

Community Punishment and Corrections Programs Accounting and Auditing Manual



Department of Examiners of Public Accounts

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Rachel Laurie Riddle
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October 7, 2020

TO: Users of Department of Examiners of Public Accounts Accounting and Auditing Manual for Community Punishment and Corrections Programs

This accounting and auditing manual sets forth the standards and requirements for accounting and audits of community punishment and corrections programs and is to be used for fiscal years ending September 30, 2020 or later.

The objective of this manual is to promote better, more consistent accounting and audits of the stewardship of Alabama taxpayers' money and to ensure that officials uphold the public trust.

This manual was developed in cooperation with the State of Alabama Department of Corrections. Suggestions for improvements to this manual are welcomed and may be sent to CCP@examiners.alabama.gov.

Sincerely,

Rachel Laurie Riddle
Chief Examiner

**COMMUNITY PUNISHMENT AND CORRECTIONS
PROGRAMS ACCOUNTING AND AUDITING
MANUAL**

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INTRODUCTION

The *Code of Alabama 1975*, Sections 15-18-170 through 15-18-186 is titled the “*Alabama Community Punishment and Corrections Act*.” This Act states that a county or group of counties may establish a community punishment and corrections program for state and county inmates or youthful offenders in the custody of the county. The program shall be established by a county by resolution adopted by the county commission or by community punishment and corrections authorities or other nonprofit entities as provided herein. The State of Alabama Department of Corrections is authorized by the Act to contract with such counties, authorities, or other nonprofit entities to provide funds for start-up costs and the costs of maintenance, including medical expenses, of state inmates participating in the program.

This manual establishes uniform accounting and auditing standards for community punishment and corrections programs which fulfill requirements of the *Code of Alabama 1975*, Section 15-18-181. This manual was prepared and promulgated by the State of Alabama Department of Examiners of Public Accounts under the authority and responsibility provided by Section 15-18-181.

EFFECTIVE DATE

The provisions of this manual are effective immediately upon issuance.

ACCOUNTING STANDARDS

The *Code of Alabama 1975*, Section 15-18-178 states that any county government program or authority formed by one or more counties is eligible to apply for direct and continuing financial contracts and grants from the Alabama Department of Corrections. Such county programs and authorities established by county government shall follow the generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB) applicable to state and local governmental entities.

Section 15-18-178 also provides that a nonprofit entity may become eligible to receive grants and contracts to carry out a program. Such nongovernmental, nonprofit programs shall follow the generally accepted accounting principles established by the Financial Accounting Standards Board (FASB) applicable to not-for-profit organizations.

NOTIFICATION OF ENGAGEMENT OF AUDITOR

The *Code of Alabama 1975*, Section 15-18-181 states that “the annual reports and all records of accounts and financial records of all funds received by grant, contract or otherwise from state, local or federal sources, shall be subject to audit annually by the Chief Examiner of the Department of Public Accounts or the Department of Corrections, or both. The audit may be performed by a licensed independent certified public accountant approved by the Chief Examiner...” The governing boards of all community punishment and corrections programs shall notify the Chief Examiner of Public Accounts of any engagement to be performed by a certified public accountant. Acceptable forms of notification include either a copy of the engagement letter signed by a representative of the governing board or a letter of transmittal signed by a representative of the governing board accompanying an engagement letter. The engagement letter must include a statement that the audit will be performed in accordance with procedures contained in this *Community Punishment and Corrections Accounting and Auditing Manual* published by the Alabama Department of Examiners of Public Accounts. Notifications should be sent to CCP@examiners.alabama.gov.

AGREED-UPON PROCEDURES ENGAGEMENTS

The Alabama Department of Corrections desires the focus of auditing efforts to be on *internal controls* over financial activities and transactions, rather than on general financial statement reporting. An “audit” as defined by the applicable state law (the *Code of Alabama 1975*, Section 15-18-181) is not required to be a financial statement audit and may be defined as an “agreed-upon procedures” engagement. The Department of Corrections has determined that an agreed-upon procedures report is more useful than a financial statement opinion. As a result, an agreed-upon procedures report is required ***instead of*** an opinion on the financial statements.

Guidance for auditors performing agreed-upon procedures engagements may be found in AT-C Section 215 and AT-C Section 315 of the *Clarified Statements on Standards for Attestation Engagements* issued by the American Institute of Certified Public Accountants.

*****Exception to an agreed-upon procedures report*****

For those Community Corrections Programs whose financial information is included within the County government’s financial information, the Alabama Department of Corrections will accept the overall financial statement audit or legal compliance examination of the County Commission in lieu of an agreed-upon procedures report. Furthermore, the County governing body (i.e. the County Commission) must certify annually to the Alabama Department of Corrections that the Community Corrections Program has complied with statutory requirements.

SCOPE OF AGREED-UPON PROCEDURES

The agreed-upon procedures to be performed by the auditor have been developed and approved by both the Department of Examiners of Public Accounts and the Alabama Department of Corrections. These procedures are hereby promulgated by the Chief Examiner of Public Accounts in this manual.

The objective of the agreed-upon procedures is to present specific findings to assist the Department of Corrections in evaluating a community punishment and corrections program’s effectiveness of *internal control* over compliance with its contract with the Department of Corrections. The objective of the auditor is not specifically to determine the compliance with specific regulatory and statutory requirements. The program’s compliance will be monitored and evaluated by the Alabama Department of Corrections.

The agreed-upon procedures should be performed in accordance with AT-C Section 215 and AT-C Section 315 of the *Clarified Statements on Standards for Attestation Engagements* issued by the American Institute of Certified Public Accountants. The auditor is engaged to perform agreed-upon procedures to assist the Department of Corrections in evaluating the community punishment and corrections program’s *internal control* over compliance with Alabama Department of Corrections’ funded programs. The procedures will focus primarily on the *internal control* over activities and transactions involving the financial aspects of Alabama Department of Corrections funded programs. The agreed upon procedures should also include money collected from offenders participating in the program. The Chief Examiner of Public Accounts requires that tests of financial and other transactions be made to determine *internal control* over compliance with the requirements applicable to those transactions **regardless of materiality and the effect on the financial statements.**

If the auditor cannot obtain necessary records, the Chief Examiner should be notified. The Chief Examiner has statutory authority to subpoena necessary records.

AGREED-UPON PROCEDURES

(Note: Alabama Department of Corrections will be referred to as “ADOC” in the remainder of this section. Community punishment and corrections programs will be referred to as “the Program” in the remainder of this section.)

The following procedures should be performed for all engagements:

A. Planning the Engagement

1. Determine the type of entity being audited – governmental (county/authority) or non-profit.
2. Obtain a list of board members and contact information, including their individual email addresses. Arrange an entrance conference with appropriate individuals within the Program (i.e. the program director, etc.) to discuss the scope of the procedures to be performed and the information that will be needed.
3. Obtain an understanding of the laws, regulations, rules, contracts and any grant agreements that pertain to specified requirements as follows:
 - a. The *Alabama Community Punishment and Corrections Act of 1991—Alabama Code Section 15-18-170, et. seq.*, as amended in 2003 and 2015.
 - b. Local legislation (act), if applicable, that established the community corrections program, which may vary or provide different requirements or mandates contrary to the *Alabama Community Punishment and Corrections Act of 1991*.
 - c. The ADOC’s *Minimum Standards for Community Punishment and Corrections Programs* dated July 25, 2016. (Visit ADOC’s website for any updates to the minimum standards at www.doc.state.al.us/CommCorrections).
 - d. The Alabama Department of Corrections *Administrative Regulation 490, Community Corrections Programs* dated September 11, 2007. (Visit www.doc.state.al.us/Regulations for any updates).
 - e. The annual ADOC contract (fiscal year October 1st - September 30th).
 - f. The ADOC-approved community corrections plan.
 - g. The community corrections procedures manual (if published).
 - h. Any additional funding agreements, contracts, proposals, approved program plans and budgets, and grants that pertain to the compliance requirements.
4. Obtain an understanding of the design of internal controls over ADOC-funded programs, including internal controls over cash receipts and disbursements, accounting, security of computer data, duties of administrative and accounting personnel, offender case management and supervision, protection of facilities and equipment, and other services provided to offenders. Cash handling (receipts and disbursements) typically poses higher risk; therefore, an emphasis should be placed on all cash handling functions. This understanding and the assessment of control risk for compliance with items listed in the next section (“Perform Substantive Tests”) should be considered in designing the timing and extent of appropriate procedures.

B. Perform Substantive Tests

In conjunction with any internal control tests designed in the planning stage of the engagement, perform substantive tests of internal control processes and related documents pertaining to the following activities:

1. For Ongoing Offender Supervision and Other Program Activities:

- A. The records of the program should show that supervision activities have been performed in accordance with ADOC-established policies for eligible offenders listed on monthly invoices submitted to the Department of Corrections. The objectives of the agreed-upon procedures are to determine whether the program had adequate internal controls in place to ensure that invoices submitted to ADOC are accurate, to ensure that services invoiced were provided, to ensure that supervision services provided to offenders are adequately documented in the records of the program, and are approved by Program management. Choose a sample of monthly invoices submitted to ADOC. From those invoices chosen, select a sample of offenders listed and obtain the case file for each offender selected. Examine documentation showing that the offender was participating in the program at the time of the invoice (i.e., determine whether the program failed to notify ADOC if the offender was released from or left the program). Ensure the invoices are approved by a knowledgeable member of the Program's management. Trace these invoices to subsequent receipt into the accounting records and deposit into the Program's bank account.
- B. Determine if any fees were collected from offenders and that the appropriate amount was collected. This may include supervision fees, drug testing fees, electronic monitoring fees, payments for court-ordered fines, and/or payments of victim restitution. Review any waiver of fees. Search for Court approval of any fees waived or reduced. *Code of Alabama 1975*, Section 15-18-180(f) states these fees may not be reduced or remitted unless expressly done so by court order. Pre-numbered receipts should be written for all fees received. Trace a sample of fees collected from receipt information contained in offender case files (from sample of offenders selected previously) to written receipts, accounting records and bank deposits notating the dates of each. Fees should be deposited on a timely basis, preferably daily, to minimize the risk of loss or theft of cash on hand. The handling, recording, and deposit of money should be segregated between personnel as much as possible, with supervisory oversight, if needed.
- C. Determine if offenders are assigned to a work release program. Select a sample of inmate wages received by the program and determine if the wages were distributed in accordance with *Code of Alabama 1975*, Section 15-18-180(g); *Administrative Regulation 490*; or as stated in enacted local legislation.
- D. Sample a selection of expenditures from the funds derived from user fees to determine if the funds are being used to help defray the cost of the Program and/or in accordance with approved ADOC budget. Determine if appropriate supervisory personnel authorized the expenditure. Examine original vendor invoices and contracts, cancelled checks, bid or cost estimate documents (if any required), and other supporting documentation related to the expenditure. For personnel costs, examine payroll records for proper supervisory authorization and agreement with amount on budget. For rent, examine lease agreements for proper authorization and compliance with terms of the lease. Travel and training expenses should be properly authorized and supported by an itemized claim signed by the official or employee.

- E. Test administrative costs charged or otherwise paid from the Program to ensure they do not exceed the maximum amount allowable as established by the ADOC commissioner pursuant to the *Code of Alabama 1975*, Section 15-18-181(a). The maximum percentage allowable is currently set at 8% of total expenditures per ADOC *Administrative Regulation 490*, page 13, paragraph 8.
- F. A list of equipment purchased with State funds should be maintained. A periodic physical count of items contained on the inventory should be performed by the Program. Physically locate some of the items included on this listing.

2. **For Program Start-Up Grants and Program Expansion Grants:**

- A. The records of the program should show that expenditures for program start-up or program expansion were made in compliance with a budget and agreement approved by ADOC. The objective of the agreed-upon procedures is to determine whether the program used ADOC funds for the approved start-up or expansion costs. Select a sample of expenditures made from the ADOC start-up or expansion funds. Determine if appropriate supervisory personnel authorized the expenditure. Examine original vendor invoices and contracts, cancelled checks, bid or cost estimate documents (if any required), and other supporting documentation related to the expenditure. For personnel costs, examine payroll records for proper supervisory authorization and agreement with amount on budget. For rent, examine lease agreements for proper authorization and compliance with terms of the lease. Travel and training expenses should be properly authorized and supported by an itemized claim signed by the official or employee.
 - B. A list of equipment purchased should be maintained. A periodic physical count of items contained on the inventory should be performed by the Program. Physically locate equipment purchased with start-up or expansion funds.
- 3. Consider subsequent events to determine whether any affect the Program's internal control over compliance with the ADOC contract and applicable laws and/or regulations.
 - 4. Evaluate results of tests and prepare summary memorandum of results of tests, including any reportable findings and recommendations. All findings and recommendations noted should be reported in the findings section of the Independent Accountant's Report.

C. Complete the Engagement

- 1. Obtain the required written representations as outlined AT-C Section 315 from management of the program.
- 2. Based on the summary memorandums, prepare the report.
- 3. Conduct an exit conference with the appropriate officials of the program. Be sure to include all individuals listed on the Board Members and Administrative Personnel schedule (*see illustration in Appendix II*). Provide a draft report along with a letter requesting a written corrective action plan, on the Program's letterhead, which includes the following information: a description of the planned corrective action to be taken for each finding and recommendation; the date that the corrective action is expected to be implemented; and the name, telephone number, and email address of a responsible contact person. The corrective action plan should be requested to be sent to the auditor no later than 10 business days after the exit conference.

STATUTORY REFERENCES

Key components of the *Alabama Community Punishment and Corrections Act of 1991—Alabama Code Section 15-18-170*, et. seq., as amended in 2003 and 2015 include, but are not limited to:

- a. [15-18-175, d(3)(g)(3)] *Inmates employed under this section shall be paid at least the federally established minimum wage.*
- b. [15-18-180, (f)] *As a part of a community punishment and corrections plan, user fees may be assessed to help defray the cost of the plan. User fees paid by an offender participating in any option or service established under this article shall not diminish the payment of restitution by the offender to the victim of the crime for which he or she was sentenced and shall not diminish fines, court costs, or other court fees unless expressly reduced or remitted by the court.*
- c. [15-18-180, (g)] *In the event a defendant is assigned to a work release or other residential punishment program operated by a community corrections provider authorized under this article, the defendant's employer shall send the inmate's wages directly to the community corrections provider responsible for housing the defendant. Of the inmate's earnings, 25 percent of the gross wages shall be applied to costs incident to the inmate's confinement, upkeep, and a minimum of an additional 20 percent shall be applied, 10 percent to payment of court costs, fines, court-ordered attorney fees, and other court-ordered fees or assessments, and 10 percent to restitution. The remainder of the inmate's wages may be credited to an account established for the defendant with the community corrections provider and may be paid out for dependent care, savings, and spending money. Modes of accounting and disbursement of these funds shall be addressed in the community punishment and corrections plan. Upon release from a residential program, any balance remaining in the defendant's account shall be returned to the defendant, and the defendant shall remain responsible for paying for any court-ordered monies owed. If the defendant remains under community corrections supervision after his or her release from a residential program, the community corrections provider shall verify that the defendant is paying any remaining court-ordered payments owed.*
- d. [15-18-181, (a)] *Administrative costs connected with the expenditures of community punishment and corrections funds under this article shall not exceed a percentage amount established by the commissioner. Note: ADOC Administrative Regulation 490, page 13, paragraph 8., specifies that administrative costs shall not exceed 8% of total expenditures.*

PROCEDURES FOR REPORTING

The auditor should report all findings noted as a result of performing the agreed-upon procedures. The concept of materiality does not apply to findings to be reported. The auditor should include a recommendation for corrective action for each finding. The report should be prepared using the format found in AT-C Section 315 issued by the American Institute of Certified Public Accountants. An example of the required report is shown in Appendix I.

A Schedule of Board Members and Administrative Personnel should also be included in the report. Refer to the example in the Appendix II of this manual for guidance concerning the format and content of this Schedule.

The Program should prepare a written response and corrective action plan when deficiencies in internal control, noncompliance or violations of provisions of contracts or grant agreements or fraud or abuse are reported by the auditor.

All audit reports and response letters, including corrective action plans, should be submitted to the Program's Director. These items are also required to be submitted to the Alabama Department of Corrections and the Chief Examiner of Public Accounts.

CONTACTS WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS

Reports and other correspondence may be submitted electronically at CCP@examiners.alabama.gov or at the following address:

Department of Examiners of Public Accounts
P. O. Box 302251
Montgomery, AL 36130-2251

The Department will provide technical assistance upon request. Requests may be made by emailing CCP@examiners.alabama.gov or by telephone at (334) 242-9200.

Contact with the Chief Examiner should be made by the auditor when:

- a. the auditor finds evidence of fraud, abuse, irregularities or illegal acts
- b. there is uncertainty about audit requirements
- c. the auditor cannot gain access to necessary records

In the event a theft, fraud, or other illegal act is found by the auditor, the Chief Examiner requires the Department of Examiners of Public Accounts be notified before the engagement is completed. Fraud may be reported at any time and by any party by emailing report.fraud@examiners.alabama.gov or by calling 1-844-56-FRAUD. The Chief Examiner requires that the Department of Examiners of Public Accounts be notified immediately when evidence concerning the existence of fraud, abuse or illegal acts is uncovered. Although the auditor has no obligation to perform procedures beyond the agreed-upon procedures, if noncompliance comes to the auditor's attention by other means, such information should be reported. Also, the auditor may become aware of noncompliance that occurs subsequent to the period addressed by the engagement, and such noncompliance should also be reported. The Department of Examiners of Public Accounts will determine the nature and extent of fraud, abuse, and illegal acts and will establish any amounts due to be repaid by officials or employees. In addition, auditors should not release information or reports containing information on illegal acts or indications of such acts without first consulting with the Chief Examiner.

APPENDIX I

Example of an Agreed-upon Procedures Report

Related to Internal Control Over Compliance

Independent Accountant’s Report on Applying Agreed-Upon Procedures

(Insert Appropriate Addressee)

We have performed the procedures enumerated below, which were agreed to by the State of Alabama Department of Corrections (the “ADOC”), related to the *(insert name of program)*’s (the “Program”) internal control over compliance with the ***Code of Alabama 1975***, Sections 15-18-170 through 15-18-186 (titled the “*Alabama Community Punishment and Corrections Act*”); the resulting annual contract between the Program and the ADOC; *Administrative Regulation 490* issued by the ADOC; and the *Minimum Standards for Community Punishment and Corrections Programs* issued by the ADOC; for the year ended September 30, 20XX. The Program’s management is responsible for its internal control over compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose. *{modify to include any enacted local legislation to this paragraph if applicable}*

The following agreed-upon procedures were performed:

We performed tests of financial transactions that demonstrated compliance with the requirement that offender supervision activities had been performed in accordance with the law, the annual contract with ADOC, and established rules, policies and minimum standards, as applicable. The objectives of the tests were to determine whether the Program had adequate *internal controls* in place to ensure: *(Include/modify this paragraph if supervision activities were examined.)*

- a. that invoices submitted to the ADOC were accurate,
- b. to ensure that services invoiced were provided,
- c. to ensure that supervision services provided to offenders and other related transactions were adequately documented in the records of the Program,
- d. to ensure that offenders’ wages earned through a work release program were distributed as required,
- e. to ensure disbursements were used to help defray the cost of the Program, and
- f. to ensure administrative costs did not exceed the maximum allowable amount.

We performed tests of financial transactions documenting that expenditures were made in compliance with the start-up funding contract *(or expansion contract)* and the related budget approved by ADOC. The objective of the tests was to determine whether the program had adequate *internal controls* in place to ensure ADOC funds were used for the approved start-up *(or expansion)* costs. *(Include/modify this paragraph if start-up or expansion expenditures were examined.)*

We considered subsequent events to determine whether any affected *internal control* over compliance.

The following findings are a result of performing the agreed-upon procedures:

(Include applicable findings and recommendations here.)

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on *internal control* over compliance with specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the State of Alabama Department of Corrections and the Program's management and is not intended to be, and should not be, used by anyone other than the specified parties.

(Signature of accountant)

(Accountant's city and state)

(Date of accountant's report)

APPENDIX II

Example of Board Members and Administrative Personnel

***Board Members and Administrative Personnel
October 1, 20XX through September 30, 20XX***

Term Expires

Board Members

Hon. Joe Doe	Chairman	2015
Hon. Mary Doe	Member	2012
Hon. Leon Jones	Member	2011
Hon. Joe Smith	Member	Indefinite
Hon Jane Smith	Member	Indefinite

Administrative Personnel

Mr. James Douglas	Director
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