COURT SERVICES AND OFFENDER SUPERVISION AGENCY

for the District of Columbia

FY 2004

Performance and Accountability Report

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Management's Discussion and Analysis

Background

The Court Services and Offender Supervision Agency (CSOSA) for the District of Columbia was established within the Executive Branch of the Federal Government by the National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act). On August 4, 2002, CSOSA was certified as an independent Federal agency.

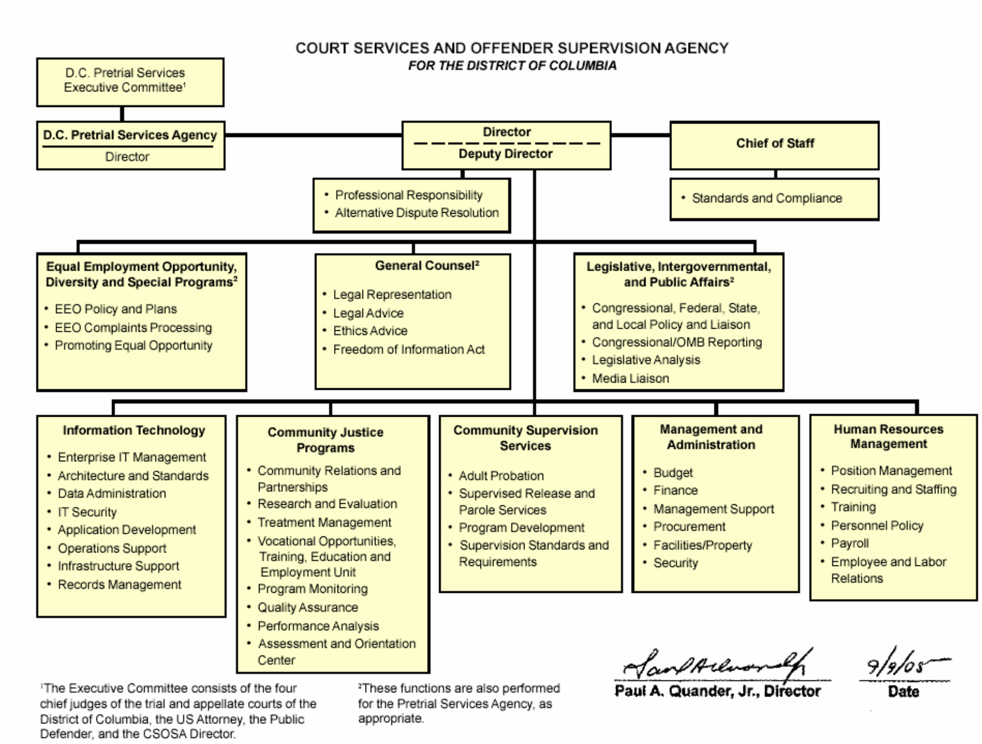
The Revitalization Act relieved the District of Columbia of "state-level" financial responsibilities and restructured a number of criminal justice functions, including pretrial services, parole, and adult probation. Following passage of the Revitalization Act, under the direction of a Trustee appointed by the U.S. Attorney General, three separate and disparately functioning entities of the District of Columbia government were reorganized into one federal agency. CSOSA assumed its probation function from the D.C. Superior Court and its parole function from the D.C. Board of Parole. The Revitalization Act transferred the parole supervision functions to CSOSA and the parole decision-making functions to the U.S. Parole Commission (USPC). On August 5, 1998, the parole determination function was transferred to the USPC, and on August 4, 2000, the USPC assumed responsibility for parole revocation and modification with respect to felons.

The CSOSA appropriation is comprised of three components: The Community Supervision Program (CSP), the District of Columbia Pretrial Services Agency (PSA), and the Public Defender Service (PDS) for the District of Columbia. ***PDS is a federally funded independent D.C. agency responsible for the defense of indigent individuals. PDS receives its funding by transfer from the CSOSA appropriations. While PDS receives its funding by a budgetary transfer from the CSOSA appropriation, PDS is organizationally independent from CSOSA***. CSP is responsible for supervision of offenders (either on probation or parole), and PSA is responsible for supervising pretrial defendants.

The CSP constitutes the probation and parole system for adult offenders in the District of Columbia. The CSP, through its Community Supervision Services Division (CSS), provides a range of supervision case management and related support services. These diverse services support CSOSA's commitment to public safety and crime reduction through the provision of timely and accurate information to judicial and paroling authorities and through the close supervision of probationers and parolees released to the community.

PSA honors the constitutional presumption of innocence and enhances public safety by formulating recommendations that support the least restrictive and most effective non-financial release determinations, and by providing community supervision for defendants that promotes court appearance and public safety and addresses social issues that contribute to crime. PSA plays a critical supporting role within CSOSA to achieve its two strategic goals: supporting the fair administration of justice by providing accurate information to decision makers, and establishing strict accountability of defendants/offenders to prevent criminal activity.

Organizational Structure



Court Services and Offender Supervision Agency for the District of Columbia

Performance Section

PART II

Strategic Direction, Performance Goals and Results

The mission of CSOSA is to increase public safety, prevent crime, reduce recidivism, and support the fair administration of justice in close collaboration with the community we serve. The agency will enhance decision-making and provide effective community supervision, thereby ensuring public confidence in the criminal justice system.

CSOSA's mission translates into two core strategic goals that drive decision-making and resource allocation. All our activities and initiatives support these goals:

I. *Prevent the population supervised by CSOSA from engaging in criminal activity by establishing strict accountability and dramatically increasing the number of offenders who successfully reintegrate into society.*

   If CSOSA's strategies are successful, offenders and defendants under our supervision will commit fewer crimes. CSOSA's program would have a significant impact on public safety by reducing crime.

II. *Support the fair administration of justice by providing accurate information and meaningful recommendations to criminal justice decision-makers to help them in determining the appropriate release conditions and/or disposition of cases.*

   In addition to offender supervision, CSOSA has an important responsibility to provide information and recommendations to the court, the U.S. Parole Commission, and other criminal justice agencies. This information should be timely, complete, and of the highest quality. In that way, CSOSA can increase public confidence in the justice system.

CSOSA measures progress toward these goals by monitoring key outcomes. The outcomes that best express progress toward these goals are explained below. Information is reported separately for the Community Supervision Program (CSP) and the Pretrial Services Agency (PSA) because each maintains its own system of performance measurements.

A critical aspect of CSOSA's effort will be to continue to seek a dramatic reduction in the rate of recidivism for the supervised population in the District of Columbia. Historically, local recidivism trends have been difficult to track over time. However, national figures indicate that repeat offenders commit 60 percent of violent crimes. By integrating its programs with the criminal justice community, including social services organizations, the judiciary, and the community at large, CSOSA is committed to changing the environment of all those under the Agency's management and control. Specifically, CSOSA seeks to dramatically reduce crime among the population that it supervises with an anticipated outcome of reducing recidivism for violent and drug-related crime by an overall rate of 50 percent.

Achieving this outcome requires the development of operational approaches and case management strategies and models that encompass all components of community-based supervision. Our approach to supervising individuals on pretrial release and offenders under probation, parole and supervised release is based on an effective system of immediate graduated sanctions designed to address non-compliant offender/defendant behaviors promptly. Other major cities have implemented sanction-based supervision models and these models have proven effective in reducing recidivism and significantly decreasing drug use among those under supervision. To implement this intensive model, CSOSA's CSP has developed an offender risk and needs assessment process and is currently reducing supervision caseloads to achieve optimal case management performance and to maximize contact between each supervision office and individuals under his/her supervision.

To achieve these goals, CSOSA's CSP has developed operational strategies, or Critical Success Factors, encompassing all components of community-based supervision. The four Critical Success Factors are:

- Establish and implement (a) an effective **Risk and Needs Assessment** and case management process to help officials determine whom it is appropriate to release and at what level of supervision, and (b) an ongoing evaluation process that assesses a defendant's compliance with release conditions and an offender's progress in reforming his/her behavior.

- Provide **Close Supervision** of high-risk defendants and offenders, with intermediate graduated sanctions for violations of release conditions.

- Provide appropriate **Treatment and Support Services**, as determined by the needs assessment, to defendants in complying with release conditions and offenders in reintegrating into the community.

- Establish **Partnerships** with other criminal justice agencies and community organizations.

The Critical Success Factors are the foundation for CSOSA's structure and operations, as well as the Agency's plans for allocating resources, measuring performance, and achieving outcomes. In terms of both day-to-day operations and long-term performance goals, these four principles guide what CSOSA's CSP does. They unite the Agency's strategic plan, operations, and budget.

The Pretrial Services Agency maintains a separate strategic plan that supports the Critical Success Factors but does not use them as the cornerstone of a performance measurement structure. The Critical Success Factors are the key operational strategy that CSP employs; therefore, the factors are discussed in detail under CSP, below.

Community Supervision Program

CSOSA's Community Supervision Program (CSP) has defined *rearrest* and *offender drug use* as the performance outcomes most closely linked to our public safety mission. Although we have been tracking performance in these areas since 2002, we have not established performance targets due to data reliability and definitional concerns. The Agency implemented a new case management system in 2002; prior to that, the Agency operated with unreliable and outdated computer systems. The transition from old systems to new required extensive data clean-up and the careful elimination of many duplicate records or closed cases from the system. During FY 2003 and FY 2004, data reliability gradually increased to the point where current data may be considered a reliable baseline. CSP is in the process of defining targets from this baseline.

Strategies and Resources

CSP employs a number of strategies, consistent with its program model, to achieve its performance outcomes. The strategies can be organized under the four **Critical Success Factors** that support the Agency's mission and drive the allocation of resources.

Risk and Needs Assessment. Effective supervision begins with a comprehensive knowledge of the offender. An initial risk and needs assessment provides a basis for case classification, a process that links the offender with the clinical and administrative decisions of the Community Supervision Officer (CSO). Classification assigns an offender to an appropriate supervision level, which addresses the risk the offender is likely to pose to public safety. At the same time, the classification process prescribes a system of interventions for the offender based on his or her unique profile or need.

An individual offender's risk to public safety is measurable based on particular attributes that are predictive of future behavior either while the offender is under supervision or after the period of supervision has ended. These risks are either static or dynamic in nature. Static factors are fixed conditions (i.e., age, number of prior convictions, etc.). While static factors can, to some extent, predict recidivism, they cannot be changed. However, dynamic factors can be influenced by interventions and are, therefore, connected to the offender's level of need. These factors include substance abuse, educational status, employability, patterns of thinking about criminality and authority, and the offender's attitudes and associations. If positive changes occur in these areas, the likelihood of recidivism is reduced.

CSP's classification system consists of risk assessment, needs assessment, and clinical referrals to link the offender with programs and services that will address identified needs. CSP and the Office of Community Justice Programs are completing a major initiative to update and improve the automated screening process. The revised screening instrument, the Auto Screener, combines risk and needs assessment into a single process. The result is the offender's assignment to an appropriate level of supervision, given the offender's criminal history, social stability, and other factors, and a prescriptive supervision plan which identifies interventions based on the offender's risk and needs profile. The Auto Screener will be implemented in March 2006.

Initial drug screening is also an important element of Risk and Needs Assessment. All offenders submit to drug testing during the classification process. Offenders transitioning to release in the community through Community Corrections Centers submit to twice-weekly tests during the period of residence. Drug testing is an essential component of supervision because it provides information about both risk (that is, whether the offender is using drugs and may be engaging in criminal activity related to drug use) and need (that is, whether the offender needs treatment).

Close Supervision. Close supervision in the community is the basis of effective offender management. Offenders must know that the system is serious about enforcing compliance with the conditions of their release, and that violating those conditions will bring swift and certain consequences.

The most important component of effective Close Supervision is caseload size. Prior to the Revitalization Act, caseload ratios were over 100 offenders for each officer, far in excess of those recommended by nationally recognized standards and best practices. Caseload ratios of this magnitude made it impossible for Community Supervision Officers (CSOs) to acquire thorough knowledge of the offender's behavior and associations in the community and apply supervision interventions. With resources received in prior fiscal years, the Community Supervision Program has made great progress in reducing offender caseloads to appropriate levels. However, increases in the number of offenders supervised affect caseload ratios. The ratio of total offenders under active and monitored supervision, as well as warrant status, to CSOs increased from 54 to 1 on September 30, 2003, to an average of 57 to 1 on September 30, 2004, due to increases in offenders supervised, despite an increase in supervision CSOs during the period.

The second focus of Close Supervision is CSOSA's commitment to implement a community-based approach to supervision, taking proven best practices and making them a reality in the District of Columbia. The Agency has adopted a new deployment structure for its officers, collapsing the old designations of Probation and Parole Officers into the single position of CSO and housing the CSOs in field sites located in the community. This structure also facilitates assigning caseloads to CSOs by police service area (PSA), rather than by releasing authority (U.S. Parole Commission or DC Superior Court). Most officers now spend part of their supervision time in the community where their offenders live and work. CSOs supervise a mixed probation and parole caseload and perform home and employment verification and visits.

The third focus of Close Supervision is the implementation of graduated sanctions to respond to violations of conditions of release. The capability to detect a violation, such as drug use, is of little use without the authority and capacity to respond to it. A swift response by the CSO can make the difference between correcting an offender's behavior and allowing time for that offender to commit another crime. Typical sanctions can include more frequent drug testing, community service labor, tightening curfews and other restrictions of movement, placement in a residential sanctions or treatment facility, and day reporting. These sanctions can be assigned routinely and administratively, according to a set of published protocols, thus eliminating the necessity to take every violation before a judge. Sanctions are defined in the Accountability Contract into which the offender enters at the start of supervision. From the beginning of the supervision period, both the offender and the officer know what will happen if the conditions of release are violated.

Routine drug testing is an essential element of supervision and sanctions. Given that two-thirds of the supervised population has a history of substance abuse, an aggressive drug testing program is necessary to detect drug use and interrupt the cycle of criminal activity related to use. CSP offenders are drug tested at intake, followed by twice weekly for two months, once weekly for three months, and monthly for the remainder of the supervision period. A positive test can result in increased testing, coupled with other sanctioning measures. With the additional resources provided in prior fiscal years, CSP has been able to achieve significant increases in the number and frequency of tests.

Treatment and Support Services. The connection between substance abuse and crime has been well established. Long-term success in reducing recidivism among drug-abusing offenders, who constitute the majority of individuals under supervision, depends upon two key factors:

1. Identifying and treating drug use and other social problems among the defendant and offender population; and

2. Establishing swift and certain consequences for violations of release conditions.

CSP is committed to providing a range of treatment options to offenders under supervision. Addressing each individual's substance abuse problem through drug testing and appropriate sanction-based treatment will provide him or her with the support necessary to establish a productive, crime-free life. CSP also provides in-house adult literacy, anger management, and life skills training to help offenders develop the skills necessary to sustain themselves in the community.

CSP contracts with service providers for a range of residential, outpatient, transitional, and sex offender treatment services. Contractual treatment also encompasses drug testing and ancillary services, such as mental health screening and assessments, to address the multiple needs of the population. CSP is also committed to helping offenders build skills and support systems to improve their chances for success in the community. Nowhere is this more evident than in our Learning Labs, which provide literacy training and job development services for both offenders and defendants.

Indications are that the increase in drug testing and treatment is having a positive effect among CSP's supervised population. The first in a series of drug treatment effectiveness studies performed by CSP shows promising results. This study provides preliminary indication of the short-term (90 days post-treatment) effect of treatment on persistent drug user patterns. The study indicated that drug use persistence decreased more among offenders who completed the treatment program when compared with those who failed to complete the prescribed treatment. Specifically, the number of persistent drug users decreased 78 percent for offenders who completed treatment and 43 percent for treatment drop-outs. As we continue to track drug use patterns for these two groups of treatment participants, we will analyze the mid-term and long-term impact of our treatment investments.

National research also supports the conclusion that treatment significantly reduces drug use. A study conducted by the Department of Health and Human Services Substance Abuse and Mental Health Services Administration (SAMHSA) found a 21 percent overall reduction in the use of drugs following treatment; a 14 percent decrease in alcohol use; 28 percent in marijuana use; 45 percent in cocaine use; 17 percent in crack use; and a 14 percent reduction in heroin use.[1] CSOSA's preliminary analysis of the effectiveness of its treatment programming echoes these findings.

Partnerships. Establishing effective partnerships with other criminal justice agencies and community organizations facilitates close supervision of offenders in the community and enhances the delivery of treatment and support services. CSP's Community Relations Specialists are mobilizing the community, identifying needs and resources, building support for our programs, and establishing relationships with local law enforcement and human service agencies, as well as the faith-based community, businesses, and non-profit organizations. These efforts, formalized in Community Justice Partnerships, Community Justice Advisory Networks, and the CSP/Faith Community Partnership, enhance offender supervision, increase community awareness and acceptance of CSP's work, and increase the number of jobs and services available to offenders.

The following table illustrates the relationship between the Agency's goals, CSFs, major operational activities, and budget authority/request. Management and operational support expenses are represented within each activity based on a prorated share of direct operational costs.

[1] Office of Applied Studies. *Services Research Outcome Study (SROS)*. DHHS Publication No. (SMA) 98-3177. Rockville, MD: Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, Office of Applied Studies, 1998.

Funding by Strategic Plan Critical Success Factor (CSF)

Community Supervision Program

	Critical Success Factor	Major Activity	FY 2004 Actual		FY 2005 Enacted		FY 2006 Request		Change FY 2005 - FY 2006	
			$000	FTE	$000	FTE	$000	FTE	$000	FTE
Goal 1 Establish strict accountability and prevent the population supervised by CSOSA from engaging in criminal activity.	**CSF 1** Risk/Needs Assessment	Diagnostic	25,364	215	22,843	208	24,243	208	1,400	-
		Drug Testing	599	5	654	6	691	6	37	-
			25,963	**220**	**23,497**	**214**	**24,934**	**214**	**1,437**	-
Goal 2 Support the fair administration of justice by providing accurate information and meaningful recommendations to criminal justice decision makers.	**CSF 2** Close Supervision	Drug Testing	5,393	42	5,887	56	6,221	56	334	-
		Supervison	39,735	322	40,621	349	43,755	349	3,134	-
		Sanctions	9,203	30	11,223	49	26,553	126	15,330	77
			54,331	**394**	**57,731**	**454**	**76,529**	**531**	**18,798**	**77**
	CSF 3 Treatment/ Support Services	Supervision	189	2	151	1	155	1	4	-
		Treatment	12,706	27	16,307	68	16,716	68	409	-
			12,895	**29**	**16,458**	**69**	**16,871**	**69**	**413**	-
	CSF 4 Partnerships	Supervision	**11,140**	**85**	**12,280**	**100**	**13,026**	**100**	**746**	-
	All Strategies and All Activities		**104,329**	**728**	**109,966**	**837**	**131,360**	**914**	**21,394**	**77**

Planned and Actual Performance

CSP has changed the way community supervision occurs in the District of Columbia. Prior to CSP's establishment, probation and parole were separate agencies and maintained separate information systems. Today, CSP has an integrated, state-of-the-art information management system. CSP's program model combines probation, parole, and supervised release caseloads under the new job category of Community Supervision Officer (CSO). In addition, CSOSA has based CSP operations at multiple field offices in the community, rather than one central location. This is a significant change from former practices.

CSOSA implemented these changes in stages throughout 1999 and 2000. It was not until early 2001, when the CSO workforce was in place, three field offices had been established, and an administrative infrastructure had been built to support the new supervision model, that the central data entry unit was dismantled (except for some system intake functions). At this time, the probation and parole information systems were merged. The resulting database, the Offender Automated Supervision Information System (OASIS), came online in January 2001. OASIS established an initial framework for inputting data about both probation and parole cases, but it retained many of the obsolete features of the legacy systems and was always intended as an interim solution. The decision was made in 2001 to replace OASIS with a permanent, web-based information system.

The design and deployment of this system, the Supervision Management Automated Record Tracking (SMART) System, was an Agency priority throughout 2001 and 2002. CSOs were the primary designers of SMART, working collaboratively with the Agency's

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Information Technology staff and consultants. Version 1.0 of SMART, the general supervision module, was deployed on January 22, 2002. The system was brought from requirements analysis to deployment in approximately nine months—far less time than neighboring jurisdictions have spent on requirements analysis alone (without ever achieving a functional system). Since deployment of the initial supervision module, the Agency has been working to transition all recordkeeping to the new system. This transition continues to occur in phases, as data are verified, new SMART modules are completed, and results are audited.

A similar transition has been occurring in the collection of performance data. For many performance measures, baselines cannot be established until the relevant SMART enhancements are completed. Results generated through SMART are subject to greater verification and statistical rigor than manually collected data. Therefore, the Agency has refrained from establishing some baselines until the database is populated and data have been validated.

For FY 2001 and part of FY 2002, CSP collected data on many performance measures manually. The reported FY 2002 results are in some cases based on the supervisory case audit and/or sampling that constituted manual data collection. While these practices enabled CSP to report some preliminary results, significant differences are expected between the manual data collection and initial results available through SMART. At the end of FY 2002, the decision was made to discontinue manual data collection and focus on ensuring data quality in SMART. From October to December of 2002, an initial data review was conducted to determine how well the system was being utilized and how successful data clean-up efforts had been. While the results of this review were promising, they revealed a need for some additional enhancements in the SMART database design and the need for additional CSO training in system utilization.

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With the deployment of SMART, the Agency has made a major commitment to changing supervision and recordkeeping practices. Any database is only as useful as the data entered into it. With that in mind, CSP continues to train officers to integrate supervision activities with data entry. The goal of this process is to transition officers from narrative, or "running" records (from which little data can be extracted), to data entry in specific fields for each supervision activity. The system features extensive drop-down menus to improve data quality and uniformity. Although SMART is still evolving, CSP is committed to relying on the data it contains.

Rearrest: Rearrest is a commonly used indicator of criminal activity among offenders on probation, parole, and supervised release. As offenders establish non-criminal ties to the community through employment and pro-social relationships, they should become less likely to be rearrested. Simply put, they should be otherwise occupied.

In FY 2002, the rate of parole rearrest was 14 percent of the total supervised parole population. Initial probation data also became available through SMART. The rearrest rate for probationers was higher; approximately 21 percent of all probationers were rearrested in FY 2002. The combined FY 2002 arrest rate for the total population was 18 percent.

In FY 2003, the rate of parole rearrest rose slightly, to 17 percent of the total supervised parole population. However, probation rearrest dropped significantly, from 21 percent of the supervised population to 13 percent. The combined FY 2003 arrest rate for the total population was 15 percent. In FY 2004, 3,246 offenders, or 18 percent of the population under supervision, were rearrested. Beginning in FY 2004, only the combined rearrest rate is reported.

Available rearrest statistics are summarized in the following table:

Percentage of Supervised Population Rearrested, FY 2002 – FY 2004

	FY 2002	FY 2003	FY 2004
Probation	21%	13%	20%
Parole	14%	17%	13%
Combined	18%	15%	18%

* Data includes multiple arrests of a single person.

Performance Trends. Rearrest is a complex outcome that is potentially affected by a number of different conditions, only some of which are directly or indirectly under CSP's control. When an individual is rearrested for new criminal activity (as opposed to a violation of the terms of release), it is almost impossible to say whether the rearrest occurred due to a weakness in supervision practices, a circumstantial choice by the individual (that is, he had an unforeseen opportunity to engage in criminal activity), or other, larger social forces (lack of economic opportunity, lack of stable housing, drug use, etc.). While rearrest is the indicator most often used to gauge the effectiveness of both institutional and community corrections, using this indicator creates the perception that supervision controls a wider range of individual circumstances and choices than it actually does.

That said, rearrest trends are the broadest indicator of the success of community supervision. Overall, if CSP's program model—which attempts to impose accountability and create opportunity—is "working," rearrest should decline. Based on the years of available, reliable data (FY 2002-FY 2004), it is possible that CSP's supervision model is having a modest effect on parole rearrest. CSP is undertaking additional research to "comb out" the real causes and dynamics of parole rearrest from these gross statistics. There is insufficient probation rearrest data to support even a preliminary conclusion as to program effectiveness.

Drug use: Given that approximately 70 percent of offenders under CSP supervision have a history of substance abuse, and given the well-documented correlation between criminal activity and the use of drugs, it is critical that drug use be reduced among the population under supervision.

CSP implemented an Agency-wide drug testing policy in September 2000. This policy defines the schedule under which all eligible offenders entering supervision will be drug tested. (CSP policy requires that 100 percent of eligible offenders be tested; however, not all offenders are eligible either because of their status or because they have not yet begun testing.) CSP did not establish a baseline in FY 2000 against which FY 2001 results could be measured because the new policy was under development.

In FY 2002, a more precise measurement was conducted of the candidate pool yielding the majority of drug tests: offenders under general supervision for at least 30 days (and for whom general supervision was their only assignment during the fiscal year). Of the 6,114 offenders meeting these criteria, roughly 66 percent were drug tested at least once during the fiscal year. Approximately 58 percent of the tested population reported at least one positive during the year. In FY 2003, approximately 6,032 offenders met the criteria for testing. Of these, approximately 64 percent reported at least one positive during the year. In FY 2004, 51 percent of the tested population reported at least one positive drug test; 55 percent reported at least one positive alcohol test. Drug test results are summarized in the table below.

Percentage of Tested Population Reporting at Least One Positive Drug Test (including Alcohol)

	FY 2002	FY 2003	FY 2004
Offenders with at least one positive drug test	58%	64%	55%

Performance Trends. At this point, CSP's research and analysis are focusing on evaluating the effectiveness of our drug testing strategy and exploring whether "targeted" testing would yield more meaningful performance information. We believe the reported information to constitute a valid baseline from which targets can be set.

Relevance and Reliability

CSP obtains performance data for these measures from the primary sources. For rearrest, data originate with the Metropolitan Police Department. Arrest data is downloaded at 30-minute intervals from the police department information system into the SMART SQL database. For drug use, the data originate in the Pretrial Services Agency's Laboratory Information Management System. PSA's laboratory performs the analysis of CSP drug specimens, and the results are downloaded into this system, which is accessible from SMART.

At present, CSP runs performance data from a copy of the SMART database, which is refreshed weekly. CSP is moving toward a data warehouse system, which would improve data access and accuracy. This change was implemented during 2005 and 2006.

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<u>Assessment of Underlying Factors</u>

When considering factors that affect reported performance, it is important to distinguish among factors under CSP control, factors under CSP influence, and factors outside of CSP's control. Each is discussed briefly below:

- *Factors under CSP control.* These factors include program design, resource allocation, and adherence to Agency policy and operating procedures. Each of these factors can be adjusted to accommodate changes in performance.

- *Factors under CSP influence.* CSP's programmatic activities can influence, but are not determinative of, some components of our performance outcomes. For example, the extent to which we can provide substance abuse treatment should influence drug use within the population. Similarly, CSP can recommend conditions of release to the court or paroling authority but cannot impose those conditions. Imposing appropriate conditions of release might limit an offender's chance of rearrest.

- *Factors outside CSP control.* Many aspects of an offender's life, and the world in which he or she lives, are completely outside of CSP's influence or control. Supervision officers see offenders at most one or two hours per week; therefore, the associates, activities, and choices the offender encounters during the rest of his or her time are largely determined by that individual.

Among the factors CSP can control, such as program design and adherence to policy, it is important to note that CSP has made great progress in using performance data as a management tool. SMART can measure the extent to which CSOs comply with Agency policy and operating procedures by prompting the officer for complete information and recording when data is entered. CSP has developed a wide variety of management reports focusing on data quality and completely issues. These reports can disaggregate officer performance by team and even individual caseload, and are regularly distributed to first-line managers for review and, where necessary, corrective action.

At this point, CSP's program model has not been implemented for a long enough period to draw any conclusions about *why* the performance data is what it is. Indeed, some aspects of CSP's program, such as implementation of a residential Reentry and Sanctions Center, are still under development, and others, such as the Day Reporting Program, are very new. CSP will continue to study performance trends as they emerge and modify its program design accordingly; however, it is unlikely that either outcome or impact evaluations will be completed for several years.

Pretrial Services Agency

Driven by our mission to enhance public safety through the formulation of appropriate and fair release recommendations and to provide effective community supervision for defendants, PSA has established two operational goals: 1) reduction in the rearrest rate for violent and drug crimes during the period of pretrial supervision and 2) reduction in the rate of failures to appear for court.

Strategies and Resources

PSA's two operational goals span the major functions and operations of the agency (assessment, supervision, and treatment). The strategies employed by PSA to accomplish these goals are summarized below.

Assessment. PSA provides timely and accurate information to judicial officers in both the D.C. Superior Court and the U.S. District Court for their use during the release decision-making process. Judicial officers use PSA's information to make well-informed decisions. PSA accomplishes this goal by conducting Prerelease Investigations and by providing the Court with Release Recommendations.

Gathering and verifying relevant information about each defendant is one of the primary activities conducted by PSA during the prerelease investigation. Pretrial Services Officers (PSOs) interview defendants scheduled for criminal bail hearings and document the information. No questions concerning the circumstances of the current arrest are asked. The PSO reviews the defendant's criminal history at both the local and national levels. Other information obtained by the PSO includes: probation and parole information, lock-up drug test results, and compliance reports from PSA supervision units.

PSA makes release condition recommendations based on the least restrictive conditions needed to reasonable assure appearance in court and the protection of the community. The defendant's criminal history sometimes establishes a pattern of behavior upon which judicial officers base their decisions. PSA provides this information to the courts in a "bail report." The recommendation PSA makes is based on an assessment of a defendant's risk of flight and rearrest and incorporates the least restrictive release conditions needed to protect the community and assure the defendant's return to court.

Throughout the prerelease investigation and release recommendation process, PSOs rely on sophisticated information technology to gather and compile information. PSA has long been a leader in innovative use of information technology. Continuing to improve this technology to better support these processes is a major focus for PSA.

Supervision. PSA has statutory responsibility to monitor and supervise defendants in the community prior to the disposition of their criminal case, consistent with release conditions ordered by the court. The purpose of providing monitoring and supervision is to protect the public and reasonably assure return to court. PSA recognizes that a continuum of monitoring and supervision needs exists in the defendant population.

Using information gathered during the prerelease investigation, PSA recommends appropriate levels of monitoring and/or supervision for each defendant. PSA focuses its supervision resources on the defendants most at risk of violating their release conditions. Very low risk defendants (those released unconditionally) receive only notification of court dates. Fairly low risk defendants are placed in monitoring programs that require limited contact with PSA. As the risk level of the defendant increases, the intensity of supervision is increased. Higher risk defendants may be subject to frequent contact and drug testing, substance abuse or mental health treatment, curfew, electronic monitoring, halfway house, or other conditions.

One of the challenges facing PSA is the need for swift responses to noncompliance. Failure to appear for a supervisory contact, a resumption of drug use, absconding from a drug treatment program, and other condition violations can be precursors to serious criminal activity. Responding quickly to noncompliance is directly related to meeting the goals of reducing failures to appear and protecting the public. Graduated sanctions are used to modify a defendant's behavior, and PSA focuses on modifying the behaviors most closely associated with a return to criminal activity or with absconding.

The technology currently in place allows virtually real-time access to drug test result data, as well as, rearrest, and failure to appear data in the District of Columbia. PSA will continue to commit significant resources to the further improvement of its information technology infrastructure.

Treatment. Because drug use contributes to both public safety and flight risks, PSA has developed specialized supervision programs that provide drug treatment. PSA is first and foremost a supervision agency. The provision of treatment for drug using defendants is a strategy that PSA has adopted to facilitate meeting its outcome goals. Treatment is never provided in lieu of supervision. Just as defendants are assigned to supervision levels based on risk, they are assigned to supervision with treatment based on risk and need. Defendants in these programs are supervised just as they would be if they were in traditional supervision programs. Defendants placed in these programs have drug testing, contact, and other release conditions.

PSA's treatment and supervision programs offer defendants access to various treatment modalities. Each program provides centralized case management of defendants. This organizational structure facilitates consistent sanctioning and supervision practices, and leads to better interim outcomes for defendants. PSA also uses a combination of contract funded and community-based drug intervention programs. Defendants who have mental health issues and special needs are referred to appropriate community-based programs. Even if defendants are referred to community-based services, they continue to be supervised by PSA.

Defendants placed under the supervision of PSA have a variety of needs. PSA works with defendants to identify their social service needs and refer them to services. PSA is identifying appropriate community-based resources to address all defendant needs, including: medical, educational/vocational services, family services and other social services. PSA will clearly benefit from its unique relationship with CSP, since CSP has developed partnerships with many providers in the community. As with referral to drug or mental health treatment, PSA will be monitoring defendant use of, and involvement with, social services.

Planned and Actual Performance

Outcomes		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2004 Target	FY 2005 Target	FY 2006 Target	Long Term Target
Percentage of defendants rearrested for violent or drug crimes during the period of pretrial supervision.								
For all defendants rearrested for:								
	- any crimes	14.6%	12%	14%	13%	13%	13%	12%
	- violent crimes	1.6%	1%	3%	1%	1%	1%	1%
	- drug crimes	4.6%	5%	5%	4%	4%	4%	4%
For drug-using defendants rearrested for:	- any crimes	20.6%	17%	23%	19%	19%	19%	18%
	- violent crimes	2.3%	1%	5%	2%	2%	2%	2%
	- drug crimes	7.2%	8%	8%	7%	7%	7%	7%
For nondrug-using defendants rearrested for:	- any crimes	7%	2%	6%	5%	5%	5%	5%
	- violent crimes	0.9%	<1%	1%	1%	1%	1%	1%
	- drug crimes	1.4%	<1%	1%	1%	1%	1%	1%
Percentage of cases in which a defendant failed to appear for at least one court hearing.								
	- any defendants	15.9%	15.6%	14%	14%	14%	14%	13%
	- drug-users	19.5%	18.8%	20%	17%	17%	16%	15%
	- nondrug-users	10.4%	10.6%	8%	9%	9%	9%	9%

Performance Trends

While the overall rearrest rate for defendants decreased slightly between FY 2002 and FY 2004, the rearrest rate for violent crimes nearly doubled and the rearrest rate for drug crimes increased slightly. The rearrest rate data starkly illustrate the impact of drug use on rearrest rates. Rearrest rates for non-drug using defendants decreased in all categories while rearrest rates for drug using defendants increased in all categories. The overall rearrest rate for drug using defendants was almost four times as high as the rearrest rate for non-drug using defendants.

The overall Failure to Appear (FTA) rate decreased between FY 2002 and FY 2004. Like the reaarest rate, the impact of drugs clearly is shown in the FTA data. Between FY 2002 and FY 2004 the FTA rate for drug using defendants increased slightly while the FTA for non-drug using defendants decreased significantly. In FY 2004 the FTA rate for drug using defendants was more than twice the rate of non-drug using defendants.

Relevance and Reliability

PSA has developed a Data Warehouse to extract data on the two critical outcomes. On a daily basis, the District of Columbia Metropolitan Police Department provides electronic information to PSA’s case management system, Pretrial Real Time Information System Manager (PRISM), on the arrests that have been made within the District of Columbia. The District of Columbia Superior Court provides electronic information to PRISM on bench warrants that have been issued for defendants who failed to appear for Court. Through the Data Warehouse, PSA is able to extract aggregate performance information from PRISM on rearrest and failure to appear (FTA). Pretrial Services Officers (PSOs) are able to access this information as soon as it is downloaded into PRISM.

The method of data extraction was extensively validated prior to deployment of the Data Warehouse cubes containing rearrest and FTA outcome information. Several months were spent in this process, comparing the Data Warehouse data to rearrest and FTA data extracted from PRISM using SQL. The ETL (extract, transform and load) process, which physically moves the information from PRISM to the Data Warehouse, is constant. Only two Information Technology developers are able to access the underlying system or the programs that are associated with the Data Warehouse.

The two developers "refresh" (or update) the data on a weekly basis. On a quarterly basis, the Strategic Planning, Analysis and Evaluation Unit extracts the rearrest and failure to appear data from the Data Warehouse, analyzes the data, compiles the information into a performance measurement update, and transmits this information to PSA management and executive leadership for review. That information can be and is frequently used to make mid-course corrections and to guide future policy and procedure decisions.

Assessment of Underlying Factors

In considering the external factors that impact PSA and its success, it becomes clear that there are two primary types of factors at work. Some factors, such as the crime rate or regional economic strength, cannot be impacted by PSA. Others, chiefly those concerning interagency collaboration, can be impacted by PSA. As a result of this recognition, PSA will be realigning its resources to ensure that adequate attention is paid to those factors that PSA has a reasonable chance of influencing. For example, one of PSA's primary functions in the criminal justice system is to make release recommendations to the court. Only judges can set release conditions, revoke release, or administer judicial sanctions. PSA's success is dependent upon collaboration and effective communication with the court. Similarly, PSA depends on the cooperation of the U.S. Attorney's Office, defense attorneys, and numerous community-based treatment programs to achieve appropriate outcomes. Given these mutual dependencies, PSA will be devoting significant resources to building stronger partnerships.

Court Services and Offender Supervision Agency for the District of Columbia

Financial Section

PART III

Agency Financial Statements

The financial statements have been prepared to report the financial position and results of operations of CSOSA, pursuant to requirements of OMB Bulletin 01-09, *Form and Content of Agency Financial Statements.*

Comment [T1]: Please delete and reference the law that requires the PAR, (i.e. Tax Accountability Acr

Deleted: 31 U.S.C. 3515(b).¶

While the statements have been prepared by the records of the entity in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

The Federal Managers' Financial Integrity Act (FMFIA, P.L. 97-255) and Office of Management and Budget Circular A-123, Management Accountability and Control, require federal agencies to conduct ongoing evaluations of the adequacy of the systems of internal accounting and administrative control, and report yearly to the President all material weaknesses found through these evaluations. The Integrity Act also requires the head of agencies to provide the President with yearly assurance that obligations and costs are in compliance with applicable law; resources are efficiently and effectively allocated for duly authorized purposes; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and managers and employees demonstrate personal integrity, ethics, competence and effective communication. To provide this report and assurance to the President, the CSOSA Director depends upon information from component heads regarding their management controls. The CSOSA Director can provide qualified assurance that the agency's management controls and financial systems met the objectives of Sections 2 (Programmatic Controls) and 4 (Financial Controls) of the Integrity Act for 2004, with the following known exceptions:

<u>Programmatic Controls:</u>
CSOSA management identified that control mechanisms were in place to ensure that programs achieved their intended results and resources are used consistent with the agency's mission.

<u>Financial Controls:</u>
As part of the FY 2004 financial statement audit, the independent auditors identified the following material internal control weaknesses within CSOSA:

I. Improvements needed in financial accounting control activities:

   a) CSP controls surrounding the recordation and updating of property items;
   b) CSP and PSA controls surrounding the processing of obligations, which resulted in incorrect status and values of accounts payable and undelivered orders;
   c) CSP controls surrounding the classification and calculation of Advances from Others, Unfilled Customer Orders, Accounts Receivable and Transfers-In related to Grants;
   d) CSP and PSA controls surrounding the monitoring of Department of Justice accounting and financial system support activities performed on behalf of CSOSA;

II. Improvements needed in financial reporting process.

<u>Legal Compliance:</u>
As part of the FY 2004 financial statement audit, the independent auditors identified the following CSOSA issues of non-compliance with laws and regulations:

I. CSOSA did not submit quarterly financial statements within 45 days after the end of each quarter and audited financial statements (included in a Performance and Accountability Report) within 45 days after the end of the fiscal year, as required by the Accountability of Tax Dollars Act of 2002;
II. CSOSA did not appoint an independent external party to perform independent assessments, as required by the Federal Information Security Management Act (FISMA) of 2002.

Improper Payments

The Improper Payment Information Act (IPIA) of 2002 (PL 107-300) extends erroneous payment reporting requirements to all Federal programs and activities. The Office of Management and Budget (OMB) Memorandum No. 03-13 outlines the requirements of the Act. IPIA requires that agencies examine the risk of erroneous payments in all programs and activities they administer. The Court Services and Offender Supervision Agency (CSOSA) consists of two programs: The Community Supervision Program (CSP) and the D.C. Pretrial Services Agency (PSA).

Agencies are required to review annually all programs and activities they administer and identify those that may be susceptible to significant erroneous payments. Given the inherent risks of the CSP and PSA programs, internal controls, the results of prior financial audits, and internal testing, CSOSA has determined that neither program poses the risk of improper payments exceeding both 2.5% and $10 million.

Possible Future Effects of Existing Demands, Risks, Uncertainties, Events, Conditions, and Trends

As with any law enforcement agency, CSOSA's ability to achieve its performance targets and thereby protect public safety is affected by a number of uncertainties and external forces. A number of these issues are identified below.

- The population of adults in their "most productive" criminal years (20's and 30's) is rising. It is possible that both violent and property crime rates, which have fallen in recent years, will rise, resulting in an increased number of individuals on community supervision. According to the Bureau of Justice Statistics, violent crime levels in 2003 were the lowest ever recorded, and property crime rates have stabilized after years of falling. It is unlikely that these crime levels will be sustained indefinitely. Any significant rise will impact caseloads, which in turn may impact the effectiveness of CSOSA's program model.

- The nation's incarcerated population continues to rise in response to changes in sentencing laws. It is probable that the number of individuals subject to post-release supervision will increase as these individuals complete their incarceration.

- The Washington, DC metropolitan area is expected to grow by approximately 2 million people over the next 15 to 20 years. Although the metropolitan area currently has one of the lowest unemployment rates in the nation, most of the jobs created here tend to exclude the population from which CSOSA's clients are drawn. Continued area growth will also increase pressure on the area housing market, decreasing the supply of affordable stable housing. The combination of employment and housing market pressures could impact the size and characteristics of the population under CSOSA supervision.

- CSOSA's ability to maintain field operations depends, to a great extent, on its ability to locate, acquire, and prepare appropriate sites. As the Washington, DC real estate market tightens, these sites become ever more difficult to find. It is possible that CSOSA will be forced to close one or more field offices as leases expire.

- CSOSA depends on external agencies, such as the Metropolitan Police Department and the D.C. Superior Court, to provide essential performance data. Arrangements with these external entities are defined in Memorandums of Understanding, which are renegotiated at regular intervals. Our ability to report performance data would be greatly compromised if our partners chose not to renew these agreements.

Court Services and Offender Supervision Agency for the District of Columbia

Auditor's Reports

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Report of Independent Auditors

To the Director of the Court Services and Offender Supervision Agency:

We have audited the accompanying balance sheet of the Court Services and Offender Supervision Agency (CSOSA) as of September 30, 2004, and the related statements of net cost, of changes in net position and of financing, and the statement of budgetary resources for the year then ended. These financial statements are the responsibility of CSOSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of CSOSA at September 30, 2004, and its net cost of operations, changes in net position, budgetary resources and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements.* Except for the information discussed in the following paragraph, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

The performance measures on pages 3 through 17 are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information those procedures specified in OMB 01-02 because CSOSA management did not retain documentation to support the information reported.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2006, on our consideration of CSOSA's internal control and on compliance and other matters for the year ended September 30, 2004. Those reports are integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

December 6, 2006

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Report of Independent Auditors on Internal Control

To the Director of the Court Services and Offender Supervision Agency:

We have audited the balance sheet of the Court Services and Offender Supervision Agency (CSOSA) as of September 30, 2004**,** and the related statements of net cost, of changes in net position and of financing, and the statement of budgetary resources for the year then ended and issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02*, Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered CSOSA's internal control over financial reporting by obtaining an understanding of CSOSA's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. We limited our control testing to those controls necessary to achieve the following OMB control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated and combined financial statements and Required Supplementary Stewardship Information (RSSI) in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use, or disposition; (2) transactions are executed in compliance with laws governing the use of budget authority, other laws and regulations that could have a direct and material effect on the financial statements or RSSI and any other laws, regulations, and government-wide policies identified in Appendix C of OMB Bulletin No. 01-02; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. With respect to internal control relevant to data that support reported performance measures, we were unable to obtain an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02, because documentation supporting amounts reported was not retained by management. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. Our purpose was not to provide an opinion on CSOSA's internal control. Accordingly, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants (AICPA) and OMB, reportable conditions are matters coming to our attention, that in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that, could adversely affect the CSOSA's ability to meet the internal control objectives related to the reliability of financial reporting, compliance with laws and regulations, and the reliability of performance reporting previously noted. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters, discussed below, involving the internal control and its operation that we consider to be reportable conditions, the first two of which are considered to be material weaknesses.

* * *

Improvements are needed in financial accounting control activities. (Material Weakness)

CSOSA is an independent agency, comprised of two components (Community Supervision Program (CSP) and Pretrial Services Agency (PSA)), which prepared financial statements in accordance with OMB Bulletin No. 01-09 for the first time this fiscal year. Additionally, CSOSA relies on outside Federal agencies for accounting and financial systems support. These factors challenged CSOSA's ability to prepare auditable financial statements timely and in accordance with generally accepted accounting principles. As a consequence of these weaknesses, CSOSA was not able to meet the OMB's November 15, 2004 deadline for submitting audited financial statements. Details of the internal control weaknesses that we noted that relate to financial accounting control activities are discussed below:

Property and Equipment:

- **SFFAS No. 6, *Accounting for Property, Plant, and Equipment:* Controls surrounding the recordation and updating of property items need improvement.**

  Capitalized Equipment:

  During our testing, we selected a sample of disbursement transactions to determine if transactions relating to the purchase of capitalized equipment were appropriately capitalized as Property and Equipment on the balance sheet. During this testing, we noted errors with CSP transactions:

- 23 of 169 items were not appropriately capitalized on the balance sheet. These items had an aggregate value of $1,394,622.
- 3 of 169 items could not be tested, as CSP was unable to provide supporting documentation for these items.

CSP did not properly capitalize equipment purchases, as there were no policies or procedures in-place to capture the required information necessary for recording items potentially subject to capitalization. Additionally, CSP did not retain adequate supporting documentation for some of its disbursement transactions. Before CSP corrected these errors, the net book value (acquisition cost less accumulated depreciation) for capitalized equipment was understated (and expenses were overstated) by $756,198 ($1,394,622 less $638,424).

Leasehold Improvements:

While testing CSP's leasehold improvements, we noted the following:

- 6 of 16 items were improperly expensed leasehold improvement costs rather than capitalized costs, in the amount of $1,004,447.
- 1 of 16 items was an improperly capitalized lease cost for a public parking space, in the amount of $3,437.
- 1 of 16 items was an improperly expensed payment made to a contractor to secure financing for construction costs, in the amount of $1,257.
- 2 of 16 items were recorded in the wrong DCN (i.e. the error occurred between these two DCNs reviewed) but netted to $0.

CSP did not properly record all leasehold improvements. The financial statement impact, before correction, resulted in an overstatement of expenses and a corresponding understatement of capitalized costs on the balance sheet. As a result of the testing, capitalized costs for leasehold improvements were understated by $1,002,267 before correction.

Internal-Use Software:

During our review of costs capitalized as internal-use software we noted CSP and PSA did not retain a sufficient level of detail on its timesheets to substantiate the amount of time (capitalized labor costs) employees spent working on the PSA PRISM and CSP SMART systems. We were, however, able to gain comfort on these capitalized costs through a review of general ledger reports, summary reports prepared by IT management, and interviews with CSOSA IT staff. Additionally, some purchases of hardware or software used to develop SMART and PRISM did not specifically identify if it related to development or maintenance of these systems.

A formal method of tracking employee labor costs incurred during the software development phase did not exist during the fiscal year. Additionally, some contractor costs and hardware costs incurred during the development of SMART and PRISM and any related modules were not specifically tracked as development or maintenance related.

The effect of not properly accumulating costs that should be capitalized may lead to an overstatement or understatement of the net cost of operations reported in the Statement of Net Cost in any particular fiscal year (and an offsetting impact on assets capitalized on the Balance Sheet).

Obligations:

- **Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government:* Errors exist in the status and value of accounts payable and undelivered orders.**

  During our testing of obligations, we noted obligations that contained status or dollar errors (were partially or fully misclassified as either undelivered or accounts payable), were stale obligations (remained open although all services had been fully performed and billed), or were duplicates (multiple obligations were entered into the general ledger for the same order).

Obligation Type	No. of Status/Dollar Errors	No. of Stale Obligation Errors	No. of Duplicate Errors	No. of Obligations in Sample	Absolute Dollar Value of Sample Errors
CSP Undelivered	18	14	6	100	$1,130,937
PSA Undelivered	23	29	0	66	$1,183,203
Total Undelivered	**41**	**43**	**6**	**166**	**$2,314,140**
CSP Accounts Payable	20	32	1	101	$2,254,007
PSA Accounts Payable	13	16	6	66	$360,997
Total Accounts Payable	**33**	**48**	**7**	**167**	**$2,615,004**

Additionally, we noted 2 of 35 obligations ($64,382.66 of $265,048.84) for CSP and 1 of 35 obligations ($256,598.52 of $651,314.04) for PSA, whereby the goods or services were ordered during fiscal year 2004, but the obligation was not entered into the general ledger until the following fiscal year.

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While CSOSA management concurred with the projected misstatements and recorded a correcting entry reducing accounts payable and undelivered orders, had CSOSA reviewed and corrected its accounting records throughout the year, these funds would have then been available for other program needs. These high error rates and associated overstatements were the result of CSOSA's failure to maintain accurate records during the year, and required CSOSA to expend significant effort in determining its year-end account balances in order to prepare its annual financial statements.

Grant Revenue:

- **SFFAS No. 7, *Accounting for Revenue and Other Financing Sources:* Errors exist in the calculation and classification of Advances From Others, Unfilled Customer Orders, Accounts Receivable and Transfers-In**.

  Advances From Others - CSP receives funding from the Department of Justice's Office of Justice Programs in advance for services performed for the Weed and Seed (W&S) and Project Safe Neighborhood (PSN) grants. CSP incorrectly calculated the advance balance by taking total collections and deducting only payments paid to sub-recipients. The accrual or the estimate of services for the fiscal year should have been included as a deduction to the balance. **Unfilled Customer Orders (UFO) -** CSP incorrectly recorded the advances for the W&S and PSN grants as UFO without advance. CSP should record the total amount of unearned reimbursable orders accepted with an advance, therefore recording the balance as UFO with advance. **Accounts Receivable -** CSP incorrectly recorded accounts receivable activity for the W&S and PSN grants. Because CSP received the full amount of the agreement in advance before services were rendered, there should not be any amounts recognized as accounts receivable. **Transfers-In -** The funding used to pay the sub-recipients for the OJP grants is recognized as transfers-in. This balance is made up of accounts payable and payment activity. PwC noted services performed as of September 30, 2004 by the sub-recipients that were not sufficiently accrued.

  CSP did not adequately review the accounting standards to ensure compliance. The following financial statement line items were misstated due to the improper accounting and monitoring treatment of grant transactions:

  Advances From Others - overstated by $275,285.
  Unfilled Customer Orders with Advance - understated by $387,842.
  Unfilled Customer Orders without Advance - overstated by $292,268.
  Intragovernmental Accounts Receivable - overstated by $369,243.
  Transfers-In - overstated by $245,425.

Monitoring of service provider's activities:

The U.S. Department of Justice's Justice Management Division (JMD) provides accounting and financial system support to CSP and PSA. During our testing, we noted the following conditions that stem from this relationship:

- Errors during the obligation testing due to reliance of JMD to properly classify obligations, these errors involved notification of the receipt of invoices and IPAC documentation.
- CSP and PSA do not review the Fund Balance with Treasury monthly reconciliations performed by JMD. CSP and PSA were not aware of the fiscal year 2004 Budget Clearing Account balances, $37,515 and $16,663, respectively, that related to their activity.
- JMD recorded entries in CSP's travel advance account for $5,015, even though CSP did not issue travel advances to its employees.
- JMD recorded refund entries for PSA $74,175 and CSP $205,913, in which neither agency was able to provide supporting documentation.
- Differences were identified between the year end trial balance generated by JMD and CSP and PSA.
- JMD erroneously recorded revenue in PSA's trial balance.

These matters appear to result from CSP and PSA management's lack of monitoring controls over JMD activities on a regular basis. Additionally, CSP and PSA do not review the manual adjusting entries created by JMD.

OMB Circular A-123 states "The management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use and misappropriation." OMB 01-09, "Form and Content for Agency Financial Statements" & SFFAS 7 Accounting for Revenue and Other Financing Sources, Paragraph 76 states "recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11." Therefore, if documentation is not readily available and appropriate documentation is not maintained, there is a risk for errors in the balances on the financial statements. Also, by not reviewing JMD's activities, CSP and PSA could overlook potential misstatements in their financial statements.

Recommendations

We recommend:

1. CSP develop and implement a formal policy or procedure that addresses the need to adequately record all purchases that meet the capitalization criteria set forth by the CSP Personal Property Management Policy.

2. CSP develop and implement formal policy (e.g. CSP Personal Property Management Policy) and procedures addressing the need to adequately capture and correctly report all purchases that meet the capitalization criteria for leasehold improvements.

3. CSP and PSA implement a formal and systematic method of accumulating both direct and indirect costs (e.g. labor and hardware) incurred for the development of its project systems. The IT management and financial management personnel should work closely to develop a method of properly tracking costs and for determining whether the costs should be capitalized or expensed. Financial management needs to be made aware of the development and implementation plan of systems that may exceed the $500,000 threshold of capitalization established by both CSP and PSA. Furthermore, financial management should communicate the capitalization requirements for internal use software to the IT management to educate the program managers on the accounting standard and ensure proper accumulation of costs. To support this tracking of internal-use software costs, CSP and PSA should also ensure it retains adequate documentation supporting these capitalized costs.

4. CSP and PSA emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training of what should be recorded as undelivered and delivered orders. This communication should be made to all levels of management to ensure those recording transactions, as well as those reviewing them, fully understand Federal accounting requirements.

5. CSP and PSA implement or revise procedures to require periodic reviews (no less than quarterly) of all open obligations. This should include reviewing open obligations and the related supporting documentation to ensure obligations are correctly classified, documentation supports calculations of undelivered and delivered amounts recorded in the general ledger, and appropriate adjustments are made to deobligate expired obligations.

6. CSP and PSA implement or revise supervisory review procedures to ensure detailed obligation reviews are followed throughout the fiscal year, allowing management to correct problem areason a timely basis. Management should periodically select samples of obligations and verify open obligation reviews are working effectively by recalculating undelivered and delivered amounts based on supporting documentation. This would allow early identification of types of obligations where errors are not detected and corrected by the review process. When the sources or causes of the errors are identified, management should communicate the cause of the error to the appropriate individuals.

7. CSP establish and implement policies and procedures that are consistent with generally accepted accounting principles to ensure the appropriate accounting treatment of grant transactions. CSP should also develop a policy for monitoring sub-recipient activity

and implement an effective monitoring program. This will help ensure CSP is properly accruing for any unbilled services.

8. CSP and PSA should review all services JMD provides to them, and identify a formal monitoring control over these activities.

Management's Response

CSOSA concurs with the findings.

CSP is developing policies and procedures that will provide guidance and oversight for the proper accounting and control of personal property and leasehold improvement purchases.

CSP and PSA financial management and IT management are working to establish processes for correctly identifying and accumulating labor costs and hardware/software purchases related to the development of internal use software. CSP is developing an internal use software policy and procedure.

CSOSA conducts in-depth reviews of open obligations to ensure that the appropriate status is properly reflected. CSP and PSA will continue to improve the monitoring of obligation status, reviewing prior years open obligations and making adjustments to the status of all obligations as the status changes.

CSP began acting as fiscal agent for the Department of Justice, Office of Justice Programs, Weed and Seed and Project Safe Neighborhood grants in FY 2004. CSP was not provided with the appropriate system access to perform accounting for Federal grants. CSP is developing internal procedures to ensure the accurate accounting of grant funds.

CSP and PSA have consistently attempted to monitor the activities of our financial services provider, the Department of Justice's Justice Management Division (JMD). CSP and PSA are committed to implementing an integrated financial management system and are currently reviewing approved Shared Services Providers. CSP is currently performing monthly Fund Balance with Treasury reconciliations and requesting supporting documentation from JMD for any outstanding differences.

Improvements are needed in the financial reporting process. (Material Weakness)

Performance Measures:

During our review of the performance measures reported in the Management's Discussion and Analysis section of the Performance and Accountability Report, we noted CSP could not provide supporting documentation from its systems used to collect performance measure information as of September 30, 2004. This was because CSP management did not retain the system reports containing the performance measure information. CSP was unable to reproduce the information as of September 30, 2004 since some of the data had been subsequently modified.

OMB Circular A-123, *Management Accountability and Control*, requires management to be responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law. Additionally, it states "The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

As a result of a lack of documentation, there is a risk that may not accurately report the figures regarding their performance measures. This may limit the comparability of performance measures to those determined in future fiscal years.

Financial Statement Preparation:

During our testing of the financial reporting process used to prepare financial statements we noted weaknesses in the controls surrounding financial statement preparation, analyses and management oversight. These weaknesses are the result of CSOSA's lack of an integrated financial accounting department, insufficient management oversight over the financial reporting process, and a lack of controls surrounding the preparation of the financial statements. CSOSA's financial reporting process lacked the framework needed to effectively and efficiently implement changes to its financial statements. Specifically, we noted the following issues during our review:

- CSOSA was initially unable to provide to sufficient documentation to evidence the preparation of the financial statements.
- There are no tailored policies and procedures for monitoring reviews related to financial reporting.
- Noted differences with journal voucher balances could not be initially explained by CSP personnel.
- Noted the lack of proper allocation between Federal and Public transaction in the general ledger, which led to the inaccuracy of the financial statement allocations.

CSOSA manages two major component programs, CSP and PSA, with two separate accounting/finance departments. These departments record and track daily operations independently and prepare two separate sets of financial statements. The financial statements are then aggregated for reporting and disclosure purposes. CSOSA currently has two individuals responsible for all financial reporting for CSOSA, without sufficient oversight over this process. CSOSA's communication weakness results from CSOSA lacking a coordinated process among cross-functional teams of finance and program management to monitor business activities to identify situations where accounting evaluation or decision-making may be necessary.

CSOSA's report preparation weakness results from its current financial reporting process lacking the framework needed to effectively and efficiently implement changes to its financial statements. Furthermore, the control processes currently in place to ensure the accuracy of its financial statements are not working as intended by management as noted through our review of the year-end financial statements.

CSOSA does not have sufficient policies and procedures in place to ensure that changes/updates to the financial statements conform to generally accepted accounting principles. For example, CSOSA had numerous errors in their financial statements that were not identified by CSOSA personnel.

If documentation is not readily available and appropriate documentation is not maintained, management is unable to support or demonstrate its financial statements are accurate. Also, by not consolidating the efforts between the component programs, nor having sufficient oversight to ensure the accuracy of the financial statements, CSOSA could overlook potential material misstatements in its financial statements.

Recommendations

We recommend:

1. CSP develop and implement policies and procedures requiring appropriate documentation be retained in a secure location to support its performance measure information.

2. CSOSA should build a closer working relationship between its two major component programs to ensure accurate information is presented in the financial statements for the areas of financial statement consolidation, preparation, disclosure, and presentation. Also, a formalized policy needs to be implemented regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process. In addition, a supervisory review of the accuracy and completeness of the financial statements is needed to track the progress in meeting OMB deadlines. A higher degree of coordination between the groups would reduce the substantive effort that is needed to reconcile the differences identified.

Management's Response

CSOSA concurs with these findings. The FY 2004 financial statements represent CSOSA's first comprehensive financial statements. CSP and PSA have since worked to establish a more effective working relationship between the two components to ensure accurate consolidation and reporting of CSOSA's financial information. CSP and PSA have developed, or are developing, specific policies and procedures to address controls over the various components of financial statement preparation. CSP and PSA are currently reviewing approved Shared Services Providers for potential migration to a new, integrated financial management system with financial statement capabilities

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Plans for maintaining continuity of operations need to be completed and fully tested. (Reportable Condition)

Weaknesses exist with CSOSA's service continuity controls. Our fiscal year 2004 testing revealed that the IT Disaster Recovery Plan (DRP) component of the Continuity of Operations Plan (COOP) had not been finalized and tested. In addition, we noted control weaknesses in PSA's data back-up and off-site storage procedures and processes.

According to **NIST 800-12:** *An Introduction to Computer Security*, Section 11.5.2, page 130, "The contingency plan needs to be written, kept up-to-date as the system and other factors change, and stored in a safe place. A written plan is critical during a contingency, especially if the person who developed the plan is unavailable. It should clearly state in simple language the sequence of tasks to be performed in the event of a contingency so that someone with minimal knowledge could immediately begin to execute the plan."

NIST 800-14: *Generally Accepted Principles and Practices for Securing Information Technology System*, 3.6.5, page 33 states: "A contingency plan should be tested periodically because there will undoubtedly be flaws in the plan and its implementation."

Without an effective Business Continuity Plan that links technology recovery with business recovery, CSOSA faces the risk of not being able to recover their critical operations and systems in the event of a prolonged service interruption. For PSA, this risk is increased because it did not have effective data backup procedures.

Recommendations

We recommend:

- CSOSA establish a completion date for CSOSA IT DRP component of agency's contingency plan.
- CSOSA periodically test the IT Continuity Plan. Based on the test results, determine if an alternate processing facility is needed for the restoration of both CSP and PSA systems.
- CSOSA routinely rotate backup tapes off-site to a secured location

Management's Response

CSOSA concurs with this finding. CSP IT developed an off-site disaster recovery plan in FY 2005. The plan was reviewed by an independent disaster recovery consulting firm and Gartner Group in FY 2006, both of which concurred that the plan was appropriate to meet agency needs for off-site disaster recovery. PSA routinely sends backup tapes to a third party off-site storage location. The agency is currently working to identify funding and implement the plan.

Controls over information security need improvement. (Reportable Condition)

We identified the information security program weaknesses that expose key elements of CSOSA'snetworks, financial applications and general support systems to unauthorized access and/or modification of sensitive data. Weaknesses included incomplete risk assessments and no formal Authority To Operate (ATO); poor monitoring and enforcement of system access; and ineffective communication of security-related responsibilities to data owners and system administrators.

NIST 800-18: Guide for Developing Security Plans for Information Technology Systems, Section 4.1, page 22, states "OMB Circular A-130 "require[s] an assessment of risk as part of a risk-based approach to determining adequate, cost-effective security for a system "Assessing the risk to a system should be an ongoing activity to ensure that new threats and vulnerabilities are identified and appropriate security measures are implemented."

OMB Circular A-130 states "Authorize Processing. Ensure that a management official authorizes in writing use of the application by confirming that its security plan as implemented adequately secures the application. Results of the most recent review or audit of controls shall be a factor in management authorizations. The application must be authorized prior to operating and re-authorized at least every three years thereafter. Management authorization implies accepting the risk of each system used by the application."

NIST 800-18: ***Guide for Developing Security Plans for Information Technology Systems*** Section 4.1, page 22, states "OMB Circular A-130 require[s] an assessment of risk as part of a risk-based approach to determining adequate, cost-effective security for a system "Assessing the risk to a system should be an ongoing activity to ensure that new threats and vulnerabilities are identified and appropriate security measures are implemented."

NIST 800-18: ***Guide for Developing Security Plans for Information Technology Systems*** Section 4.5, page 24, states "authorization provides a form of quality control and is required under OMB Circular A-130. It forces managers and technical staff to find the best fit for security, given technical constraints, operational constraints, and mission requirements."

NIST 800-18: ***Guide for Developing Security Plans for Information Technology Systems*** Section 4.4.3, page 26, states "the system's security features should be configured and enabled, the system should be tested and installed or fielded, and the system authorized for processing."

NIST 800-12: *An Introduction to Computer Security* states "User account management typically begins with a request from the user's supervisor to the system manager for a system account. This request may be sent through the application manager to the system manager. This will ensure that the systems office receives formal approval from the "application manager" for the employee to be given access. The request will normally state the level of access to be granted, perhaps by function or by specifying a particular user profile. (Often when more than one employee is doing the same job, a "profile" of permitted authorizations is created.)"

CSOSA Account Management Policy, page 4, states that "the Request for Computer Access form is used to create, change, or delete automated information system accounts. The form can be located on the CSOSA Intranet...The completed form must be submitted to Information Technology Security...Accounts shall be created after all signatures and approvals have been completed on the Request for Computer Access Form."

Until a complete agency-wide information system security program is implemented and maintained, CSOSA's ability to mitigate effectively the risk of unauthorized access to, and/or modification or disclosure of, sensitive BOP information will be impaired. Unauthorized access to sensitive data can result in the loss of data, in the loss of other assets, and/or in compromised privacy of information.

Recommendations

We recommend:

- CSOSA assign specific resources for developing, documenting, approving, and implementing an agency-wide system security program that, at a minimum, follows the guidelines and standards prescribed by OMB Circular A-130 and NIST 8000-18.
- CSOSA develop enforcement mechanisms to ensure that all users comply with the agency-wide information security program, as well as consistently enforce policies and procedures for logical access to information resources that are based on the concepts of "least possible privilege."

Management's Response

CSOSA concurs with the audit findings. CSP IT has since taken mitigation steps to remediate these security issues. Since the FY 2004 audit, CSP has created the Office of Information Assurance and designated a Chief Information Security Officer that is dedicated to and responsible for agency-wide information risk management and development of security programs. Certification and Accreditation has been performed for all agency major applications and general support systems with establishment of residual risk and Plan of Action and Milestones. In addition, a Continuous Monitoring program has been established to assess network and host security risk for critical assets on a weekly basis for both CSP and PSA. Penetration testing of networks and applications is also performed quarterly to perform prioritization of risk and remediation strategies. Logical access is also being audited internally by the CSP Office of Information Assurance to ensure proper removal of separated employees and proper authorization of information access to agency assets. PSA IT has completed the Certification and Acceptance process for its two major systems (PRISM, Wintox). Additionally, PSA Policy Statement 5500 (Global Information Security Policy) and its associated management instructions address all areas of Information Security.

System change control procedures for applications and system software need improvement. (Reportable Condition)

CSOSA has not fully developed a formal System Development Life Cycle Methodology (SDLC) and Change Control Plan that details a secure, logical, and consistent frame work to ensure that changes to both components' systems are properly requested, authorized, documented, tested and migrated into production.

NIST Special Publication 800-14 *Generally Accepted Principles and Practices for Securing Information Technology Systems* states that "security, like other aspects of an IT system, is best managed if planned for throughout the IT system life cycle. There are many models for the IT system life cycle but most contain five basic phases: initiation, development/ acquisition, implementation, operation, and disposal.

NIST 800-18: *Guide for Developing Security Plans for Information Technology Systems,* Section 5.MA.5/5.GSS.5, pages 33 and 53, mandates that "all changes to the application software be tested and approved before being put into production." It further states that "all changes to the application software [be] documented."

Without appropriate controls to safeguard the modification of application programs and system software and the movement of programs and data to production, there is a heightened risk that unauthorized, inadvertent, or malicious changes could be made to CSOSA's financial systems.

Recommendations

We recommend:

- CSOSA assign specific resources for update, finalize, and implement a CSOSA-wide system development and change control policies and procedures for all application and system software changes.
- CSOSA develop and implement a policy requiring personnel to maintain complete and proper documentation evidencing the completion of system changes.
- CSOSA develop a process to ensure that their data and system owners adhere to the system development and change control polices and procedures.

Management's Response

CSOSA concurs with the finding. CSOSA does not currently have a complete and formalized SDLC and Change Management program but the processes have been established for Change Management and are going through a review process prior to initiation. Steps are also being taken to create development standards and formalize a repeatables process for system development. In addition, PSA has addressed Change Control in PSA Policy Statement 5505 (Configuration Management), as well as Management Instruction 5555 (configuration Management) and the Configuration Management Plan.

Control improvements are needed in the FMIS2 accounting system. (Reportable Condition)

CSOSA utilizes the Financial Management Information System (FMIS2) accounting system maintained by the Offices, Boards and Divisions (OBDs) of the U.S. Department of Justice. The external auditors of the OBDs reported that OBDs' management has not implemented effective controls over:

- entity-wide security program planning for FMIS2;
- management of logical access for FMIS2 lacks effective controls;
- management of change control for FMIS2 lacks effective controls; and
- segregation of duties monitoring for FMIS2 needs to be strengthened.

This reportable condition is described in CSOSA's fiscal year 2004 audit report because it relies on FMIS2 as its core financial management system. This reportable condition and related recommendations will be addressed to the Justice Management Division of the OBDs, which has primary responsibility over FMIS2, in its *Independent Auditors' Report on Internal Controls over Financial Reporting*. Accordingly, no recommendations for this reportable condition are addressed to CSOSA management.

*   *   *

Status of Prior Year Findings and Recommendations

As required by *Government Auditing Standards*, we have reviewed the status of CSOSA's corrective actions with respect to findings and recommendations from our prior audits of CSOSA. The following table provides our assessment of the progress CSOSA has made in correcting the reportable conditions identified during these audits, including the fiscal year the issue was first reported, our recommendation for improvement, and the status of the condition as of the end of fiscal year 2004:

Year	Reportable Condition	Status
2002	Reportable Condition: Improvements are needed in the recordation of delivered and undelivered orders. Recommendation: The CSOSA should monitor the status of obligations and adjust the status of obligations between undelivered and delivered orders as goods or services are received.	In Process
2003	Reportable Condition: Use the trial balance to prepare financial statements. Recommendation: 1) Utilize the general ledger capabilities of its general ledger along with Treasury's SGL crosswalks to prepare its Statement of Budgetary Resources. 2) Consider the use of a software application to assist with the financial statement preparation process.	Closed

We also noted other less significant matters involving the CSOSA's internal controls that we will communicate to management in a separate letter.

*   *   *

PRICEWATERHOUSECOOPERS

This report is intended solely for the information and use of the management CSOSA, OMB and Congress, and it not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

December 6, 2006

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Report of Independent Auditors on Compliance and Other Matters

To the Director of the Court Services and Offender Supervision Agency :

We have audited the balance sheet of the Court Services and Offender Supervision Agency (CSOSA) as of September 30, 2004**,** and the related statements of net cost, of changes in net position and of financing, and the statement of budgetary resources for the year then ended and issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02*, Audit Requirements for Federal Financial Statements.*

The management of CSOSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to CSOSA. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, which are described below.

Accountability of Tax Dollars Act of 2002 requires that agencies submit quarterly financial statements 45 days after each quarter-end, and audited financial statements (included in a Performance and Accountability Report) within 45 days after the end of the fiscal year. However, CSOSA did not submit quarterly financial statements and did not submit its Performance and Accountability Report within the 45 day time requirement.

Management's Response:

CSOSA concurs. CSOSA is challenged to prepare and have audited comprehensive financial statements within required timeframes, primarily due to the lack of a fully integrated financial management system and also due to lack of necessary resources. CSOSA began submitting timely, quarterly financial statements in the first quarter of FY 2006.

Federal Information Security Management Act (FISMA) of 2002 requires agency management to perform annual internal reviews and requires independent assessments by an agency's Inspectors General. In instances where an Inspector General is not part of the agency, the Director should appoint an independent external party to perform the evaluation. CSOSA did not appoint an independent external party to perform this evaluation; instead it used the same contractor to perform both the internal and external reviews.

Management's Response:

CSOSA concurs. CSOSA agrees that an independent review by an external auditor must be conducted to comply with FISMA. The CSOSA Director will assign responsibility for the review to a senior CSOSA official outside of OIT, who will report to the Director. An independent contractor will perform the review, and the responsible senior CSOSA official will make sure the independent review is free of potential conflicts of interest.

* * *

Under FFMIA, we are required to report whether CSOSA's financial management systems substantially comply with (1) the Federal financial management systems requirements, (2) the applicable Federal accounting standards and (3) the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements. The results of our tests disclosed instances where CSOSA's financial management system did not substantially comply with applicable Federal accounting standards. All significant facts pertaining to this matter, recommended remedial actions and management's response are included in our Report of Independent Auditors on Internal Control dated December 6, 2006.

PRICEWATERHOUSECOOPERS

The report is intended solely for the information and use of the management of the CSOSA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

December 6, 2006

Court Services and Offender Supervision Agency for the District of Columbia

Financial Statements and Notes

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
CONSOLIDATED BALANCE SHEET
As of September 30, 2004

ASSETS		
Intragovernmental		
Fund Balance with Treasury **Note 2**	$	57,000,850
Accounts Receivable, Net **Note 3**		55,364
Advances to Other Federal Agencies **Note 5**		913,526
Total Intragovernmental Assets	$	57,969,740
Accounts Receivable **Note 3**		249,580
General Property, Plant and Equipment **Note 4**		7,081,659
Total Assets	$	65,300,979
LIABILITIES		
Intragovernmental		
Accounts Payable	$	1,779,471
Accrued FECA and Unemployment Liabilities		77,768
Advances from Other Federal Agencies		387,842
Total Intragovernmental Liabilities	$	2,245,081
Accounts Payable		6,213,934
Accrued Payroll and Benefits		2,943,755
Accrued Unfunded Annual Leave		4,184,923
Total Liabilities **Note 6**	$	15,587,692
NET POSITION		
Unexpended Appropriations		49,844,479
Cumulative Results of Operations		(131,192)
Total Net Position	$	49,713,287
Total Liabilities and Net Position	$	65,300,979

The accompanying notes are an integral part of these statements

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2004

Program Costs		
Critical Success Factor 1 - Risk and Needs Assessment		
Intragovernmental Gross Cost	$	2,468,361
Intragovernmental Earned Revenue **Note 7**		(18,723)
Intragovernmental Net Cost	$	2,449,637
Gross Cost with the Public		32,826,713
Earned Revenues from the Public **Note 7**		(248,242)
Net Cost With the Public	$	32,578,471
Total Critical Success Factor 1 - Risk and Needs Assessment	**$**	**35,028,109**
Critical Success Factor 2 - Close Supervision		
Intragovernmental Gross Cost	$	6,144,521
Intragovernmental Earned Revenue **Note 7**		(37,823)
Intragovernmental Net Cost	$	6,106,698
Gross Cost with the Public		76,943,292
Earned Revenues from the Public **Note 7**		(501,468)
Net Cost With the Public	$	76,441,824
Total Critical Success Factor 2 - Close Supervision	**$**	**82,548,522**
Critical Success Factor 3 - Treatment and Support Services		
Intragovernmental Gross Cost	$	1,987,679
Intragovernmental Earned Revenue **Note 7**		(9,700)
Intragovernmental Net Cost	$	1,977,979
Gross Cost with the Public		23,513,061
Earned Revenues from the Public **Note 7**		(128,607)
Net Cost With the Public	$	23,384,454
Total Critical Success Factor 3 - Treatment and Support Services	**$**	**25,362,434**
Critical Success Factor 4 - Partnership		
Intragovernmental Gross Cost	$	905,085
Intragovernmental Earned Revenue **Note 7**		(8,948)
Intragovernmental Net Cost	$	896,137
Gross Cost with the Public		13,168,139
Earned Revenues from the Public **Note 7**		(118,638)
Net Cost With the Public	$	13,049,501
Total Critical Success Factor 4 - Partnership	**$**	**13,945,639**
Total Net Cost Of Operations	$	156,884,703

The accompanying notes are an integral part of these statements

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2004

	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
Beginning Balances	$ 3,420,548	$ 53,084,350
Budgetary Financing Sources:		
Appropriations Received	-	168,435,000
Appropriations Transferred-in\out	-	(25,061,261)
Other Adjustments - Rescissions	-	(993,766)
Appropriations Used	145,619,844	(145,619,844)
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	496,963	-
Imputed Financing From Costs Absorbed by Others **Note 10**	7,216,155	-
Total Financing Sources	$ 156,753,510	$ (3,239,871)
Net Cost of Operations	(156,884,703)	-
Ending Balances	$ (131,192)	$ 49,844,479

The accompanying notes are an integral part of these statements

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2004

BUDGETARY RESOURCES		
Budget Authority		
Appropriations Received	$	168,435,000
Net Transfers		(25,061,261)
Unobligated Balance		
Beginning of Period		21,145,871
Spending Authority from Offsetting Collections		
Earned		
Collected		1,759,388
Receivable from Federal Sources		(57,035)
Change in Unfilled Customer Orders		
Advance Received **Note 5**		387,842
Without Advance from Federal Sources		371,619
Subtotal	$	166,981,424
Recoveries of Prior Year Obligations		4,281,333
Permanently Not Available		(993,766)
Total Budgetary Resources	$	170,268,991
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	$	146,277,015
Reimbursable		2,444,046
Subtotal **Note 12**	$	148,721,061
Unobligated Balances		
Apportioned		19,915,797
Unobligated Balance Not Available		1,632,133
Total Status of Budgetary Resources	$	170,268,991
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net - Beginning of the Period	$	31,413,324
Obligated Balance, Net - End of Period		
Accounts Receivable		(55,364)
Undelivered Orders		20,729,492
Accounts Payable		11,402,769
OUTLAYS		
Disbursements	$	143,909,032
Collections		(2,147,231)
Net Outlays	$	141,761,801

The accompanying notes are an integral part of these statements

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2004

RESOURCES USED TO FINANCE ACTIVITIES:		
BUDGETARY RESOURCES OBLIGATED		
Obligations Incurred **Note 12**	$	148,721,061
Less: Spending Authority from Offsetting Collections and Recoveries		(6,743,147)
Net Obligations	$	141,977,914
OTHER RESOURCES		
Transfers In Without Reimbursement		496,963
Imputed Financing From Costs Absorbed By Others **Note 10**		7,216,155
Net Other Resources Used To Finance Activities		7,713,118
Total Resources Used To Finance Activities	$	149,691,033
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided		3,480,895
Resources That Finance the Acquisition of Assets		1,950,955
Total Resources Used to Finance Item(s) Not Part of the Net Cost of Operations	$	1,529,940
Total Resources Used to Finance the Net Cost of Operations	$	151,220,972
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability		3,564,093
Decrease in Exchange Revenue Receivable from the Public		(129,942)
Other		77,768
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods **Note 9**		3,511,919
Components not Requiring or Generating Resources		
Depreciation and Amortization		1,960,711
Other		191,100
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	5,663,731
Net Cost of Operations	$	156,884,703

The accompanying notes are an integral part of these statements

Note 1: Summary of Significant Accounting Policies:

A. Description of Entity

The Court Services and Offender Supervision Agency (the Agency) for the District of Columbia is an independent agency created by the National Capital Revitalization and Self-Government Improvement Act of 1997 (the Act). During August 2000, the Agency was certified as an independent agency within the Executive Branch of the federal government. Prior to that time the Agency was under the control of a Trustee, appointed by the Attorney General. The Agency is responsible for the functions of: 1) the former District of Columbia (D.C.) Board of Parole, 2) the D.C. Probation function, formerly a part of the District of Columbia Courts, and 3) the D.C. Pretrial Services Agency (the Pretrial Services Agency has authority to function as an independent entity of the Agency.) The Parole and Adult Probation functions are now known as the Community Supervision Program of the Agency.

The mission of the Agency is to increase public safety, prevent crime, reduce recidivism, and support the fair administration of justice in close collaboration with the community. The Agency will enhance decision-making and provide effective community supervision, thereby ensuring public confidence in the criminal justice system.

The majority of the Agency's funding comes from federal payments enacted through District of Columbia appropriations. Additional funding is provided through grants from the Department of Justice and the State of Maryland. This additional funding consists of reimbursement work performed by CSOSA on behalf of the requesting entity.

For the purpose of this financial statement package, the Agency's reporting entity is comprised of two components: **(1)** the Community Supervision Program (CSP) and, **(2)** the Pretrial Services Agency (PSA). In FY 2004, the Agency was appropriated $168,435,000 from Congress, of which the following allocation was made:

	CSP	PSA	PDS	TOTAL
Appropriation	$104,949,000	$38,276,000	$25,210,000	$168,435,000
Rescission	619,199	225,828	148,739	993,766
Net Appropriation	$104,329,801	$38,050,172	$25,061,261	$167,441,234

During FY 2004, CSP reprogrammed a total of $865,000 to PSA. CSOSA is reflecting the portion of the appropriated amount that was transferred to the Public Defenders Service (PDS). Although PDS is included with CSOSA's appropriation language, they are an independent agency and have no relationship to CSOSA. Therefore, these funds are being reflected as transferred to PDS and are not considered part of CSOSA's net budgetary resources, assets, liabilities or net cost of operations.

B. Basis of Presentation

These financial statements have been prepared from the books and records of CSOSA in accordance with generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements."

Note 1: Summary of Significant Accounting Policies (con't):

C. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the federal budgetary basis of accounting, funds availability is recorded based upon legal considerations and constraints. Budget authority is the authority provided by federal law to incur financial obligations that will result in outlays or expenditures.

D. Revenues and Other Financing Sources

The Agency receives the majority of funding needed to support its programs through Congressional appropriations. CSOSA receives an annual appropriation that may be used, within statutory limits, for operating and capital expenditures. CSOSA also has a No-Year appropriation. This No-Year appropriation has been designated as: "available until expended for construction expenses at new or existing facilities", see Public Law 107-96. Additional funding is provided through grants from the Department of Justice and the State of Maryland. CSOSA earns exchange revenue through inter-agency agreements with other Federal entities for which CSOSA provides grant administration services. Revenues are recognized at the time related program or administrative expenses are incurred. CSOSA reviews and classifies inter-agency agreements as either exchange or transfers in.

E. Fund Balance with Treasury

Funds with the Treasury represent primarily appropriated funds available to pay current liabilities and finance future authorized purchases. Treasury, as directed by authorized certifying officers, processes receipts and disbursements on behalf of CSOSA. CSOSA does not maintain cash in commercial bank accounts nor does CSOSA maintain an imprest fund.

F. Accounts Receivable

Accounts receivable consists of receivables and reimbursements due from Federal agencies and others. Generally, intragovernmental accounts receivable are considered fully collectible.

G. Property, Plant and Equipment

Property and equipment is recorded at cost and is depreciated using the straight-line method over the useful life of the asset, when the estimated useful life of an asset is two or more years. Leasehold improvements are capitalized when the improvements are made and amortized over the remaining term of the lease agreement. CSOSA has established capitalization thresholds, $100,000 for leasehold improvements and $25,000 for equipment, to conform with the materiality approach for the accounting that supports CSOSA's financial statements. Other property items, normal repairs, and maintenance are charged to expense as incurred.

Internal use software is capitalized when developmental phase costs or enhancement costs are $500,000 or more and the asset has an estimated useful life of two or more years.

Note 1: Summary of Significant Accounting Policies (con't):

H. Advances

Payments in advance of the receipt of goods and services are recorded as advances at the time of payment and are recognized as expenditures/expenses when the related goods and services are received.

I. Liabilities

Liabilities represent the monies or other resources that are likely to be paid by CSOSA as the result of a transaction or event that has already occurred. However, no liability can be paid absent the proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources.

J. Contingencies and Commitments

CSOSA is a party to various administrative proceedings, legal actions and claims. A liability would be generally recognized as an unfunded liability for any legal actions where unfavorable decisions are considered probable and an estimate for the liability can be made. Contingent liabilities that are considered reasonably possible are disclosed in the notes to the financial statements. Liabilities that are considered "remote" are not recognized in the financial statements or disclosed in the notes to the financial statements.

K. Annual, Sick and Other Leave

Annual and compensatory leave is accrued, as an unfunded liability, as it is earned. Each year the accrued unfunded annual leave liability account is adjusted to reflect the current unfunded leave earned and the current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, CSOSA pays interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services, whichever is later.

M. Retirement Plans

CSOSA participates in the retirement plans offered by the Office of Personnel Management (OPM) and does not maintain any private retirement plans. CSOSA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered by the CSRS, CSOSA contributes 7.0 percent of the employees' gross pay for normal retirement and 7.5 percent for law enforcement retirement. For employees covered by the FERS, CSOSA contributes 10.7 percent of employees' gross pay for normal retirement and 23.3 percent for law enforcement retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by under the FERS, a TSP account is automatically established and CSOSA is required to contribute 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by CSRS employees. CSOSA does not report

Note 1: Summary of Significant Accounting Policies (con't):

CSRS or FERS assets, accumulated plan benefits or unfunded liabilities, if any, which may be applicable to its employees, such reporting is the responsibility of OPM. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government", requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service, see note 10 on Imputed Financing Sources for additional details.

N. Federal Employees Compensation Benefits

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

> **Actuarial Liability:** The U.S. Department of Labor (DOL) calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value. The resulting Federal Government liability is then distributed by agency. The portion of this liability (if any) would include the estimated future cost of death benefits, workers' compensation, medical and miscellaneous cost for approved compensation cases for CSOSA employees. Due to the size of CSOSA, DOL does not report CSOSA separately, therefore, CSOSA is not able to calculate and record an Actuarial FECA Liability.
>
> The FECA actuarial liability (if any) is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed.
>
> **Accrued Liability:** The accrued FECA liability (if any) is the amount owed to DOL for the benefits paid from the FECA Special Benefits Fund for which CSOSA has not yet reimbursed.

O. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Fund Balance with Treasury:

The Fund Balance with Treasury amount represents the unexpended cash balance of CSOSA's Treasury Symbols and consists of the following as of September 30, 2004:

Note 2: Fund Balance with Treasury (con't):

Fund Balance	CSP	PSA	Total
Appropriated Funds	$51,309,398	$5,691,452	$57,000,850

Status of the Fund Balance with Treasury consists of the following:

Status of Fund Balance	CSP	PSA	Total
Unobligated Balance			
Available	$19,143,390	$ 772,407	$19,915,797
Unavailable	413,255	1,218,878	1,632,133
Obligated Balance not yet Disbursed	30,509,306	4,943,614	35,452,920
Total	$50,065,951	$6,934,899	$57,000,850

Note 3: Accounts Receivable

CSOSA's Intragovernmental Accounts Receivables consists of unsupported charges by the United States Department of Agriculture, National Finance Center, for employee compensation and benefits costs. CSOSA's Public Accounts Receivables consists of services provided in conjunction with a reimbursable grant from the State of Maryland.

Receivables	CSP	PSA	Total
Intragovernmental Receivables	$-0-	$55,364	$55,364
Total Receivables	$-0-	$55,364	$55,364

Receivables	CSP	PSA	Total
Public Receivables	$249,580	-0-	$249,580
Total Receivables	$249,580	-0-	$249,580

Note 4: General Property, Plant and Equipment

Items are generally depreciated using the straight-line method. CSOSA has established the following capitalization thresholds: Equipment for $25,000 or greater, with a useful life of two years; Leasehold Improvements for $100,000 or greater, amortized over the remaining term of the current lease agreement; and $500,000 for Software Development with a useful life of two or more years, to conform with the materiality approach for the accounting that supports CSOSA's financial statements. Equipment consists of laboratory equipment used for the purpose of drug testing related to CSOSA's mission to supervise offenders. Equipment also includes general office equipment used to support CSOSA administratively. Leasehold improvements represent modifications made to leased assets for CSOSA's specific needs. The Supervision Management Automated Record Tracking system (SMART) is CSOSA CSP's Internal Use Software. SMART was development in-house and is continuously updated and enhanced. These enhancements enable CSOSA to better track the individuals under CSOSA's jurisdiction. The Pretrial Real Time Information System Manager (PRISM) is PSA's Internal-Use Software. PRISM provides electronic

Note 4: General Property, Plant and Equipment, Net (con't):

information on bench warrants that have been issued for defendants who failed to appear for Court. Through the Data Warehouse, PSA is able to extract aggregate performance information from PRISM on rearrest and failure to appear (FTA). Property, Plant and Equipment balances as of September 30, 2004 are as follows:

CSP	Purchase Cost	Accumulated Depreciation	Net Book Value
Equipment	1,394,622	(654,928)	739,694
Leasehold Improvements	3,998,196	(968,550)	3,029,646
Internal Use Software	3,274,113	(1,460,411)	1,813,702
Total CSP	$8,666,931	$(3,083,889)	$5,583,042
PSA	**Purchase Cost**	**Accumulated Depreciation**	**Net Book Value**
Equipment	$ 519,998	$ (230,084)	$ 289,914
Leasehold Improvements	126,122	(126,122)	-0-
Internal Use Software	3,021,758	(1,813,055)	1,208,703
Total PSA	$ 3,667,878	$(2,169,261)	$1,498,617
Total CSOSA	$12,334,809	$(5,253,150)	$7,081,659

Note 5: Advances to Other Federal Agencies

Advances to Other Federal Agencies consist of an advance to the Department of the Interior for a Government Wide Acquisition Contract (GWAC), to assist with information technology services and support.

Note 6: Liabilities Covered / Not Covered by Budgetary Resources

Liabilities represent the monies or other resources that are likely to be paid by CSOSA as the result of a transaction or event that has already occurred. Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources. Liabilities not covered by budgetary resources consist of Accrued Unfunded Annual Leave earned but not used as of September 30. The accrued unfunded annual leave liability is adjusted as leave is earned and used through out the year. The expense for these accruals will be funded from future Congressional actions as the expenses are incurred. The annual net change of the Accrued Unfunded Annual Leave is reflected in the Statement of Financing.

Liabilities Not Covered by Budgetary Resources	CSP	PSA	Total
Accrued Unfunded Annual Leave	$3,073,088	$1,111,835	$4,184,923

Note 6: Liabilities Not Covered by Budgetary Resources (con't):

Liabilities Covered by Budgetary Resources	CSP	PSA	Total
Accounts Payable	$1,493,912	$285,559	$1,779,471
Accrued FECA and Unemployment Liability	67,768	10,000	77,768
Advances from Other Federal Agencies	387,842	-0-	387,842
Total Intragovernmental Liabilities	$1,949,522	$295,559	$2,245,081
Accounts Payable	$ 4,618,812	$1,595,121	$ 6,213,933
Accrued Payroll and Benefits	2,039,071	904,684	2,943,755
Total Liabilities	$11,680,493	$3,907,199	$15,587,692

Note 7: Exchange/Earned Revenue

CSOSA earns exchange revenue through inter-agency agreements with other Federal and State entities for which CSOSA provides grant administration services. Revenues are recognized at the time related program or administrative expenses are incurred. CSOSA reviews and classifies their inter-agency agreements as either exchange or transfers in.

Note 8: Leases

CSOSA leases office space under various operating leases. Many of the operating leases that expire over an extended period of time include an option to renew the lease for additional periods. The majority of space that CSOSA leases is, based on the GSA square footage requirements and the rental charges are intended to approximate commercial rates. It is anticipated that, in most cases, CSOSA will continue to lease space.

Future Operating Lease Payments Due	Buildings
Fiscal Year 2005	$11,590,766
Fiscal Year 2006	11,716,150
Fiscal Year 2007	12,036,939
Fiscal Year 2008	12,366,630
Fiscal Year 2009	12,705,466
After 2009	13,053,707
Total Future Operating Lease Payments Due	$73,469,658

Note 9: Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods.

Liabilities that are not covered by budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities consist of the value of the accrued unfunded annual leave.

Note 9: Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods (con't):

Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	CSP	PSA	Total
Increase in Annual Leave Liability	$2,883,379	$680,714	$3,564,093
Decrease in Exchange Revenue Receivable from the Public	(129,942)	-0-	(129,942)
Accrued FECA and Unemployment Liabilities	67,768	10,000	77,768
Total	$2,821,205	$690,714	$3,511,919

Note 10: Imputed Financing Sources

Imputed financing recognizes actual cost of future benefits to employees, the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), and the Retirement Plans that are paid by other Federal entities. SFFAS No. 5, "Accounting for Liabilities of the Federal Government", requires that employing agencies recognized the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate these costs. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees. For "regular" and "law enforcement" employees of FERS and CSRS, OPM calculated that 12.0 percent and 25.1 percent for FERS and 25.0 percent and 40.3 percent for CSRS respectively of each employee's salary would be sufficient to fund these projected pension benefit costs. The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed.

Imputed financing sources:

	CSP	PSA	Total
FEHB	$3,001,988	$1,221,200	$4,223,188
FEGLI	8,387	3,314	11,701
Pensions	2,441,263	540,003	2,981,266
Total	$5,451,638	$1,764,517	$7,216,155

Note 11: Contingencies and Commitments

CSOSA/CSP is a party to various administrative proceedings, legal actions and claims. As of September 30, 2004, there were seven pending legal actions where adverse decisions are considered to be reasonably possible and one legal action that is considered probable. In management's opinion, these actions are individually and collectively not material to these financial statements. The aggregate potential loss of these actions is estimated to be $25,843,292. With the exception of one claim, in which CSOSA is an involved party, along with the Bureau of Prisons and the U.S. Parole Commission, any liability that may result from this case, could be shared among the involved parties

Note 12: Apportionment Categories of Obligations Incurred:

Obligations incurred as reported on the Statement of Budgetary Resources, for the period ended September 30, consisted of the following: (Category A consists of the amounts apportioned each quarter by OMB during the fiscal year.)

Fiscal Year Ended Sept. 30, 2004 **Obligations Apportioned Under:**	**Direct** **Obligations**	**Reimbursable** **Obligations**	**Total**
CSP			
Category A	$108,950,407	$2,444,046	$111,394,453
PSA			
Category A	37,326,608	-0-	37,326,608
Total	$146,277,015	$2,444,046	$148,721,061

Note 13: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government:

The following is provided as a reconciliation of the Statement of Budgetary Resources and the Budget of the United States Government:

Fiscal Year 2004	**Budget Resources**	**Obligations Incurred**	**Net Outlays**
Statement of Budgetary Resources: (in millions of dollars)			
CSP – Annual Appropriation	$105,000,000	$111,000,000	$103,000,000
CSP – No-Year Appropriation	13,000,000	0	0
PSA - Annual Appropriation	38,000,000	37,000,000	39,000,000
Sub-Total	$156,000,000	$148,000,000	$142,000,000
Spending Authority from Offsetting Collections			
Collections	-0-	(2,000,000)	-0-
Unfilled Customer Orders	-0-	-0-	-0-
Sub-Total	$156,000,000	$146,000,000	$142,000,000
Recoveries of Prior Year Obligations	-0-	(4,000,000)	-0-
Total	$156,000,000	$142,000,000	$142,000,000
Less Rescission	(1,000,000)	-0-	-0-
Plus PDS	25,000,000	25,000,000	25,000,000
Budget of the United States	$180,000,000	$167,000,000	$167,000,000

CSOSA is including the portion of the appropriated amount that was transferred to the Public Defenders Service (PDS). Although PDS is included with CSOSA's appropriation language, they are an independent agency and have no relationship to CSOSA. In order for this reconciliation to balance to the President's budget, the PDS portion must be incorporated.

Court Services and Offender Supervision Agency for the District of Columbia

Other Accompanying Information

Unaudited

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
Intragovernmental Assets
For the Year Ended September 30, 2004

Trading Partner	Fund Balance with Treasury	Accounts Receivable	Other
Department of the Treasury	$ 57,000,850	$ -	$ -
Department of Agriculture	-	55,364	-
Department of the Interior	-	-	913,526
	$ 57,000,850	$ 55,364	$ 913,526

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
Intragovernmental Liabilities
For the Year Ended September 30, 2004

Trading Partner	Accounts Payable	Accrued FECA / Unemployment	Other
General Services Administration	$ 1,132,432	$ -	$ -
Department of Justice	274,441	-	-
Equal Employment Opportunity Commission	13,802	-	-
Department of Health and Human Services	8,296	-	-
Federal Mediation and Conciliation Services	800	-	-
National Archives & Records Administration	4,000	-	-
Addiction Prevention and Recovery Administratior	48,240	-	-
Office of Personnel Management	117,308	-	-
General Printing Office	19,975	-	-
Department of Agriculture	365	-	-
Department of the Treasury	225	-	-
Federal Register	13,485	-	-
Public Health Service	146,102	-	-
Department of Labor	-	77,768	-
Department of Justice	-	-	387,842
	1,779,471	$ 77,768	$ 387,842

COURT SERVICES AND OFFENDER SUPERVISION AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
Intragovernmental NonExchange Revenue
For the Year Ended September 30, 2004

Trading Partner	NonExchange Revenue - Transfers-In	
Department of Justice	$	496,963