

An Audit Report on Contract Administration at

The Department of Criminal Justice's Community Justice Assistance Division

September 2004

Report No. 05-002



Department of Criminal Justice's Community Justice Assistance Division

Overall Conclusion

The Department of Criminal Justice's Community Justice Assistance Division (CJAD) needs to increase the accuracy and completeness of the information it uses to allocate funds for adult probation services and improve the monitoring of its agreements with the community supervision and corrections departments (CSCDs) that provide these services.

Inaccurate and incomplete information may limit CJAD's ability to appropriately allocate state funds to CSCDs, which totaled approximately \$219 million in fiscal year 2004. Specifically:

- The information used to allocate direct supervision and community corrections funds is based on CSCDs' self-reported data, which CJAD does not consistently verify. We found error rates in this data at the three CSCDs we visited that ranged from 1.5 percent to 13 percent. Errors in this data may result in some CSCDs' receiving more funds than they should have.
- The Community Justice Plans that CJAD uses to award grant funds for diversionary programs are not a significant factor in ensuring that funds are awarded to the most effective programs. CJAD is moving toward awarding grants based on program performance, but it does not yet collect complete information on the effectiveness of the programs it funds.

In addition, CJAD's monitoring may not be sufficient to ensure that CSCDs and their subcontractors spend state money as intended. CJAD performs some monitoring of CSCDs' program and financial data; however, the number of reviews, the timing of the monitoring, and the efficiency of the monitoring processes need improvement. Our review of the expenditures at three CSCDs did not identify any instances where funds were spent inappropriately.

CJAD Programs Reviewed

CJAD administers community supervision, or adult probation, in Texas. Offenders on community supervision serve their sentences in the community rather than in prison. People often confuse probation with parole. They are different in that offenders are eligible for parole only after serving a prison sentence.

We reviewed the following programs administered by CJAD:

- Basic Supervision
- Community Corrections
- Diversion Programs
- Treatment Alternatives to Incarceration

Summary of Information Technology Review

We reviewed the integrated database that CJAD uses to track the CSCDs' data. We found no reportable issues related to the database. We reviewed access controls, input and output controls, and data integrity. Much of the data in the database is self-reported by CSCDs and manually entered by CJAD staff. Eventually, the database system will be linked to the Community Supervision Tracking System that is part of the Department of Criminal Justice's ongoing re-engineering efforts. The tracking system is part of the Criminal Justice Information System required by Chapter 60 of the Code of Criminal Procedure.



Detailed Results

Chapter 1

Inaccurate and Incomplete Information May Limit CJAD's Ability to Appropriately and Objectively Allocate Funds to CSCDs

The Department of Criminal Justice's Community Justice Assistance Division (CJAD) does not ensure that community supervision and corrections departments (CSCDs) provide accurate and sufficient information regarding the number of probationers and the services to be provided. CJAD distributes approximately 66

percent (\$144 million) of appropriated funds to CSCDs using formula funding; the remainder is distributed based on a grant review process (see text box). We identified the following issues related to CJAD's distribution of funds:

State Funds for Community Supervision

CJAD has three major funding streams to provide funding to counties that supervise adult offenders on probation. Two appropriation line items—basic supervision and community corrections—are allocated using funding formulas set by Chapter 509 of the Government Code. In fiscal year 2004, these appropriations totaled approximately \$144 million.

One line item—diversion programs—is distributed through a grant review process. Payment amounts are set by an approved grant budget. In fiscal year 2004, the appropriation for this line item was approximately \$61 million. In addition, CJAD was appropriated \$14 million in fiscal year 2004 for the Treatment Alternatives to Incarceration Program (TAIP.)

- The information used to allocate direct supervision and community corrections funds are based on CSCDs' self-reported data, which CJAD does not consistently verify. Data from each of the three CSCDs we audited contained errors; the CSCDs over-reported the number of probationers on direct supervision by 1.5 percent to 13 percent. This may have resulted in these CSCDs' receiving more funding than they should have. When one CSCD receives more than its appropriate share of funds, less money is available for other CSCDs.

- CJAD's process for awarding grants for diversion programs may not ensure that the funds are awarded to the most effective programs. CJAD awarded \$61 million in grants for diversion programs in fiscal year 2004. CJAD collects and reviews CSCDs' Community Justice Plans for diversion programs for the purpose of awarding grants. However, this information is not heavily weighted in the grant award process. Instead, CJAD bases its awards primarily on historical data, program need, and national correctional research. CJAD is moving toward awarding grants based on program performance, but it does not yet collect complete information on the effectiveness of the programs it funds.

Similar issues were identified in an October 1996 State Auditor's Office report, *An Audit Report on Purchasing and Contract Administration at the Texas Department of Criminal Justice*, SAO Report No. 97-006.

Table 1: CJAD is responsible for allocating approximately \$220 million in funds each year to CSCDs for adult probation services. This includes \$1.25 million for the Battering Intervention and Prevention Program (BIPP) and \$14 million for the Treatment Alternatives to Incarceration Program (TAIP).

CJAD Appropriations to CSCDs						
Appropriation Line Item	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Basic Supervision	\$99,158,435	\$98,606,976	\$100,355,443	\$101,405,397	\$101,496,630	\$101,781,606
Community Corrections	\$44,906,752	\$44,906,752	\$44,906,752	\$44,906,752	\$42,544,637	\$42,544,637
Diversion Programs, which includes:	\$61,021,956	\$61,021,956	\$65,321,956	\$65,321,956	\$61,318,263	\$61,318,263
▪ BIPP	\$950,000	\$950,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000
TAIP (approximate)	\$14,000,000	\$13,000,000	\$14,000,000	\$14,000,000	\$14,000,000	\$14,000,000
Total	\$219,087,143	\$217,535,684	\$224,584,151	\$225,634,105	\$219,359,530	\$219,644,506

Sources: General Appropriations Act, 76th, 77th, and 78th Legislatures, and unaudited CJAD records for the TDCJ portion of TAIP funding

Chapter 1-A

Inaccurate Information May Limit CJAD’s Ability to Ensure that CSCDs Receive the Appropriate Amount of Funds Through Formula Funding

The information CJAD uses for formula funding may not ensure that CSCDs receive the appropriate amount of funds for providing basic supervision and community corrections services to offenders on probation. The information CJAD uses to calculate formula funding contains errors, and this may result in an inaccurate allocation of funds to CSCDs. In fiscal year 2004, approximately \$144 million was allocated through formula funding to these two programs. The formulas for the allocation of funds rely on the numbers of felony and misdemeanor offenders under direct supervision, which are self-reported by the CSCDs, and CJAD does not consistently verify this data or correct the errors that are found.

We identified the following issues related to formula funding:

- Felony offender data at all three of the CSCDs we audited contained errors. These errors were the result of incorrectly counting felony offenders on direct supervision status. The CSCDs we audited over-reported the number of felony offenders on direct supervision by 1.5 percent to 13 percent for selected months in 2002. Consequently, these CSCDs received funding for more felony offenders than they should have. Because the total available funding is a fixed amount, errors in the self-reported data may cause over-allocations of funds to some CSCDs and under-allocations to others. We tested data from selected months in calendar year 2002 because calendar year 2002 data was used to determine CSCDs’ funding for fiscal year 2004.
- CJAD auditors do not always review CSCDs’ self-reported felony offender data to ensure its accuracy. For fiscal years 2001 to 2003, 59 percent of CJAD’s audit visits to CSCDs included testing of probationers’ eligibility for direct supervision funding and identification of an error rate.

- Errors in felony offender data identified during audits are not corrected in the integrated database, which is used to calculate future formula funding allocations.
- CSCDs are not penalized for submitting inaccurate data. Consequently, there are no apparent repercussions to CSCDs for over-reporting the number of offenders on probation.

We first reported a similar issue in October 1996 (see *An Audit Report on Purchasing and Contract Administration at the Texas Department of Criminal Justice*, SAO Report No. 97-006). Since that time, CJAD has begun auditing self-reported data from CSCDs, but the current error rates are similar to the 9 percent error rate identified in 1996. This indicates that the audits performed by CJAD are not having an effect on the accuracy of the self-reported data. This could be because CSCDs are not penalized for over-reporting the number of felony offenders under direct supervision. Chapter 509.012 of the Government Code gives CJAD the authority to impose sanctions for CSCDs who do not comply with CJAD's standards or requirements.

Recommendations

CJAD should:

- Ensure that its audits of CSCDs' data include testing of direct supervision cases and identification of an error rate.
- Correct data in the database used to calculate formula funding when errors are identified.
- Review the processes used by CSCDs to collect and calculate reported data (also recommended in our October 1996 report).
- Consider penalties for CSCDs that over-report the number of direct supervision cases.

Management's Response

- *CJAD includes testing of eligibility for direct supervision funding in all program specific audits. During FY01-03 a total of 254 audits of 103 CSCDs were conducted and each of these audits included a review of direct supervision funding eligibility. Field audits of all CSCDs will be completed on a four-year cycle.*
- *CJAD will require CSCDs to adjust monthly MCSCRs for errors discovered in caseload audits if the effect on funding for the CSCDs across the state would be financially significant.*
- *CJAD will continue to review the process used by CSCDs to collect and calculate reported data. A primary purpose of CJAD Eligibility and/or Case Management Compliance Reviews is to verify the accuracy of data reported for direct supervision funding. When a department is found to have a high error rate,*

follow-up audits are conducted to assure corrective action by the CSCD. An example is the department cited in the report with the 13% error rate. CJAD identified this department as having reporting problems in an audit conducted in 2002. The reporting problem was due to the new countywide automated system, which included the CSCD case management system, and was subsequently corrected. To ensure correction, CJAD conducted follow-up audits. Correction of the reporting problem was confirmed by the SAO audits of 2004 data, in which they found that the 13% error rate had dropped to 0%.

- *CJAD will establish a tolerable error rate for reporting which meets the criteria of substantial non-compliance as outlined in the Government Code 509.012 and, as appropriate, will impose sanctions.*

Auditor's Follow-up Comment

The 254 audits CJAD refers to include audits of residential programs and counts each type of audit conducted during the same visit to a CSCD as separate audit. Some of these audits verify the number and eligibility for placement of the offenders in these programs, but any review of eligibility for direct supervision funding included in these audits does not result in the identification of an error rate nor a change in the information on which future funding is based.

We tested data from calendar year 2002, which is the basis for fiscal year 2004 funding. This means that the CSCD that over-reported the number of offenders on direct supervision by 13 percent may have received more funding than it should have for fiscal year 2004.

Chapter 1-B

Community Justice Plans Are Not a Significant Factor in Ensuring that Funds Are Distributed to the Most Effective Programs

CJAD's Community Justice Plans are not a major part of the process for awarding diversion program and Treatment Alternatives to Incarceration Program (TAIP) grants and may not ensure that the funds are allocated to the most effective programs. In fiscal year 2004, CJAD awarded \$60 million in diversion program funds and \$14 million in TAIP grants.

CSCDs complete Community Justice Plans as applications for diversionary grant funding, and according to CJAD staff, they spend seven months of each year reviewing and scoring the plans. However, the plan scores are not a critical component of the allocation process. For example, the Community Justice Plan scores added only 1 to 4 percent in funding to the amounts allocated to CSCDs for residential programs in fiscal year 2004. Factors that affected the funding allocations but that are not a part of the Community Justice Plans include historical funding levels, program need, and the results of national corrections research on the effectiveness of various types of programs. Section 509.007(a) of the Government Code requires that CSCDs submit Community Justice Plans in order to receive diversion program funds.

We found the following in our review of Community Justice Plans:

- CJAD's method for scoring the plans does not give greater consideration to performance and program need, which appear to be the main factors for funding tracked on the plans. These two factors do not carry greater weight in the scores than other elements that are mostly compliance-related, such as the results of audits by CJAD or operating at 90 percent capacity. Government Code, Section 509.007(b)(2), states that a Community Justice Plan must include a description of methods for measuring the success of programs. CJAD expects that the results of these measures will be reported at the end of the 2004–2005 biennium.
- CJAD does not require adequate documentation in the Community Justice Plans to support budgeted program amounts and to ensure the efficient use of state funds. (We first reported this issue in October 1996.) CJAD's budget section reviews budgets for reasonableness and to determine whether proposed expenditures are allowed by CJAD standards; however, there is no analysis on whether the proposed amounts are necessary to carry out the program. Without the assurance provided by an in-depth budgetary review, CSCDs could be paying for unnecessary goods or services or expenditures could be higher than necessary. For example, we noted the following budget requests in the Community Justice Plans we reviewed, which indicate that CJAD reviewers are not checking basic math or requiring detailed support for budget requests:
 - ♦ One CSCD requested \$350,000 for urinalysis tests that cost \$8.54 each, which comes to 39,193.73 tests. There was no explanation for the partial amount.
 - ♦ One CSCD requested \$4,000 for equipment repair and \$5,000 for equipment replacement. There was no explanation for what equipment needed to be repaired or replaced.
 - ♦ One CSCD requested \$11 per hour for group therapy. There was no explanation for whether this is \$11 per person per hour or \$11 per group per hour.

Recommendations

CJAD should:

- Revise the Community Justice Plan requirements and scoring procedures to encompass and add weight to performance-related data, and either use the scores as the primary factor in awarding diversion program funding or document the process currently used and decrease the amount of time and resources spent scoring the plans.
- Ensure that CSCDs are bound by specific criteria against which the success of programs can be measured. For example, the present form used to project outputs and outcomes could be expanded to include a description of specific factors by which the success of the programs is measured.

- Conduct an in-depth review of budget requests to ensure that CSCDs' budgeted amounts are properly supported and necessary.

Management's Response

- *CJAD will revise the CJP requirements and scoring procedures to more strongly weigh performance and need. Although not a part of the CJP scoring process, in FY03 CJAD conducted an outcome study of all community corrections facilities (accounting for approximately 60% of the DP funding line) utilizing offender placement criteria (risk), program completion, recidivism rates determined from Department of Public Safety arrest data, and revocation rates determined from placements in the Texas Department of Criminal Justice – Correctional Institutional Division. As a result, five community corrections facilities with low scores were identified for closure effective September 1, 2003.*
- *A Research Plan outlining the collection, reporting and use of outcome information has been established. This plan will be reviewed to determine how outcome measures can be integrated into the CJP process.*
- *CJAD will evaluate the budget review process to determine if additional supporting documentation is necessary to make funding decisions.*

Chapter 2

Monitoring of CSCDs Needs Improvement

CJAD performs some monitoring of CSCDs' program and financial data; however, the number of CSCDs reviewed and the timing of this monitoring could be improved to ensure that the CSCDs are providing services as intended and are spending state funds appropriately. CJAD's monitoring function is decentralized, which has resulted in a lack of monitoring for some programs at some CSCDs and late reviews of CSCDs' financial audit reports.

CJAD does not comply with its own policies for monitoring the CSCDs' subcontractors. The policies are designed to ensure that subcontractors are providing the services for which they are paid.

Chapter 2-A

CJAD's Monitoring of CSCDs' Program and Financial Data May Not Be Sufficient to Ensure that CSCDs Are Providing Services as Intended

The frequency and timing of CJAD's monitoring of CSCDs could be improved to ensure that CSCDs provide services and spend state funds as intended. We identified inadequacies in three of the areas that perform monitoring: the Field Services Division, the TAIP, and the Fiscal Management Department.

CJAD has a decentralized organizational structure: the three Field Services regions, TAIP, and the Fiscal Management Department review different programs at CSCDs. Their responsibilities are as follows:

- The three Field Services regions perform compliance audits of non-residential programs at CSCDs. Residential Services, which is part of the Field Services Division, performs program compliance and program effectiveness audits of residential programs in addition to providing technical assistance.
- TAIP auditors perform compliance audits of TAIP programs and provide technical assistance at CSCDs.
- The Fiscal Management Department disperses funds to CSCDs and monitors how CSCDs account for these funds.

All of these CJAD sections perform work at CSCDs or review reports or data from CSCDs. We found instances where reviews of different programs at CSCDs were conducted at different times within a one-year period. For example, El Paso County received an audit of basic supervision in January 2002 and an audit of its TAIP program in April 2002. If these audits were performed at the same time and by the same staff, CJAD could increase efficiency and decrease travel costs.

We identified the following problems in the areas that perform contract monitoring:

Field Services Division. The Field Services Division audits programs at CSCDs based on a risk assessment process. Although it audited at least one program at 101 of the 120 CSCDs in fiscal years 2001–2003 and some CSCDs received audits of more than one program, 23 out of 60 CSCDs (38.3 percent) considered to be high risk in fiscal years 2002 and 2003 did not receive a compliance and eligibility audit as stated in the risk assessment. Eleven of the 60 high-risk CSCDs did not receive any audits at all. Also, the programs audited by the Field Services Division in fiscal years 2001 through 2003 accounted for only 23 percent of the total funding received by the CSCDs (see Table 2). Lack of monitoring may lead to the State’s not receiving services it is paying for or being charged for services it has not received.

Table 2: In fiscal years 2001 through 2003, the programs audited by the Field Services Division accounted for only 22.58 percent of the total funding received by the CSCDs.

CJAD’s Audit Coverage for Fiscal Years 2001-2003				
Fiscal Year	Total Funding	Dollars Audited	Percentage of Total Funding Audited	No. of CSCD Programs Audited
2001	\$ 202,879,374	\$ 46,720,772	23.03%	53
2002	\$ 208,388,262	\$ 67,179,968	32.24%	65
2003	\$ 208,192,722	\$ 25,982,039	12.48%	42
Total	\$ 619,460,358	\$139,882,779	22.58%	160

Source: Unaudited information provided by CJAD

TAIP. CJAD's oversight of TAIP facilities is not sufficient to ensure that TAIPs consistently provide quality services. CJAD performed only three compliance audits in fiscal year 2002, none in fiscal year 2003, and two in fiscal year 2004 to date.

TAIP transferred from the Commission on Alcohol and Drug Abuse in 1995. CJAD performed technical assistance reviews at 25 of the 31 TAIPs between 2000 and 2002. However, technical assistance reviews differ from compliance audits in that they do not include management responses or action plans and are not provided to the administrative judges who are in charge of the CSCD. The distinction is important because CSCDs may not have an incentive to improve deficiencies identified through a technical assistance review because there is no response, action plan, or accountability required.

Fiscal Management Department. The Fiscal Management Department's desk review process does not ensure that CSCDs' financial problems are promptly identified and corrected. The Fiscal Management Department took more than 14 months to review CSCDs' fiscal year 2002 independent audit reports. Each CSCD is required to obtain an annual financial audit by an outside certified public accounting firm and to submit the audit report to CJAD. CJAD primarily relies on its review of the CSCDs' audit reports to fulfill its legislatively mandated obligation to fully account for all state funds released to funding recipients. Delayed reviews may result in problems' being left uncorrected for long periods. This could lead to the misuse of state funds, although our review of the expenditures at three CSCDs did not identify any instances where funds were spent inappropriately.

We found problems with the financial data at one of the three CSCDs we visited; however, the lateness of CJAD's reviews of CSCDs' independent audit reports makes it difficult to detect or correct errors. In addition, one CSCD was unable to provide fiscal year 2003 expenditure detail supporting the amounts it submitted to CJAD on its quarterly expenditure reports or used in its independent audit report. This lack of support indicates that expenditure reports may not be accurate.

The fiscal year 2002 independent audit reports were due from the CSCDs by March 31, 2003. However, CJAD did not complete its reviews of these reports until June 2004, which is 21 months after the end of fiscal year 2002. Only 57 percent of CSCDs submitted their fiscal year 2003 reports by the March 31, 2004, deadline. In July 2004 there were still 11 CSCDs that had not yet submitted their fiscal year 2003 reports.

Recommendations

CJAD should:

- Coordinate audit visits to CSCDs in order to perform audits of different functions or programs at the same time.
- Consider consolidating its various monitoring sections and training all its auditors to perform all types of audits required by the Government Code.

- Review independent audit reports on a timely basis and ensure that CSCDs abide by its guidelines for the submission of independent audit reports. CJAD should also consider imposing sanctions on CSCDs that do not comply.

Management's Response

- *CJAD will evaluate the feasibility of coordinating audits. CJAD audits are currently scheduled separately to minimize disruption of CSCD operations.*
- *CJAD will consider consolidating various monitoring sections.*
- *CJAD will evaluate its process of reviewing independent audit reports to enhance timeliness of reviews. Most CSCDs have historically complied with guidelines for the submission of independent audit reports. In 2002 and 2003, 80% and 85% of independent audit reports were received within the two-week grace period. The remaining either received extensions or CJAD contacted by letter. CJAD will also consider imposing sanctions for failure to comply.*

Chapter 2-B

CJAD Does Not Consistently Follow or Enforce Its Policies Relating to the Monitoring of CSCDs' Subcontractors

CJAD's Contract Management Manual outlines several policies designed to ensure that CSCDs' subcontractors receive adequate monitoring and that the subcontracts protect state funds. However, CJAD does not always follow these policies or ensure that CSCDs and their subcontractors follow them. In addition, CJAD was unable to provide a full list of outstanding subcontracts for the three CSCDs we audited, which indicates that CJAD may not be aware of all CSCD subcontracts. For these two reasons, it is difficult for CJAD and the CSCDs to ensure that subcontractors spend state funds as intended.

CJAD does not review financial reports from subcontractors receiving more than \$100,000 in CJAD funds as required by its Contract Management Manual. The manual requires CSCDs to include in each CJAD-funded subcontract an "independent audit" clause. This clause requires any subcontractor whose total funding from CSCDs exceeds \$100,000 in a fiscal year to provide an independent audit of the funds received. The Contract Management Manual requires that these reports be submitted to CJAD and that CJAD review them. CJAD has not reviewed any of these reports for fiscal years 2001 through 2003. In addition:

- CJAD has not provided CSCDs with a list of vendors that have been audited by state agencies as the manual requires.
- The subcontracts we reviewed at one CSCD did not contain the required independent audit clause. In addition, these subcontracts did not follow the standard contract format as required by the Contract Management Manual.
- CJAD requires CSCDs to submit for review subcontracts that directly affect offenders' services. The Contract Management Manual and the Financial Management Manual require CSCDs to submit copies of subcontracts after they are executed. However, the CJAD Budget Division does not consistently track or

review CSCDs' subcontracts or enforce the contract requirements in the Contract Management Manual. For example:

- ♦ One of the CSCDs we audited was unable to provide evidence that CJAD had reviewed and approved its contracts and leases.
- ♦ One CSCD was unable to provide evidence that competitive bidding had been used to procure services funded with CJAD money as required by the Contract Management Manual.

The CJAD Contract Management Manual also requires CSCDs to develop a checklist for monitoring subcontractors and a written annual monitoring plan that is based on a risk assessment in order to ensure that subcontracted services are delivered as intended. CJAD is not enforcing this requirement and is not reviewing the results of the CSCDs' monitoring. None of the three CSCDs we visited had a risk assessment or an annual monitoring plan for subcontracts.

Recommendations

CJAD should:

- Ensure that it follows the requirements in its Contract and Financial Management Manuals.
- Track and review all CSCDs' subcontracts to ensure that they conform to the requirements in the Contract Management Manual.
- Require that CSCDs submit documentation of how the CSCDs intend to monitor their CJAD-funded subcontracts each funding cycle.

Management's Response

- *CJAD will review the requirements in the Contract and Financial Management Manuals to determine if modifications are appropriate and will ensure compliance.*
- *CJAD will evaluate the criteria for the submission of contracts. Those that are required to be submitted will be evaluated for compliance with the Contract Management Manual.*
- *In the recent instructions for the independent CPA audit report sent out in July, CJAD requested that the CSCDs provide the most recent vendor monitoring report. This was intended to assist CJAD in ensuring that CSCDs have a monitoring plan and are monitoring their contract vendors. Based on any revisions made to the Contract or Financial Management Manuals, CJAD will modify the requirements.*

Other Information

Appendix 1

Objectives, Scope, and Methodology

Objectives

Our audit objectives were to determine whether:

- Procurement processes are sufficient to ensure that the best contractors are fairly and objectively selected.
- Contract provisions are sufficient to hold contractors accountable for delivery of quality services and prevent the inappropriate or inefficient use of public funds.
- The methods that are used to establish contractor reimbursement are sufficient to ensure that the State pays a fair and reasonable price for services.
- Contractor oversight is sufficient to ensure that contractors consistently provide quality services and that public funds are spent effectively and efficiently.

Scope

We tested data at Bexar, Travis, and Williamson Counties' community supervision and corrections departments (CSCD). For formula funding and Community Supervision Officer qualifications, we reviewed data for a selected month in calendar year 2002 because calendar year 2002 is the basis for the funding allocated for fiscal year 2004. For CSCD diversionary funding, subcontracts, and expenditures, we reviewed data for fiscal year 2003.

We did not perform work related to our procurement objective for formula funding and diversion funding because, by statute, the Criminal Justice Assistance Division (CJAD) can allocate funds only to CSCDs.

Methodology

We conducted interviews of staff at CJAD and at the CSCDs we visited. We reviewed and/or analyzed the following:

- The Field Services Division, the Residential Services Division, and the Treatment Alternatives to Incarceration Program (TAIP); specifically, risk assessment processes for the Field Services Division and TAIP, audit reports, audit methodologies, and audit coverage for all programs for fiscal years 2000 to present
- CJAD's Contract Management Manual
- CJAD's Financial Management Manual
- Budget Department monitoring processes

- Fiscal Management Department monitoring processes
- Integrated database used to track CSCD information
- Scoring process for Community Justice Plans
- Funding processes for formula and grant funds (including TAIP funds but not Battering Intervention and Prevention Program [BIPP] funds)
- Applicable statutes and rules
- Contracts and expenditures for Bexar, Travis, and Williamson Counties' CSCDs

Project Information

We conducted this audit in accordance with generally accepted government auditing standards. Fieldwork was conducted from April 2004 to June 2004. The following members of the State Auditor's Office's staff conducted this audit:

- Sandra Donoho, MPA, CIA, CISA (Project Manager)
- Ileana Barboza, MBA
- Laura Mansfield, MPA
- Joseph Mungai
- Patricia Perme, CPA
- Leslie Ashton, CPA (Quality Control Reviewer)
- Nicole Guerrero, MBA (Audit Manager)

Status of Prior Audit Recommendations

Table 3

Status of the CJAD Recommendations from the October 1996 Audit Report (<i>An Audit Report on Purchasing and Contract Administration at the Texas Department of Criminal Justice</i> , SAO Report No. 97-006)	
Recommendations – Selection/Rate-Setting	Current Status
Grant funds should be distributed based on criteria such as a CSCD's past performance or demonstrated need for the service within the geographic area, not on historical distributions. Proposed costs should be analyzed for reasonableness and should be compared to other CSCDs' costs for providing similar services.	CJAD bases its grant awards primarily on historical data, national correctional research, and program need. CJAD is moving toward awarding grants based on program performance, but it is not doing so yet. Proposed costs are reviewed for reasonableness but are not compared with other CSCDs' costs for providing similar services.
Data for funding formulas should be verified. In its monitoring, CJAD should review the processes used by CSCDs to collect and calculate reported data. Once CSCDs have good processes in place, CJAD's review should be limited to testing data to ensure its continued accuracy.	CJAD verifies data for formula funding during audits; 59 percent of the fiscal year 2001-2003 audits included testing probationers' eligibility for direct supervision funds. We found errors of up to 13 percent in the data we tested.
Minimum program standards for residential requirements should be developed to aid in the analysis of costs and to ensure that similar programs provide a minimum level of services to all clients.	CJAD performs audits of residential programs and includes the results of audits as a factor in the Community Justice Plan scoring. Minimum program standards for residential requirements have been established.
CJAD should consider developing ceiling rates for different purchased services. Rates should be based on reasonable and necessary costs of providing services and should consider any geographical differences in salaries, utility costs, or other expenses. The methodology for developing such rates should be developed in conjunction with CSCDs, well documented, and periodically updated.	CJAD does not have standard ceiling rates for purchased services based on reasonable and necessary costs.
CJAD should provide CSCDs assistance in developing good methodologies for analyzing the reasonableness of providers' proposed costs.	The CJAD Contract Management Manual and Fiscal Management Manual address this issue.
Recommendations – Contracts	Current Status
CJAD should strengthen its agreements with CSCDs. Plans (or other documents intended to define services to be delivered and the results of those services) should clearly define the services the CSCDs are to provide and should also clearly define the outcomes of those services. Proposed outcomes should be compared to actual results and assistance should be given to help those CSCDs that do not meet their goals to improve.	CJAD is moving in the direction of tracking performance of programs and services provided at CSCDs, but it is not yet collecting complete information on the effectiveness of the programs it funds.
CJAD should develop standard contracts for CSCDs to use when subcontracting. CSCDs should be allowed to tailor these contracts to fit their needs and the specifics of the contracted services.	CJAD's Contract Management Manual includes instructions and standard contract clauses for CSCDs to use when subcontracting. However, CJAD does not track or monitor CSCDs' subcontracts.
CJAD should develop a process to review CSCD subcontracts to ensure they include the necessary (and mandated) clauses. Such a review should be designed to ensure that CJAD's review does not interfere with CSCDs' time frames for awarding the contracts. On the other hand, CSCDs must submit contracts to CJAD to allow sufficient time for review prior to contract award. Standard contracts would shorten the timeframes (and perhaps eventually necessity) of this review.	CJAD's Contract Management Manual requires that CSCDs submit copies of subcontracts totaling \$50,000 per year or more to CJAD after they are executed. However, CJAD does not consistently review or track these subcontracts. CJAD does provide CSCDs with standard contract clauses via the manual. All contracts that relate to community corrections facilities must be approved before funds are expended.

Status of the CJAD Recommendations from the October 1996 Audit Report (*An Audit Report on Purchasing and Contract Administration at the Texas Department of Criminal Justice*, SAO Report No. 97-006)

Recommendations — Monitoring	Current Status
<p>Field Services staff should use a risk-based approach for selecting CSCDs for review and to determine procedures to conduct during visits. Possible areas of review should include:</p> <ul style="list-style-type: none"> • The CSCD's process for accumulating and reporting statistical information to CJAD, such as the number of probationers on direct supervision and performance measures dates • The resolution of internal control weaknesses identified in independent audits or past CJAD reviews • How the CSCD selects and negotiates rates with subcontractors • How well the CSCD ensures quality services from subcontractors • How the CSCD determines its success in delivering quality services <p>Risk factors to consider in selecting CSCDs for review can include:</p> <ul style="list-style-type: none"> • Program success rates (according to program performance measures included in the community justice plan and according to residential/non-residential discharge data) • Level of state funds carried over from prior years • Level of collections from community supervision payments • Dollar amount and type of contracted services or professional fees • Percentage of funds spent on facilities/utilities/equipment or supplies • State dollars per felon or probationer • Percentage of revenue from "other revenue" • Results of previous CJAD and independent auditor reviews • Length of time since last CJAD review • How long programs have been in operation 	<p>The Field Services Division uses a risk assessment process to determine which CSCDs and programs to audit. However, although it audited at least one program at 101 of the 120 CSCDs in fiscal years 2001-2003, 23 out of 60 CSCDs (38.3 percent) considered to be high risk in fiscal years 2002 and 2003 did not receive a compliance and eligibility audit as stated in the risk assessment. Eleven of the 60 high-risk CSCDs did not receive any audits at all. Also, the programs audited by the Field Services Division in fiscal years 2001 through 2003 accounted for only 23 percent of the total funding received by the CSCDs.</p>
<p>Field Services staff should conduct field audits and document both their analysis and results so that deficiencies can be tracked and corrective action monitored.</p>	<p>The Field Services Division documents the analysis and results of its audits.</p>
Recommendations — TAIP	Current Status
<p>To improve its contract management of TAIP, CJAD should:</p> <ul style="list-style-type: none"> • Refine its RFP process by: <ul style="list-style-type: none"> • Developing a point system for evaluating proposals to ensure that the best programs and contractors are selected. The points should be distributed so that the most relevant sections of the proposal receive the most weight or points. • Developing clear review criteria for the rating process conducted by staff reviewers so that they know what an effective program should consist of. The criteria developed should ensure consistency in the review process by the various reviewers. • Having the RFP reviewed by legal counsel prior to solicitation to ensure that all needed information is included. • Requiring the CSCDs to either conduct a cost analysis of providers' rates or submit detailed cost information to CJAD in order to determine the reasonableness of proposed unit rates. 	<p>The TAIP funding process primarily utilizes historical data to allocate funds to CSCDs for TAIP programs. TAIP staff report that they use five criteria to decide if they should increase or decrease funding compared to last year and by how much. These criteria are the Community Justice Plan score, utilization history, ending fund balance, deobligations and reobligations, and programmatic need. Only 3 of 31 CSCD TAIPs received a different funding amount in 2004 than they did in 2003.</p>

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<ul style="list-style-type: none"> Establish a rate-setting methodology based on the reasonable cost of providing services. As part of this methodology, CJAD should develop guidelines to aid budget analysts in making budget cuts for TAIP. In addition, budget analysts should receive training and information on TAIP prior to making budget cuts. An analysis should be conducted to determine the reasonable allocation percentages for TAIP funding of screening/assessment and treatment costs. 	<p>The TAIP funding process primarily utilizes historical data to allocate funds to CSCDs. Only 3 of 31 CSCD TAIPs received a different funding amount in 2004 than they did in 2003.</p>
<ul style="list-style-type: none"> Develop contracts or other mechanisms to ensure that CJAD can hold CSCDs programmatically and fiscally accountable for their use of TAIP funds. 	<p>The TAIP program has a standard contract that is included in the Contract Management Manual. In addition, TAIP programs are part of the Community Justice Plan process and are subject to the requirements of the Contract Management Manual, the Financial Services Manual, TAIP guidelines, and special grant conditions.</p>
<ul style="list-style-type: none"> Revise the standard TAIP contract to include sufficient provisions (such as close-out, annual audits, etc.) to ensure the protection of state funds. 	<p>The TAIP program has a standard contract that is included in the Contract Management Manual. In addition, TAIP programs are part of the Community Justice Plan process and are subject to the requirements of the Contract Management Manual, the Financial Services Manual, TAIP guidelines, and special grant conditions.</p>
<ul style="list-style-type: none"> Give providers a list or manual that defines and outlines, in detail, reasonable and allowable expenditures such as those provided in CJAD's Financial Management Manual. 	<p>CSCDs and TAIP providers are provided with the Contract Management Manual, which defines allowable and unallowable expenditures.</p>
<ul style="list-style-type: none"> Develop monitoring processes that look at program and financial records and information of the CSCDs and the providers. 	<p>CJAD monitors TAIP providers by conducting technical assistance reviews and compliance audits of TAIP programs. CJAD does not review the financial records of the TAIP providers.</p>
<ul style="list-style-type: none"> Require outcome measures for TAIP in addition to the output measures to aid not only in monitoring, but future funding. 	<p>The Contract Management Manual (not specific to TAIP) requires CSCDs to instruct vendors to include performance measures in their operational plans or to negotiate three to five performance measures with each vendor. Performance measures are required for all contracts over \$25,000.</p>

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