

SUMMIT HOUSE

State Authorization: Legislative Appropriation
NC Department of Correction

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate. Auditors may request documentation of monitoring visits by the State Agencies.

I. PROGRAM OBJECTIVES

Summit House is a community-based residential alternative to incarceration for mothers and pregnant women convicted of nonviolent crimes. The two components of rehabilitation of female offenders are a day center and residential center.

Both the day center and the residential center will provide: 1) counseling and therapy for drug and alcohol addiction, and physical and sexual abuse; 2) education opportunities; 3) counseling in job seeking skills, employment placement, financial management, and parenting skills; 4) day care and counseling for children of these women; and 5) special services and counseling for pregnant offenders.

II. PROGRAM PROCEDURES

The State funds are provided by the legislature as special appropriations. Contract No. **G20420000109SHS** (“the Contract”) is the contract between the Department of Correction and Summit House, Inc. for the period beginning July 1, 2008 through June 30, 2009. The Contract’s general terms and conditions are outlined in Attachment A. Attachment B gives a description of services provided by Summit House, Inc., which provides a basis for the “Allowable Use of Funds.” Schedule B also explains that, according to the rules developed in accordance with General Statute 143C-6.23, Summit House, Inc. is subject to Cost Principles. According to Office of State Budget and Management, refer to OMB Circular A-87 and OMB A-122 for nonprofits.

Reporting requirements under G.S. 143C-6.23 are outlined in the Contract under Attachment D – Notice of Certain Reporting and Audit Requirements.

The Department of Correction is not involved in the funding of Summit House or in the operations of its programs. However, recent revisions to G.S. 142C-6.23 do place more

responsibility on the State Agency (the NC Department of Correction) requiring the agency to “ensure funds are spent in accordance with the purposes for which they were granted and hold the grantees accountable for the legal and appropriate expenditure of State grant funds.” In addition, the State agency shall, “provide for adequate oversight and monitoring to prevent the misuse of State funds.” Other than monitoring and providing “adequate oversight,” the NC Department of Correction merely passes the appropriated funds through the State of North Carolina to Summit House. The new rules developed by the Office of State Budget and Management (09 NCAC 03M .0102-.0802), Section .0401 outlines State agencies’ responsibilities for holding the grantees accountable in spending State funds. The North Carolina Department of Correction incorporates these monitoring requirements and identifies specific areas of monitoring in Attachment G - to Contract #G20420000109SHS - Monitoring Requirements.

III. COMPLIANCE REQUIREMENTS

1. Activities Allowed or Unallowed

Compliance Requirements

The legislative appropriation to Summit House does not specifically identify activities allowed or unallowed. However, allowed activities should be those specified in the Articles of Incorporation for Summit House and activities supporting the services identified in Attachment B of the Contract. While the Articles of Incorporation do not limit activities to those listed in the Articles, any additional activities or purposes of Summit House should be approved by the Board of Directors and recorded in the minutes.

Suggested Audit Procedures

- Auditors should obtain copies of the Articles of Incorporation and minutes of meetings of the Board of Directors and identify the types of activities that are either specifically allowed or prohibited.
- Perform procedures to verify that:
 - Activities were allowable
 - Individual transactions were properly classified and accumulated into the activity totals.

2. Allowable Costs/Cost Principles

Compliance Requirements

The legislative appropriation does not specifically identify allowable and unallowable costs. However, Summit House, Inc. is now subject to the Cost Principles according to the rules developed in accordance with G.S. 143C-6.23. In addition, costs incurred should be for the purpose and objective of the program as specified in their Articles of Incorporation and minutes of board meetings.

Suggested Audit Procedures

Auditors should test a sample of expenditures to ascertain that they were for the fulfillment of the purpose and objectives of Summit House as identified in their Articles of Incorporation and minutes of board meetings.

Auditors should refer to Office of State Budget and Management (OMB) Circular A-87 or OMB A-122, as applicable, to determine that expenditures were in compliance with Cost Principles.

4. Conflict of Interest

Compliance Requirement

In 2007 the General Assembly wrote General Statute 143C-6.23, State grant Funds: administration; oversight and reporting requirements. Section (b) of General Statute 143C-6-23 addresses the Conflict of Interest Policy and states:

“Every grantee shall file with the state agency or department disbursing funds to the grantee a copy of that grantee’s policy addressing conflicts of interest that may arise involving the grantee’s management, employees and the members of its board of directors or other governing body. The policy shall address situations in which any of these individuals may directly or indirectly benefit, except as the grantee’s employees or members of its board or other governing body, from the grantee’s disbursing of State funds and shall include actions to be taken by the grantee or the individual, or both to avoid conflicts of interest and the appearance of impropriety. The policy shall be filed before the disbursing State department or agency may disburse the grant funds.”

Suggested Audit Procedures

- Ascertain that Summit House has a conflict of interest policy and that it sufficiently identifies and deals with potential situations that either present a conflict of interest situation or the appearance of a conflict of interest, either by a Summit House employee/manager or board member.
- Check the policy and verify through board minutes that the policy was adopted before Summit House received and disbursed State Funds. Also, from review of board activities, determine that Summit House is in compliance with this policy.

5. Eligibility

Compliance Requirement

While there is no specific language in the law stating eligibility requirements, Summit House benefits mothers and pregnant women convicted of nonviolent crimes. Summit House has developed a Residential Admissions Policy that should be followed.

Suggested Audit Procedures

- Select a sample of clients and verify that they are mothers or pregnant women convicted of nonviolent crimes.
- Obtain a copy of the Summit House Residential Admissions Policy and select a sample of clients to verify that they meet the requirements listed in the Residential Admissions Policy.

12. Reporting

Compliance Requirement

Summit House shall report by February 1 of each year to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee and the Chairs of the House of Representatives and Senate Appropriations Subcommittees on Justice and Public Safety. They shall report on the expenditure of State appropriations and on the effectiveness of the program, including information on the number of clients served, the number of clients who have their probation revoked, the number of clients who

successfully complete the program while housed at Summit House, Inc., and the number of clients who have been rearrested within three years of successfully completing the program. The report shall provide financial and program data for the complete fiscal year prior to the year in which the report is submitted. The financial report shall identify all funding sources and amounts.

Suggested Audit Procedures

- Verify required information has been submitted to the Joint Legislative Corrections, Crime Control, and Juvenile Justice Oversight Committee and the Chairs of the House of Representatives and Senate Appropriations Subcommittees on Justice and Public Safety by the required date.
- Verify accuracy of data submitted.

Compliance Requirement

Pursuant to G.S. 143C-6.23, 09 NCAC 03 M.0205, and 09 NCAC 03M.0401, recipient organizations that receive, use, or expend \$500,000 or more in State funds annually must file annually with the State agency and the State Auditor the following: (1) a Certification completed by the grantee Board and management stating that the State funds were received, used, or expended for the purposes for which they were granted; (2) a State Grants Compliance Reporting Form; (3) an Audit prepared and completed by a licensed CPA; and (4) a Program Activities and Accomplishments Report, which is filed in the format required by the State Auditor. All reporting requirements shall be filed with both the Office of the State Auditor and the North Carolina Department of Correction within nine (9) months after the end of Summit House, Inc.'s fiscal year in which the State funds were received (due March 31 following Summit House's fiscal year of June 30). The financial statement must be audited in accordance with standards prescribed by the State Auditor (a Yellow Book Audit) to assure that State funds are used for the purposes provide by law.

Suggested Audit Procedures

- Auditors should verify that audited financial statements for Summit House have been submitted to both the North Carolina Department of Correction and the State Auditor's Office in the format prescribed by the State Auditor within nine (9) months (by March 31) of Summit House's fiscal year end (June 30). Prescribed format can be found by accessing the State Auditor's web site (www.osa.state.nc.us) or contacting their office directly.
- Auditors should verify that an "Activities and Accomplishments Report" has been submitted to the North Carolina Department of Correction and the State Auditor's Office within nine (9) months (by March 31) of Summit House's fiscal year end (June 30).
- Auditors should verify that a Certification completed by Summit House's Board and management stating that the "State funds were received, used, or expended for the purposes for which they were granted" has been submitted to the North Carolina Department of Correction and the State Auditor's Office within nine (9) months (by March 31) of Summit House's fiscal year end (June 30).
- Auditors should verify that a State Grants Compliance Reporting form had been completed and submitted to the North Carolina Department of Correction and the State Auditor's Office within nine (9) months (by March 31) of Summit House's fiscal year end (June 30).