\$ 45,151	\$ 606,059
Expenditures				
Full Time Regular Pay	\$ 54,787	\$ 167,170	\$ 27,110	\$ 249,067
Social Security	3,892	11,973	2,091	17,956
Retirement	3,817	9,450	1,677	14,944
Retirement Voluntary Match	290	694	-	984
Medical Insurance-Choice Traditional	-	9,432	-	9,432
Medical Insurance-Silver Traditional	11,133	30,477	202	41,812
Life Insurance	141	609	95	845
Educational Services	-	243	-	243
Equipment Rent/Repair/Maintenance	-	1,583	-	1,583
Communications & IT Related	-	8,792	1,140	9,932
Other	15	2,672	-	2,687
Services Maintenance Bldg & Grounds	-	325	-	325
Contract Other Agencies	19	158,110	1,684	159,813
Employee Travel Education	-	7,936	274	8,210
Drugs Medical Hygiene Supplies	-	9,693	-	9,693
Utilities & Fuel	-	5,168	-	5,168
Office Supplies/Minor Equipment	25	9,244	4,278	13,547
Vehicles	-	5,294	-	5,294
Indirect Cost	9,475	-	-	9,475
Space Costs	-	38,449	6,600	45,049
TOTAL EXPENDITURES	\$ 83,594	\$ 477,314	\$ 45,151	\$ 606,059
INCOME (LOSS)	\$ -	\$ -	\$ -	\$ -

RESULTS IN BRIEF

We performed an audit of the financial transactions of the Knox County Drug Court. Audit objectives and conclusions are as follows:

1. Were all cash receipts that should be received collected?

Yes. No material weakness, significant issues or control observations were noted.

2. Were all cash receipts received accurately deposited and forwarded to the finance department for entry into the accounting system?

Generally yes. We examined bank deposits and entries into the accounting system. We determined that funds were not always deposited within three days.

3. Were cash receipts being properly safeguarded?

Yes. No material weakness, significant issues or control observations were noted.

4. Was employee payroll properly calculated?

Yes. No material weakness, significant issues or control observations were noted.

5. Was employee leave time applied according to Knox County Employee Handbook?

Yes. No material weakness, significant issues or control observations were noted.

6. Were expenditures approved, supported by documentation and for a valid business purpose?

Generally yes. We identified a weakness in the classification of expenditures and in the allocation of indirect cost.

7. Were travel related expenditures made in accordance with Knox County's Travel Policy?

Yes. No material weakness, significant issues or control observations were noted.

FINDINGS AND RECOMMENDATIONS

Findings and recommendations are as follows:

1. Cash Receipts Issue

Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds within three days of collection. During our audit, we noted cash receipts are not always deposited to the bank within three days of collection.

It appears that management either did not have a “detect” mechanism in place to timely identify items that were not deposited within three days or the mechanism failed to work as designed. Sound business practice dictates that all collections be deposited on a daily basis to minimize the risk of fraud and abuse. The delay in depositing funds allows cash and checks to accumulate in the office.

Recommendation

All collections should be deposited within three days as required by state statute.

Management’s Response (Direct Quote)

Management concurs with the finding, and will establish and implement procedures requiring that all cash receipts be deposited daily. No deposits will be made later than the third day after receipt.

See additional response from Drug Court Director located at Exhibit 1.

2. Expenditures Issue

Management is responsible for the fair presentation of financial statements in conformance with generally accepted accounting principles. Related to this, is the management assertion that transactions have been recorded in the proper accounts. During our audit, we noted certain expenditures were not classified properly.

It appears that management either did not have a “detect” mechanism in place to timely identify items that were not classified properly or the mechanism failed to work as designed. The accounting records of the Drug Court submitted for audit contained undetected classification errors. Financial statement users need accurate information in order to make informed decisions.

Recommendation

Because the Knox County Finance Department has responsibility for the accounting practices of the entire County, the Finance Department should

examine its transaction review process to ensure transactions are classified and recorded in the proper accounts.

Management's Response (Direct Quote)

The audit indicated that certain expenditure transactions had not been classified properly, and recommended that the Finance Department examine its transaction review process to ensure that transactions are classified and recorded in the proper accounts. The transactions noted by the audit as misclassified totaled \$7,838.60. Regarding these transactions, the following should be noted:

Requests for payment of expenditures are initiated by the department or office that is acquiring the goods or services. Reporting of expenditures in the financial statements is at the major category level of expenditure: personal services, employee benefits, contracted services, supplies and materials, other charges, debt service, and capital outlay. Within each of these categories, numerous detailed expenditure categories are available for use. For example, the contracted services category includes educational service, travel, communications, contract with other agencies, and other services, among other accounts. The extent to which departments use these detailed options is a matter of judgment, and is optional (e.g., the user department could categorize all contracted services as "other" and there would be no effect on the financial statements.)

Of the \$7,838.60 identified by the auditor as misclassified, \$6,152.95 related to expenditures within the same major category. Therefore, there was no effect on the financial statements resulting from the selection of a particular detailed expenditure account. An additional \$579.94 related to a single item of expenditure that was charged to an incorrect account. This item was identified as an error and subsequently corrected by County personnel prior to its identification as an error by the auditor. Therefore, the existing internal controls performed as designed. The remaining \$1,105.71 relates to 2 items that were charged to expenditure accounts between major categories. Although the department that initiated the request for the expenditure did select an incorrect account, total expenditures were not affected and the effect on the expenditure categories as reported is immaterial to the fund financial statements.

Rebuttal –

Management is correct in their response regarding financial statements and materiality. However, management, board members and the Grantor (State of Tennessee) need accurate detailed information to make informed decisions and to monitor compliance. For example, \$4,443 of the misclassified expenses were related to travel expenses, resulting in an understatement of the travel expenses account by 35%. We still believe it would be of value to account for expenditures in the correct account.

3. Indirect Cost Allocation Issue

The U.S. Office of Management and Budget Circular A-87 requires local governments to establish an approved indirect cost allocation plan and rate to recover indirect costs related to federal grants and contracts. Accordingly, Knox County engaged MGT of America, Inc. to prepare a Central Services Cost Allocation Plan in order to identify the costs of indirect services provided by central service departments to the operating departments, special funds and other agencies of the County.

During our audit, we noted that during fiscal year 2010 the Finance Department allocated indirect cost of \$9,474.93 to the Drug Court even though the Drug Court was not included the County's Cost Allocation Plan. The amount was based on an estimated percentage applied only to the salaries and benefits of the operating portion of the Drug Court. The OCJP and ARRA/JAG grants were not included in the calculation.

Counties are under increasing pressure to maintain services by shifting overhead costs from the General Fund onto other funds, departments and projects. Without an all-inclusive and uniform method for allocating indirect cost, the costs are not equitably allocated across other funds, departments and projects.

Recommendation

Because the Knox County Finance Department has responsibility for the accounting practices of the entire County, the Finance Department should examine its indirect allocation plan to ensure costs are equitably allocated across other funds, departments and projects.

Management's Response (Direct Quote)

As noted in the auditor's comments, the County engaged MGT of America, Inc. to prepare a cost allocation plan (the "Plan".) The Plan was prepared in accordance with generally accepted accounting principles and with provisions of OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments." The resulting plan included an allocation of the costs of various central services (e.g., human resources, information technology) to the various receiving departments or functions. Included in the receiving funds and functions was the County's General Grants Fund, which includes the operating portion of the Drug Court as well as the operations of the OCJP and ARRA/JAG grants. As noted by the auditor, the OCJP and ARRA/JAG grants do not recover indirect costs from the grantor agency. Indirect costs are not charged to these grants because they are not allowed to be charged by the grantor. The County did charge indirect costs to the operating portion of the Drug Court.

As noted above, the Knox County Finance Department has periodically engaged a consultant to prepare an appropriate indirect cost allocation plan. Management concurs with the auditor's observation that governments are under increasing pressure to maintain services. Recovering appropriate amounts of indirect costs is one source of funds that helps to reduce the burden on County taxpayers of funding those services. The Finance Department does continually review the central services being provided to various entities, funds, departments and projects to ensure that indirect costs are recovered to the extent appropriate, and this process will continue.

Rebuttal –

Section C.8. of the grant contract with the State of Tennessee allows for the reimbursement of indirect cost. It reads in part, "the Grantee must submit to the State a copy of the indirect cost rate approved by the federal agency and the State. The Grantee will be reimbursed for indirect cost in accordance with the approved indirect cost rate to amounts and limitations specified in the attached Grant Budget."

In essence, what occurred regarding the indirect cost allocation was, the drug court was charged an amount equal to whatever funds were remaining at the fiscal year end. We still believe it would be of value for management to examine its indirect allocation plan to ensure costs are equitably allocated across other funds, departments and projects.

ADDITIONAL INFORMATION

Additional information is as follows:

1. Cost-Savings Opportunities

During our audit, we identified cost-saving opportunities and ways to make better use of existing resources as follows:

- a. **Office Space** – Effective May 1, 2011, the Drug Court will pay \$33,451 annually to lease approximately 3,823 square feet of office space. When the lease expires on April 30, 2014, the Drug Court should consult with the Public Building Authority in order to determine if similar space is available at a lower amount.
- b. **Hardware, Software & Support** – Currently the Drug Court purchases its own hardware & software, and utilizes an outside vendor for support. The Drug Court should consult with Knox County Information Technology to determine if there are opportunities for cost-savings and additional support.
- c. **Mobile Phones** – Currently the Drug Court pays Verizon Wireless \$400 to \$550 per month for mobile phone service. The Drug Court should consult with Knox County Information Technology to determine if there are opportunities for cost-savings.
- d. **Vehicle (Van)** – Since 2007 the Drug Court has leased a 2007 Ford Minivan for \$400 per month plus \$.10 per mile. The ownership of the van remains with the Lessor at the conclusion of the lease. The Drug Court should consult with Knox County Fleet Service Center to determine if there are opportunities for cost-savings.

2. Revenue Accounting

Knox County's Governmental Funds are accounted for using the flow of current financial resources measurement focus and employ the modified accrual basis of accounting. Revenues are recognized when they are "measurable and available". The Drug Court fees are "measurable and available" when cash is received and are recognized as revenue at that time.

Drug Court Fees and Program Fees revenue are recorded net of a 5% court clerk fee. (For example, \$100 collected by the court clerk would yield \$95 remitted to the Drug Court.) In addition, the Drug Court sometimes waives the \$300 program fee charged to participants. As of now, the 5% court clerk fee and program fees waived are not accounted for in the accounting records. The Knox County Finance Department and Drug Court should discuss accounting for these items in a contra-revenue account. This would allow management to easily see the financial impact of the 5% collection fee and program fees waived.

3. **Knox County Drug Court Support Foundation, Inc.**

The Knox County Drug Court Support Foundation, Inc. was formed in 2007 in order to raise funds in support of the Drug Court. However, as of now, the fund has not been utilized. The current registered agent is a former Knox County Law Director. The necessity of the foundation and status of the registered agent should be reviewed.

4. **Equipment Inventory**

During our work we noted that an equipment list was not available. The grant contract requires a perpetual inventory system for all equipment purchased with grant funds.

5. **Program Handbook**

During the audit we noted a section of the Program Handbook that should be reviewed and revised if needed. Under the Participant Rules section, it reads in part, "You appoint and authorize the Drug Court to demand, collect and receive any funds due and payable to you with respect to any insurance, benefits, contract or policy arising directly or indirectly out of services provided to you by the facility". We did not observe any funds billed or collected in this manner.

This report is intended solely for the information and use of the Knox County Commission, Audit Committee, and others within Knox County Government and is not intended to be and should not be used by anyone other than the specified parties.

If you have any questions regarding this report or would like any further information on this matter, please feel free to call us. We will be pleased to assist in any additional details required. To obtain additional copies of this report; suggest ideas for or to request future audits; or to report fraud, waste, or abuse, please contact our office.

**Knox County Auditor
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Knox County Drug Court



June 28, 2011

Richard Walls
Knox County Auditor
Room 319, City County Building
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(865) 215-2892
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Dear Mr. Walls,

Thank you for allowing the Knox County Drug Court to participate in a recent financial audit. I really appreciate how you kept the drug court staff at ease while keeping us informed of each step of this process and the encouraging words you gave to Judge Cerny and the drug court staff about the program. We believe that the drug court is offering needed services to Knox County citizens. I also appreciated the opportunity to have a new set of eyes to look over what we are doing and let us know what we are doing right and areas that can be improved upon.

I also wanted to acknowledge Susan Corlew in the Knox County Finance Dept. She has been good to work with these past few years. She and the Finance Department do an excellent job in keeping up with drug court expenses and payroll. I understand that she and Melanie Wilck have put together a response to several of the items on your report, since some of the findings were addressed to the Finance Department.

I wanted to respond to item 1 of the report – the timely bank deposits. Currently money can be collected at the drug court office Monday through Friday. To remedy the issue of timely deposits, the Drug Court will begin collecting money only on Wednesdays. Wednesday is a day when the majority of Drug Court participants are at the Drug Court office. Then each Thursday a deposit will be made. This will ensure deposits are made within 3 days without overburdening staff's time.

Again, thank you for taking time for this audit. In the event that you need additional information, please feel free to contact me.

Sincerely,

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