Court Services and Offender Supervision Agency
FY 2008 Agency Financial Report

Management's Discussion and Analysis

A. 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, 2000, 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 entities within 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 composed of two components: The Community Supervision Program (CSP) and the District of Columbia Pretrial Services Agency (PSA). CSP is responsible for supervision of offenders on probation, parole or supervised release, as well as monitoring Civil Protection Orders and deferred sentence agreements; PSA is responsible for supervising pretrial defendants.

Up to and including fiscal year (FY) 2007, CSOSA's appropriation included funding for the District of Columbia's Public Defender Service (PDS). As of FY 2008, PDS is organizationally and financially independent of CSOSA.

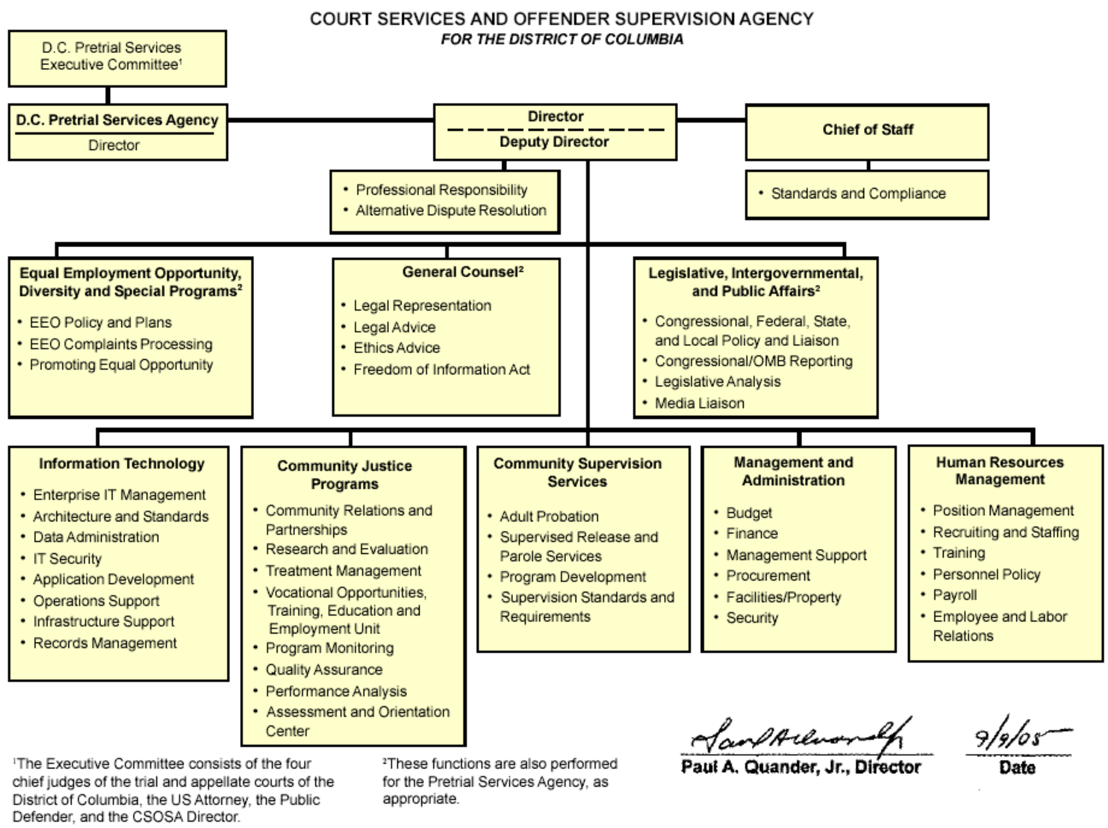
The CSP, through its Community Supervision Services Division (CSS), provides a range of supervision case management and related support services. These diverse services support CSOSA's commitment to public safety and crime reduction through the provision of timely and accurate information to judicial 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.

For FY 2008, CSOSA has chosen to produce an alternative to the consolidated Performance and Accountability Report (PAR) called an Agency Financial Report (AFR). CSOSA included its FY 2008 Annual Performance Report with its FY 2010 Congressional Budget Justification and posted it on the CSOSA web site, located at WWW.CSOSA.GOV.

B. Organizational Structure

CSOSA's organization structure is shown below:



C. Performance Goals, Objectives 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. Although the Community Supervision Program (CSP) and the Pretrial Services Agency (PSA) have two distinct mandates, they share common strategic goals that guide the Agency's management and operations:

I. *Establish strict accountability and prevent the population supervised by CSOSA from engaging in criminal activity.*

   If CSOSA's strategies are successful, offenders and defendants under our supervision will commit fewer crimes. CSOSA's programs 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.

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 towards these goals by monitoring key outcomes. The outcomes that best express progress toward these goals are explained below. Information is reported separately for CSP and PSA.

CSOSA seeks to achieve a significant reduction in recidivism for violent and drug-related crime among the supervised offender population. Historically, local recidivism trends have not been available; however, in FY 2008 CSOSA completed a three-year baseline recidivism study and will continue to track recidivism annually. 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 evidence based practices and includes an effective system of immediate graduated sanctions. These sanctions provide prompt, uniform responses to non-compliant offender/defendant behavior. Sanctions-based supervision has proven effective in reducing recidivism and significantly decreasing drug use. To implement this intensive model, CSOSA's CSP has developed an offender risk and needs assessment process and has reduced supervision caseloads to achieve optimal case management, which includes adhering to CSP's stringent contact standards for individuals under supervision.

CSOSA has developed operational strategies, or Critical Success Factors, encompassing all components of community-based supervision. The four Critical Success Factors are:

1. 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.

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

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

4. Establish **Partnerships** with other criminal justice agencies and community.

The Critical Success Factors are the foundation for CSOSA's structure and operations, including the Agency's allocation of resources and performance measurement. In terms of both day-to-day operations and long-term goals, these four principles guide what CSOSA does. They unite CSP's and PSA's strategic plans, operations, and budgets.

D. Key Performance Information

Community Supervision Program

CSOSA's Community Supervision Program (CSP) has defined offender *Rearrest* and *Drug Use* as the two performance indicators most closely linked to our public safety mission. The Agency implemented a new case management system in FY 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 purging of many duplicate records and closed cases from the system. Since FY 2002, data reliability gradually increased to the point where current data may be considered a reliable baseline.

<u>Strategies and Resources</u>

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 comprehensive knowledge of the offender. 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 has completed a major initiative to update and improve our automated offender screening and assessment process. CSP's revised screening instrument, the Auto Screener, combines risk and needs assessment into a single automated 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 instrument was implemented in March 2006.

Initial drug screening is also an important element of Risk and Needs Assessment. All offenders submit to drug testing throughout supervision. 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). Positive drug tests are subject to immediate sanctions.

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, CSP has made great progress in reducing offender caseloads to appropriate levels. As of September 30, 2008 overall supervision caseloads were reduced to 53 offenders for each supervision CSO. CSOSA has also established a number of special supervision teams with even lower caseloads to manage high-risk or special needs offenders.

Another important component of Close Supervision is CSOSA's strategy 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 six field sites located throughout high-risk areas of the community. This structure also facilitates assigning cases to CSOs by Police Service Area, rather than by releasing authority (U.S. Parole Commission or D.C. Superior Court). CSOs supervise a mixed probation and parole caseload and perform home and employment verifications 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 hours, tightening curfews and restricting offender movement in the community using Global Positioning System monitoring, placement in a residential sanctions facility, and assignment to CSP's Day Reporting Center (DRC). The DRC is an on-site cognitive restructuring program designed to change offenders' adverse thinking patterns, provide education and job training to enable long-term employment, and hold unemployed offenders accountable during the day. These sanctions can be assigned routinely and administratively, according to a set of published protocols, thus eliminating the necessity to take every violation and proposed sanction before the releasing authority for approval. Sanctions also are clearly 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 CSO know what the consequences will be 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 has a zero tolerance drug use policy. All offenders are placed on a drug testing schedule, with frequency of testing dependent upon prior substance abuse history, supervision risk level, and length of time under CSP supervision. Since Agency inception, CSP has been able to achieve significant increases in the number and frequency of offender drug tests.

One of CSOSA's most important accomplishments was the implementation of the Re-entry and Sanctions Center (RSC) at Karrick Hall in February 2006. The RSC provides intensive residential assessment and reintegration programming for high-risk offenders/defendants who violate conditions of their release. The RSC program is intended to introduce the offender/defendant to a range of tools that they can use to prevent relapse and improve behavioral control, and to identify the most effective subsequent treatment interventions for each participant.

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.

Early indications reveal that drug testing and treatment are having a positive effect among supervised offenders. CSP has completed the first in a series of drug treatment effectiveness studies, with promising results. These studies provide preliminary indications of the short-term (90 days post-treatment) effect of treatment on drug usage 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 among 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.

The National Research Council of the National Academies recommends offender re-entry programs that focus on intensive and detailed pre-release and post-release counseling; immediate enrollment in drug treatment programs; intense parole supervision; assistance in finding work; short-term halfway houses; mentors who are available at the moment of release; and assistance in obtaining identification, clothes, and other immediate needs. The National

Academy further recommended long-term assistance that includes cognitive-behavioral treatment approaches[1].

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.

Starting in FY 2004, CSP assumed fiscal agent responsibilities for two Department of Justice grant programs with the purposes of increasing public safety and accountability within the District: 1) Weed & Seed, and 2) Project Safe Neighborhood.

Planned and Actual Performance

CSP has changed the way community supervision occurs in the District of Columbia. CSOSA implemented the significant operational and managerial changes needed to implement its model 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 intended as an interim solution.

The design and deployment of the Supervision and Management Automated Record Tracking (SMART) System, was the Agency's top priority since 2001. CSOs were the primary designers of SMART, working collaboratively with the Agency's 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 deploying a system). A major redesign and upgrade of SMART (Version 3.0) was implemented in March 2006.

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 the data has been validated.

[1] Parole, Desistance from Crime, and Community Integration. Executive Summary from the Committee on Community Supervision and Desistance from Crime, National Research Council of the National Academies (2007).

With the deployment of SMART, the Agency has made a major commitment to changing supervision and record keeping 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.

SMARTStat: CSP implemented the SMARTStat performance management initiative in FY 2007. Modeled after New York City's CompStat and Baltimore City's CitiStat, SMARTStat enables managers at all levels to gain a data-driven understanding of agency performance at the individual employee, team, branch, and organization levels. SMART Stat focuses on a series of critical case management practices, with the goal of improving the rate of offenders who successfully complete supervision and reintegrate into society. Executive staff and branch chiefs meet regularly to review SMARTStat results and plan operational strategies to improve performance. CSP's enterprise data warehouse (EDW) is the source of SMARTStat data. The implementation of SMARTStat represents a major enhancement of the agency's ability to use current, accurate performance data as the basis for day-to-day management decisions.

Rearrest: Rearrest is a commonly used indicator of criminal activity among offenders on probation, parole, and supervised release, though it does not in itself constitute recidivism.

CSP began studying parole rearrest in FY 1999. Between FY 1999 and FY 2000, parole rearrest appeared to decrease substantially as CSOSA put more aggressive case management strategies in place. Early data indicate that in two years the parole rearrest rate dropped from 27 percent of the average monthly population to 20 percent. When this data is corrected to exclude multiple rearrests of the same person, the percentage drops to 16 percent of the average monthly population. A 16 percent rearrest rate held constant throughout FY 2000 and FY 2001. In FY 2002, the first SMART data revealed that this decrease appeared to be holding. Initial probation data indicated a baseline rearrest rate of 21 percent of the supervised population in FY 2002.

In FY 2003, SMART data was more widely available, and rearrest data for all supervision types could be generated. Between FY 2003 and FY 2007, total rearrest has fluctuated between 15 and 20 percent of the supervised population. Supervised release cases have the highest rate of rearrest, averaging 8 percent higher than parole cases. Rearrest statistics since FY 2003 are summarized in the following table:

Percentage of Supervised Population Rearrested, FY 2003 – FY 2008

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Probation	13%	13%	17%	18%	16%	16%
Parole	17%	20%	22%	23%	19%	19%
Supervised Release	NA	NA	31%	30%	28%	29%
Total population*	15%	18%	19%	20%	18%	19%

*Includes probation, parole, supervised release, civil protection orders, and deferred sentence agreement cases.

It is difficult to set targets or measure progress regarding rearrest for a number of reasons:

- It is difficult to determine the extent to which CSP activities can be expected to influence rearrest.
- A significant percentage of rearrests never result in charges being filed.
- Local government and police department initiatives may affect the number and location of rearrests.
- Many offenders are rearrested for traffic or public order offenses (loitering, having an open container of alcohol, etc.) which are not necessarily indicative of criminal activity.

CSOSA began tracking rearrests as one of several measures related to compliance with release conditions. We will continue to track rearrests and are exploring ways to disaggregate this data to be more meaningful, such as tracking by type of charge and setting performance targets based on supervision level.

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, 'crackdown' enforcement by law enforcement agencies (e.g., crime emergencies and other forms of targeted enforcement practices), a circumstantial choice by the individual (that is, he/she 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.). This indicator therefore creates the perception that supervision controls a wider range of individual circumstances and choices than it actually does.

Rearrest trends provide a barometer of offender accountability and their level of compliance with all conditions of release. 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 2003-FY 2007), it is possible that CSP's supervision model is having a modest effect on parole rearrest. CSP is undertaking additional research to determine 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: CSP has greatly increased the role of surveillance drug testing in community supervision. Testing both monitors the offender's compliance with the releasing authority's requirement to abstain from drug use (and usually alcohol use as well) and indicates the offender's level of need for treatment placement. CSP implemented an agency-wide drug testing policy in September 2000. This policy defines the schedule under which eligible offenders will be drug tested. Offenders can become ineligible for testing (other than initial testing at intake) for a variety of administrative reasons, including change to warrant status, case transfer to another jurisdiction, rearrest, and admission to treatment (at which point testing is done by the treatment provider). The policy was revised in August 2005 to include implementation of random testing for offenders who do not have histories of drug use and establish a record of negative tests.

Drug testing data is provided by PSA, which processes tests for CSP in its laboratory. Test results are immediately available to CSOs via an interface between the lab's computer system and SMART. However, because SMART was used to determine which offenders were eligible for testing according to agency policy, only data since FY 2002 is considered fully reliable.

Drug test results are summarized in the table below; since FY 2005 the results have been fairly stable, with about half of the tested population reporting at least one positive drug test in the period.

Percentage of Tested Population Reporting at Least One Positive Drug Test

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Tests including alcohol	64%	55%	52%	51%	51%	52%
Tests excluding alcohol	NA	51%	48%	46%	46%	47%

CSP is working to develop revised drug testing protocols that maximize testing effectiveness and reduce the number of tests conducted on groups of offenders who are very unlikely to test positive. These revised protocols may save significant resources without reducing the effectivness of the overall testing program. The relatively constant rate of positives observed in FY 2005 – FY 2008 indicate that a baseline level has been established under the current policy and eligibility criteria. The challenge now is to use this knowledge to inform program operations and to determine the extent to which CSP's program strategies can be expected to impact this rate.

Performance Trends. 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 originates from 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 nightly. CSP is moving toward a data warehouse system, which would improve data access and the quality of performance measures.

Assessment of Underlying Factors

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 and implement surveillance drug testing 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. The most intensive contact standards require two contacts 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. These factors encompass the larger issues that impact offender reentry following incarceration, such as the availability of suitable housing and employment.

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 is being designed to 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 completeness 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.

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

The D.C. Pretrial Services Agency (PSA) mission is to assess, supervise and provide services for defendants, and collaborate with the justice community, to assist the courts in making pretrial release decisions. Through these efforts, PSA promotes community safety and return to court. Driven by this mission, 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, treatment and partnerships). The strategies employed by PSA to accomplish these goals are summarized below.

Risk and Needs 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. PSA accomplishes this goal by conducting pre-release investigations, which include both background investigations and defendant interviews for defendants charged with criminal offenses. The Court is provided with release recommendations which are based on the information collected during this process.

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 verify the information provided. Questions are not asked concerning the circumstances of the current arrest. The PSO also 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 reasonably 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 the prerelease investigation information (which includes criminal history) and the associated release recommendation to the courts in a "Pretrial Services Report."

Throughout the prerelease investigation and release recommendation process, PSOs rely on automated information sources, which both PSA and those of other partner criminal justice agencies use to gather and compile information. PSA has long been a leader in the innovative use of information technology. Continuing to improve this technology to better support these processes is a major focus for PSA.

Close 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. PSA recognizes that a continuum of monitoring and supervision needs exist 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 and Support Services. Because drug use contributes to both public safety and flight risks, PSA has developed specialized supervision programs that provide drug treatment. Each of the sanction-based drug treatment programs includes a system of sanctions and incentives designed to motivate compliant behavior and to reduce drug use. Further, each program features the use of a treatment plan that guides case managers in tailoring and modifying therapeutic interventions specifically for a population involved in the criminal justice system. 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 any problems and refer them to needed services. PSA will continue to devote resources to identifying appropriate community-based resources to address all defendant needs, including: medical, educational/vocational services, family services and other social services. As with referral to drug or mental health treatment, PSA will be monitoring defendant use of, and involvement with, social services.

Partnerships. Effective partnering with other justice agencies and community organizations is a major strategy through which PSA enhances public safety in the District's neighborhoods and builds the capacity for support services for defendants under pretrial supervision. It is through these partnerships with the courts, the United States Attorney's Office for the District of Columbia, Office of the Attorney General for the District of Columbia, various District government agencies and nonprofit community-based organizations that PSA can effectuate close supervision of defendants while on pretrial release. In addition, treatment and social service options are developed and/or expanded to enhance PSA's ability to address the social problems that contribute to criminal behavior, thereby increasing defendant's likelihood of success under pretrial supervision. In order for partnerships to be viable, PSA proactively identifies initiatives, seeks partnering entities, and collaborates with stakeholders to develop goals, objectives and implementation plans.

The Office of Justice and Community Relations leads interagency planning for community-based initiatives, develops interagency collaborations with CSOSA's Community Supervision Program, and identifies opportunities for partnerships with other justice agencies and community organizations that enhance the work of PSA.

Planned and Actual Performance

PSA has long been a leader in the D.C. criminal justice system, nationally recognized for its innovative programs combining supervision and treatment, for its utilization of drug testing, and for the use of information technologies and automation. The Pretrial Real-time Information System Manager (PRISM) is an Agency-wide case management system developed to support PSA's mission of ensuring that defendants on conditional release return to court for trial and do not engage in criminal activity. The main purpose of PRISM is to provide reliable information and to improve the timeliness and quality of decisions relating to the release recommendations, supervision and treatment of defendants who enter the criminal justice system in the District of Columbia.

PRISM became operational on March 3, 2002. The system is available 24 hours a day, 7 days a week with virtually no down time. It has proven to be successful in supporting the Agency and in improving the reliability, timeliness and quality of Agency data. PRISM makes use of proven technologies, utilizing the same technology as the World Wide Web. An updated version was implemented in June 2005.

In FY 2003, PSA began development of a data warehouse to extract and catalogue commonly used PRISM data elements. The warehouse stores information on Agency long-term outcomes, performance measures and work processes and is constantly evolving to better meet the informational needs of PSA management and staff. PSA has begun expanding the data warehouse to also allow for collection of management data for many of the diagnostic, supervision and treatment functions. These data can then be used for quality assurance and control purposes and to identify trends, allowing for quick response to problematic issues. Focus is being placed on disaggregating the data to allow for tracking of individual PSO performance and unit performance, as well as Agency-wide performance.

PSA also identified and tracks several outcome and performance measures to help manage the Agency's progress toward achievement of its goals and consequent contributions to CSOSA's success. These selected measures address the most important activities conducted for each Critical Success Factor. Many other activities occur, but those chosen are those that PSA has identified as making the most important contributions to outcomes. To help ensure that its outcome and performance measures are reasonable but ambitious and fit the agency's mission and objectives, PSA regularly reviews measure targets, definitions, and data sources, and makes appropriate changes when needed. PSA completed the most recent of these reviews in April 2009.

PSA has traditionally tracked two critical outcomes: reduction in the rearrest rate for violent and drug crimes during the period of pretrial supervision and reduction in the rate of failure to appear before court. Achievement of these two outcomes depends on many factors. Evaluating each defendant's potential for flight and rearrest is critical as it allows PSA to make the most appropriate release recommendations for each defendant. Based on PSA's understanding of the defendant population and research conducted in the District and in other jurisdictions, providing close supervision coupled with sanctions for noncompliance and reducing drug use are of primary importance. Further, PSA's use of social services, e.g., employment and job training, contributes to behavioral change in the defendant population.

Following its most recent measure review, PSA added a third outcome measure: *the percentage of defendants who remain on release at the conclusion of their pretrial status without a pending request for removal or revocation due to noncompliance.* This new outcome measure complements PSA's guiding principles of ensuring the least restrictive release consistent with public safety and return to court throughout the pretrial stage. It also encourages the use of effective interventions to control pretrial misconduct and encourage positive defendant behavior. PSA will track this outcome measure beginning in FY 2010.

PSA also revised the definitions and targets for several performance measures for FY 2009-FY 2010. These changes reflect PSA's actual performance over the past four fiscal years, its identification of more reliable and accurate trends and data sources in addition to external factors that PSA has a reasonable chance of influencing, and its desire to more closely tie certain measures to PSA's mission, goals and objectives. The revised performance measures used to track activities and results are:

- percentage of defendants who are assessed for risk of failure to appear and rearrest;
- percentage of defendants for whom PSA identifies eligibility for appropriate appearance and safety-based detention hearings;
- percentage of defendants who are in compliance with release conditions at the end of the pretrial period;
- percentage of defendants whose noncompliance is addressed by PSA either through the use of an administrative sanction or through a recommendation for judicial action;
- percentage of referred defendants who are assessed for substance abuse treatment;
- percentage of eligible assessed defendants placed in substance abuse treatment programs;
- percentage of defendants who have a reduction in drug usage following placement in a sanction-based treatment program;
- percentage of defendants connected to educational or employment services following assessment by the Social Services and Assessment Center;
- percentage of referred defendants who are assessed or screened for mental health treatment;
- percentage of service-eligible assessed defendants connected to mental health services;
- number of agreements established and maintained with organizations and/or agencies to provide education, employment or treatment-related services or through which defendants can fulfill community service requirements.

PSA uses a variety of methods to collect performance measurement data. First, data is available through PSA's data warehouse, which extracts information from PRISM on the two key outcomes. Second, manual data is collected on a weekly basis from each of the supervision and treatment units. The manual data supports many of the performance measures and provides additional data of interest to the supervisors in the units. In addition, PSA regularly accesses the databases of other law enforcement agencies for rearrest data and the D.C. Superior Court and the U.S. District Court for failure to appear data. The information is routinely compiled and analyzed. Performance measurement information is computed and transmitted back to the units and to executive leadership on a quarterly basis (or more often if needed). That information can be and is frequently used to make mid-course corrections and to guide future policy and procedure decisions. Performance data for PSA's outcomes from the last several years is included in the chart below. Note that this data is not static and changes throughout the year as new information about re-arrest rates and other metrics comes in from PSO's and other sources.

Outcomes	FY 2005 Actual	FY 2005 Target	FY 2006 Actual	FY 2006 Target	FY 2007 Actual	FY 2007 Target	FY 2008 Actual	FY 2008 Target	FY 2009 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	13%	13%	12%	13%	12%	13%	12%	12%	12%	12%
- violent crimes	3%	1%	3%	1%	2%	1%	2%	1%	3%	3%
- drug crimes	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
For drug-using defendants rearrested for:										
- any crimes	20%	19%	19%	19%	18%	18%	17%	18%	18%	18%
- violent crimes	4%	2%	4%	2%	3%	2%	3%	2%	4%	4%
- drug crimes	7%	7%	7%	7%	6%	7%	6%	7%	7%	7%
For non-drug-using defendants rearrested for:										
- any crimes	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%
- violent crimes	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
- drug crimes	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Percentage of cases in which a defendant failed to appear for at least one court hearing.										
- all defendants	9%	14%	13%	14%	13%	13%	12%	13%	13%	13%
- drug-users	13%	17%	18%	17%	17%	15%	16%	15%	15%	15%
- nondrug-users	6%	9%	7%	9%	7%	9%	7%	9%	9%	9%
Percentage of defendants who remain on release at the conclusion of their pretrial status without pending request for removal or revocation due to noncompliance										
									NA	75%

Performance Trends

Overall rearrest rates for all defendants have remained steady between 12 and 13 percent from FY 2005 to FY 2008. However, outcome measure data clearly illustrate the impact of drug use on rearrest rates. The overall rearrest rate for drug using defendants is consistently over three times as high as the rearrest rate for non-drug using defendants.

After dropping to a low of nine percent in FY 2005, overall Failure to Appear (FTA) rates have ranged from 12 percent to 13 percent from FY 2006 to FY 2008. Drug users consistently have failure rates 1.5 to 2.5 times that of non-users.

Relevance and Reliability

The data warehouse extracts data from PRISM 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, 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. PSOs are able to access this information as soon as it is downloaded into PRISM.

The method of data extraction for rearrest and FTA outcome information was extensively validated prior to deployment of the data warehouse. Several months were spent in this process, comparing the data warehouse data to rearrest and FTA data extracted from PRISM using Structured Query Language (SQL). The ETL (extract, transform and load) process, which physically moves the information from PRISM to the data warehouse, is fixed. 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.

Assessment of Underlying Factors

In considering the external factors that impact PSA and its success, much like CSP, it is clear that those affecting reported performance include those that are under PSA control, factors that are under PSA influence, and factors outside of PSA's control. Each is discussed briefly below:

- *Factors under PSA's 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 PSA's influence.* PSA'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, PSA can recommend conditions of release to the court but release conditions can only be set by the judicial officer.

- *Factors outside PSA's control.* Economic and social conditions as well as the level of drug availability drive the crime rate to a much greater extent than our programs.

The improvements in data management that have been made possible by the data warehouse allow for closer tracking of the factors that PSA can control and influence. Performance and management data can be used to track activities and adherence to policy. The availability of such data is expected to increase significantly over the next few years as quality assurance data points are identified.

PSA will also 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.

E. 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 size, characteristics, and risk level of the population under CSOSA supervision varies according to national and local crime trends and sentencing practices. According to the Bureau of Justice Statistics (BJS), both violent and property crime rates in 2005 were their lowest since the BJS Crime Victimization Survey began in 1973; crime in the District of Columbia has followed this general downward trend. Of course, these decreases will not continue indefinitely. It is also possible that demographic changes (i.e., the increasing proportion of young adults in the total population) will influence crime rates in the near future.

- Despite lower crime rates, the nation's incarcerated population continues to rise, due primarily to changes in sentencing laws. It is probable that the number of individuals subject to post-release supervision will increase as these offenders complete their terms of incarceration.

- The Washington, D.C. metropolitan area is expected to grow by approximately two million people over the next 15 to 20 years. Continued growth will increase pressure on the District's supply of affordable housing, which has diminished in recent years. In addition, the District's unemployment rate is higher than the national average; industries in which ex-offenders were more likely to find employment, such as construction, have experienced a significant downturn recently. Although the total 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. 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, D.C. 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's effectiveness depends on the successful collaboration with key District of Columbia and Federal agencies. The agency's primary D.C. and Federal agency partners include the United States Parole Commission; the Federal Bureau of Prisons; the U.S. Marshals Service; the D.C. Departments of Employment Services, Health, Mental Health, Housing and Community Development, and Education; and the Metropolitan Police Department. CSOSA works closely with these agencies, both on the management of individual cases and on broader public safety initiatives.

Arrangements with these external entities are defined in Memorandums of Understanding, which are renegotiated at regular intervals. The D.C. Criminal Justice Coordinating Council also serves a vital role in facilitating collaborations. Significant changes in our partners' willingness to share information, collaborate on joint supervision activities, or provide services to offenders under supervision could compromise CSOSA's ability to achieve its performance targets.

F. Analysis of Agency Financial Statements

The CSOSA financial statements report the financial position of the CSP and PSA entities. The financial statements have been prepared to report the financial position and results of operations of CSOSA, pursuant to requirements of 31 U.S.C. 3515(b). The financial statements and notes are included in a separate section of this document.

CSOSA's largest asset is Fund Balance with U.S. Treasury which totaled $65,466,757 and $63,600,968 as of September 30, 2008 and 2007, respectively. This comprised 91 percent and 92 percent of total assets as of September 30, 2008 and 2007, respectively. The Fund Balance with U.S. Treasury represents all appropriated and reimbursable funds (including grant resources) CSOSA has on account with Treasury to make expenditures and pay liabilities.

Accounts Payable with the Public, Accrued Payroll & Benefits, and Accrued Unfunded Liabilities are CSOSA's largest liabilities, with combined amounts totaling $20,490,563 and $16,875,853, as of September 30, 2008 and 2007, respectively. Collectively they comprised 92 percent and 93 percent of total liabilities, as of September 30, 2008 and 2007, respectively. Total Budgetary Resources was $216,513,739 and $195,648,454 as of September 30, 2008 and 2007, respectively. These amounts included $190,343,000 in direct funding and $4,083,570 in reimbursable agreements as of September 2008, and $210,706,000 in direct funding and $2,288,028 in reimbursable agreements as of September 30, 2007.

Total Obligations Incurred was $194,333,858 and $174,075,976 as of September 30, 2008 and 2007, respectively. These amounts included direct obligations of $190,802,213 and reimbursable obligations of $3,531,645 as of September 2008, and direct obligations of $172,556,970 and reimbursable obligations of $1,519,006 as of September 30, 2007.

The CSOSA's FY 2008 Statement of Budgetary Resources shows $183,605,542 in net outlays, an increase of $11.1 million from the previous year's total net outlays of $172,502,080.

The Net Cost of Operations was $193,950,984 on CSOSA's Statement of Net Cost, an increase of $4 million over the previous years Net Cost of Operations of $189,904,222.

G. Analysis of Systems, Controls, and Legal Compliance

The Federal Managers' Financial Integrity Act (FMFIA, P.L. 97-255) and Office of Management and Budget Circular (OMB) 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 FMFIA also requires the heads 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 on information from component heads regarding their management controls. The CSOSA Acting Director can provide qualified assurance that the Agency's management controls and financial systems meet the objectives of Sections 2 (Programmatic Controls) and 4 (Financial Controls) of the FMFIA for FY 2008, with the following known exceptions:

Financial Controls:
As part of the FY 2006 financial statement audit, the independent auditors identified the following material internal control weaknesses within CSOSA:

I. Improvements are needed in the financial reporting process.

II. Improvements are needed in financial accounting control activities:

   a) CSP and PSA controls surrounding the processing of obligations, which resulted in incorrect status and values of accounts payable and undelivered orders;
   b) CSP controls surrounding the processing of payroll;
   c) CSP controls surrounding the recording and updating of property items;
   d) CSP controls surrounding the classification and calculation of Advances from Others, Unfilled Customer Orders, Accounts Receivable and Transfers-In related to Grants.

Legal Compliance:
As part of the FY 2006 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.

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 CSP and PSA internal testing of FY 2008 payment transactions, CSOSA has determined that neither program poses the risk of improper payments exceeding both 2.5% and $10 million.

H. Limitations of the Financial Statements

The principal financial statements have been prepared to report CSOSA's financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by 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 statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Court Services and Offender Supervision Agency
Balance Sheet
As of September 30, 2008 and 2007
(in dollars)

		2008		2007
Assets				
Intragovernmental				
Fund Balance with Treasury **- Note 2**	$	65,466,757	$	63,600,968
Accounts Receivable **- Note 3**		474,998		1,599,432
With The Public				
Property, Plant and Equipment **- Note 4**		6,203,444		3,596,740
Total Assets	**$**	**72,145,199**	**$**	**68,797,140**
Liabilities				
Intragovernmental Liabilities:				
Accounts Payable	$	679,346	$	473,443
Advances from Other Federal Agencies		1,120,022		533,773
With The Public				
Accounts Payable		8,508,641		6,645,740
Actuarial FECA Liabilities		86,378		310,398
Accrued Payroll & Benefits		6,068,044		4,687,477
Accrued Unfunded Liabilities		5,913,878		5,542,636
Total Liabilities - Note 5	**$**	**22,376,309**	**$**	**18,193,467**
Net Position				
Unexpended Appropriations		50,262,651		52,859,968
Cumulative Results of Operations		(493,761)		(2,256,295)
Total Net Position	**$**	**49,768,890**	**$**	**50,603,673**
Total Liabilities and Net Position	**$**	**72,145,199**	**$**	**68,797,140**

The accompanying notes are an integral part of these statements.

Court Services and Offender Supervision Agency
Statement of Net Cost
For the Years Ended September 30, 2008 and 2007
(in dollars)

	2008	2007
Total Critical Success Factor 1 - Risk and Needs Assessment		
Program Costs		
Intragovernmental Costs	$ 4,046,855	$ 2,185,135
Intragovernmental Revenue **- Note 6**	(822,671)	(22,893)
Intragovernmental Net Costs	3,224,184	2,162,242
Public Costs	35,365,753	38,041,188
Earned Revenue from Public **- Note 6**	(1,443)	(11,044)
Net Public Costs	35,364,310	38,030,144
Total Critical Success Factor 1 - Risk and Needs Assessment	**$ 38,588,494**	**$ 40,192,386**
Total Critical Success Factor 2 - Close Supervision		
Program Costs		
Intragovernmental Costs	$ 10,315,211	$ 5,551,659
Intragovernmental Revenue **- Note 6**	(1,845,129)	(58,163)
Intragovernmental Net Costs	8,470,082	5,493,496
Public Costs	90,277,404	96,649,265
Earned Revenue from Public **- Note 6**	(4,012)	(28,059)
Net Public Costs	90,273,392	96,621,206
Total Critical Success Factor 2 - Close Supervision	**$ 98,743,474**	**$ 102,114,702**
Total Critical Success Factor 3 - Treatment and Support Services		
Program Costs		
Intragovernmental Costs	$ 4,133,074	$ 1,791,552
Intragovernmental Revenue **- Note 6**	(563,100)	(18,769)
Intragovernmental Net Costs	3,569,974	1,772,783
Public Costs	36,565,273	31,189,268
Earned Revenue from Public **- Note 6**	(1,056)	(9,055)
Net Public Costs	36,564,217	31,180,213
Total Critical Success Factor 3 - Treatment and Support Services	**$ 40,134,191**	**$ 32,952,996**
Total Critical Success Factor 4 - Partnership		
Program Costs		
Intragovernmental Costs	$ 1,537,064	$ 796,156
Intragovernmental Revenue **- Note 6**	(419,227)	(8,341)
Intragovernmental Net Costs	1,117,837	787,815
Public Costs	15,367,033	13,860,347
Earned Revenue from Public **- Note 6**	(45)	(4,024)
Net Public Costs	15,366,988	13,856,323
Total Critical Success Factor 4 - Partnership	**$ 16,484,825**	**$ 14,644,138**
Total Net Cost of Operations	**$ 193,950,984**	**$ 189,904,222**

The accompanying notes are an integral part of these statements.

Court Services and Offender Supervision Agency
Statement of Changes in Net Position
For the Years Ended September 30, 2008 and 2007
(in dollars)

	2008	2007
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$ (2,256,295)	$ 6,832,465
Budgetary Financing Sources:		
Appropriations Used	188,097,180	172,343,468
Other Financing Sources:		
Imputed Financing **- Note 9**	7,616,338	8,471,994
Total Financing Sources	$ 195,713,518	$ 180,815,462
Net Cost of Operations	193,950,984	189,904,222
Ending Cumulative Results of Operations	**$ (493,761)**	**$ (2,256,295)**
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 52,859,968	$ 51,018,212
Budgetary Financing Sources		
Appropriations Received	190,343,000	210,706,000
Appropriations Transferred-In/Out	-	(31,103,000)
Other Adjustments - Rescissions	(4,843,137)	(5,417,776)
Appropriations Used	(188,097,180)	(172,343,468)
Total Financing Sources	$ (2,597,317)	$ 1,841,756
Ending Unexpended Appropriations	**$ 50,262,651**	**$ 52,859,968**
ENDING TOTAL NET POSITION	**$ 49,768,890**	**$ 50,603,673**

The accompanying notes are an integral part of these statements.

Court Services and Offender Supervision Agency
Statement of Budgetary Resources
As of September 30, 2008 and 2007
(in dollars)

	2008	2007
Budgetary Resources		
Unobligated Balance:		
Brought forward, October 1	$ 21,572,478	$ 21,033,855
Recoveries of Prior Year Obligations:		
Actual	5,079,027	251,043
Budget Authority:		
Appropriation	190,343,000	210,706,000
Spending Authority from Offsetting Collections:		
Earned		
Collected	4,102,182	290,698
Receivables	(1,137,363)	(103,033)
Change in unfilled customer orders		
With Advance from Federal Sources	586,249	(289,493)
Without Advance from Federal Sources	811,303	(1,211,684)
Nonexpenditure transfers, net:		
Actual	-	(27,161,104)
Cancellation of expired and no year accounts	(4,843,137)	(7,867,828)
Total Budgetary Resources	$ 216,513,739	$ 195,648,454
Status of Budgetary Resources		
Obligation(s) Incurred		
Direct	$ 191,462,850	$ 172,556,970
Reimbursable	3,531,645	1,519,006
Total Obligations Incurred **- Note 11**	194,994,495	174,075,976
Unobligated Balance		
Apportioned Balance Available	1,295,532	6,244,657
Unobligated Balances Not Available	20,223,712	15,327,821
Total Status of Budgetary Resources	$ 216,513,739	$ 195,648,454
Change in Obligated Balances		
Obligated Balance, Net:		
Unpaid obligations, brought forward, October 1	$ 44,274,135	$ 42,952,486
Less: Uncollected customer payments from Federal sources, **brought forward October 1**	2,245,645	3,560,363
Obligations incurred	194,994,495	174,075,976
Less: Gross outlays	188,507,409	172,503,285
Less: Recoveries of prior year unpaid obligations	5,079,027	251,042
Change in uncollected customer payments **from Federal Sources**	326,059	1,314,718
Total Obligated Balance	$ 43,762,608	$ 42,028,490
Obligated balance, net, end of period:		
Unpaid obligations	$ 45,682,194	$ 44,274,135
Less: Uncollected customer payments from Federal sources	1,919,586	2,245,645
Total Obligated Balance, end of period	$ 43,762,608	$ 42,028,490
Net Outlays		
Gross Outlays	$ 188,507,409	$ 172,503,285
Less: Offsetting collections	4,688,430	1,205
Total Net Outlays	$ 183,818,979	$ 172,502,080

The accompanying notes are an integral part of these statements.

Court Services and Offender Supervision Agency
Notes to the Financial 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 standard appropriations made by Congress. 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. CSOSA does not have Earmarked funds.

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 2008, the Agency was appropriated $190,343,000 from Congress, of which the following allocation was made:

	CSP	PSA	TOTAL FY 2008	TOTAL FY 2007
Appropriation	$140,449,000	$49,894,000	$190,343,000	$210,706,000

In prior years, CSOSA's appropriation language included the Public Defenders Service (PDS), an independent agency that has no financial/budgetary relationship to CSOSA. In prior years these funds were reflected as transferred to PDS and were not considered part of CSOSA's net budgetary resources, assets, liabilities or net cost of operations. Beginning with Fiscal Year 2008, PDS had separate appropriation language and therefore is no longer part of CSOSA's appropriation.

B. Basis of Presentation

These financial statements have been prepared from the books and records of CSOSA in accordance with generally accepted accounting principles as established by the Federal Accounting Standards Advisory Board (FASAB) and supplemented by the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.*

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

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

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", in 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 based on the nature of the agreement.

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 of $100,000 for leasehold improvements and $25,000 for equipment. 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.

H. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment 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

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

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 is 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 11.2 percent of employees' gross pay for normal retirement and 24.9 percent for law enforcement retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by 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 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. The 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 footnote 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-

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

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.
>
> 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 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, 2008 and 2007:

Fund Balance	CSP	PSA	Total FY 2008	Total FY 2007
Appropriated Funds	$54,399,757	$11,067,000	$65,466,757	$63,600,968

Status of the Fund Balance with Treasury consists of the following as of September 30, 2008 and 2007:

Status of Fund Balance	CSP	PSA	Total FY 2008	Total FY 2007
Unobligated Balance				
Available	$1,021,193	$274,339	$1,295,532	$6,244,657
Unavailable	18,812,152	1,411,560	20,223,712	15,327,821
Obligated Balance not yet Disbursed	34,381,507	9,381,101	43,762,608	42,028,490
Total	$54,214,852	$11,067,000	$65,281,852	$63,600,968

Note 3: Accounts Receivable

CSOSA's Federal Accounts Receivables consists of services provided in conjunction with a reimbursable grant from the Office of National Drug Control Policy. The Receivables consists of the following as of September 30, 2008 and 2007:

Receivables	CSP	PSA	Total FY 2008	Total FY 2007
Federal Receivables	$456,027	$18,971	$474,998	$1,599,432
Total Receivables	$456,027	$18,971	$474,998	$1,599,432

Note 4: General Property, Plant and Equipment, Net

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 five 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 five or more years. 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 modification 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 developed in-house and is consistently being 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 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). PRISM is consistently being reviewed and updated.

Property, Plant and Equipment balances as of September 30, 2008 and 2007 are as follows:

CSP	Purchase Cost	Accumulated Depreciation	Net Book Value FY 2008	Net Book Value FY 2007
Equipment	$1,732,061	$1,590,378	$141,683	$206,012
Leasehold Improvements	17,168,159	16,100,105	1,068,054	2,397,147
Internal Use Software	12,066,809	9,545,949	2,520,860	786,217
Total CSP	$30,967,029	$27,236,432	$3,730,597	$3,389,376

PSA	Purchase Cost	Accumulated Depreciation	Net Book Value FY 2008	Net Book Value FY 2007
Equipment	$839,180	$516,635	$322,545	$207,364
Leasehold Improvements	298,427	126,122	172,305	-0-
Internal Use Software	4,999,755	3,021,758	1,977,997	-0-
Total PSA	$6,137,362	$3,664,515	$2,472,847	$207,364
Total CSOSA	$37,104,391	$30,900,947	$6,203,444	$3,596,740

Note 5: 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 not covered by budgetary resources include 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 throughout the year. The expenditure 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 footnote 13. Liabilities consists of the following as of September 30, 2008 and 2007:

Liabilities Not Covered by Budgetary Resources	CSP	PSA	Total FY 2008	Total FY 2007
Accrued Leave Liability	$4,263,116	$1,650,762	$5,913,878	$5,542,636
Actuarial FECA Liability	(22,844)	109,222	86,378	310,398
	$4,240,272	$1,759,984	$6,000,256	$5,853,034
Liabilities Covered by Budgetary Resources	**CSP**	**PSA**	**Total FY 2008**	**Total FY 2007**
Accounts Payable	$442,785	$236,561	$679,346	$473,443
Advances from Other Federal Agencies	1,120,022	-0-	1,120,022	533,773
Total Intragovernmental Liabilities	$1,562,807	$236,561	$1,799,368	$1,007,216
Accounts Payable	5,297,105	3,211,536	8,508,641	6,645,740
Accrued Payroll and Benefits	4,401,374	1,666,670	6,068,044	4,687,477
Total Liabilities Covered by Budgetary Res.	$11,261,286	$5,114,767	$16,376,053	$12,340,433
Total Liabilities	$15,501,558	$6,874,751	$22,376,309	$18,193,467

Note 6: 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. Revenues consist of the following as of September 30, 2008 and 2007:

Exchange/Earned Revenue	Intragovernmental Revenue	Earned Revenue from Public	Total FY2008	Total FY 2007
CSP	$3,649,212	$-0-	$3,649,212	$2,154,763
PSA	915	6,556	7,471	15,377
Total CSOSA	$3,650,127	$6,556	$3,656,683	$2,170,140

Note 7: Leases

Operating leases have been established for multiple years. 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.

Note 7: Leases (con't)

Future Operating Lease Payments Due	Buildings
Fiscal Year 2009	9,974,118
Fiscal Year 2010	5,757,898
Fiscal Year 2011	5,514,907
Fiscal Year 2012	4,412,364
Fiscal Year 2013	2,375,919
Fiscal Year 2014 and beyond	11,573,919
Total Future Operating Lease Payments Due	$39,609,125

Note 8: 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. Liabilities not covered by budgetary resources consists of the following as of September 30, 2008 and 2007:

Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	CSP	PSA	Total FY 2008	Total FY 2007
Increase in Annual Leave Liability	$260,461	$110,902	$371,363	$360,083
Change in Exchange Revenue Receivable	-0-	-0-	-0-	(102,835)
Actuarial FECA Liability	(200,879)	(23,141)	(224,020)	(87,420)
Unfunded FECA Liability	(20,604)	20,482	(122)	35,186
Total	$38,978	$108,243	$147,221	$205,014

Note 9: 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 recognize 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 26.2 percent for FERS and 25.2 percent and 42.5 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 consists of the following as of September 30, 2008 and 2007:

	CSP	PSA	Total FY 2008	Total FY 2007
FEHB	$3,675,254	$1,678,604	$5,353,858	$5,684,867
FEGLI	10,514	2,418	12,932	14,197
Pensions	1,738,147	511,401	2,249,548	2,772,930
Total	$5,423,915	$2,192,423	$7,616,338	$8,471,994

Note 10: Contingencies and Commitments

CSOSA is a party to various administrative proceedings, legal actions and claims. As of September 30, there were 13 pending legal actions where adverse decisions are considered to be probable and two where adverse decisions are considered to be reasonably possible; for a total of 15 actions. The estimated amount of losses for the 13 probable actions range from $1 to $167,930 and the two reasonably possible actions range from $1 to $300,000. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than reasonably possible.

Note 11: Apportionment Categories of Obligations Incurred

Obligations incurred as reported on the Statement of Budgetary Resources, for the periods ended September 30, 2008 and 2007, consisted of the following:

Fiscal Year Ended Sept. 30, 2008 Obligations Apportioned Under:	Direct Obligations	Reimbursable Obligations	Total FY 2008	Total FY 2007
CSP				
Category A	$142,310,889	$3,531,645	$145,842,534	$129,364,593
PSA				
Category A	48,491,324	-0-	48,491,324	44,711,383
Total	$190,802,213	$3,531,645	$194,333,858	$174,075,976

OMB usually uses one of three categories to distribute budgetary resources, they are:

Category A: apportionments distribute budgetary resources by fiscal quarters;
Category B: apportionments typically distribute budgetary resources to activities, projects, objects or a combination of these categories;
Category C: apportionments may be used in multi-year and no-year.

Note 12: Explanation of Differences Between the Statement of Budgetary Resources and the 2010 Budget of the United States Government

The following is provided as a reconciliation of the Statement of Budgetary Resources (SBR) and the 2010 Budget of the United States Government. The following amounts are reflected in millions:

Fiscal Year 2008	Budget Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources:	$216	$194	$184
Differences:			
Permanently Not Available	(5)		
Other	(17)	(2)	
Budget of the United States	$194	$192	$184

Other differences represent financial statement adjustments, which consists of Upward/Downward adjustments of prior year obligations, corrections to Unfilled Customer orders (with and without advances), uncorrected MAX adjustments from prior years, timing differences and other immaterial differences between amounts reported in the CSOSA SBR and the Budget of the United States Government.

Note 13: Reconciliation of Net Cost of Operations (proprietary) to Budget

Effective FY 2007 and in accordance with OMB Circular A-136, the Statement of Financing is no longer considered a basic statement. In previous years, reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement. The following is provided as a reconciliation of budgetary obligations and non-budgetary resources. The Statement of Financing consists of the following as of September 30, 2008 and 2007:

Resources used to Finance Activities: Budgetary Resources Obligated	**2008**	**2007**
Obligations Incurred – Direct	$191,462,850	$172,556,970
Obligations Incurred – Reimbursable	3,531,645	1,519,006
Total Obligations Incurred	$194,994,495	$174,075,976
Less: Spending Authority from Off-setting collections and recoveries		
Earned Reimbursements		
Collected	4,102,182	290,698
Receivable from Federal Sources	(1,137,363)	(103,034)
Change in Unfilled Customers Orders w/Advance	586,249	(289,493)
Change in Unfilled Customers Orders without Advance	811,303	(1,211,684)
Recoveries of Prior Year Obligations	5,079,027	251,043
Total Spending Authority from Off-setting collections and recoveries	$9,441,398	$(1,062,470)
Obligations Net of Offsetting Collections and Recoveries	$185,553,097	$173,013,506
Net Obligations	$185,553,097	$173,013,506
Other Resources		
Imputed Financing from Costs Absorbed by Others	7,616,338	8,471,994
Net Other Resources	7,616,338	8,471,994
Total Resources Used to Finance Activities	$193,169,435	$181,485,500
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	$3,438,210	$437,534
Resources that Finance the Acquisition of Assets	(5,250,911)	152,314
Other	1,310,156	-0-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	($502,545)	$589,848
Total Resources used to Finance the Net Cost of Operations	$192,666,890	$182,075,348
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		
Change in Annual Leave Liability	371,363	360,083
Change in Exchange Revenue Receivable	-0-	(102,835)
Change in Other	(224,142)	(52,234)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$147,221	$205,014
Components not Requiring or Generating Resources		
Depreciation and Amortization	2,644,208	8,080,384
Other	(1,507,335)	(456,524)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$1,136,873	$7,623,860
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$1,284,094	$7,828,874
Net Cost of Operations	$193,950,984	$189,904,222

Note 14: Reclassifications

The FY 2007 financial statements were reclassified to conform to the FY 2008 financial statements presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, changes in net position or budgetary resources as previously reported.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Court Services and Offender Supervision Agency (CSOSA) as of September 30, 2008 and 2007, and the related statements of net cost, and changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years 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 audits.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CSOSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Court Services and Offender Supervision Agency, as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our reports dated November 24, 2009, on our consideration of CSOSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 24, 2009

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of CSOSA as of September 30, 2008 and 2007 and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 24, 2009.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of CSOSA is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2008 audit, we considered CSOSA's internal control over financial reporting by obtaining an understanding of CSOSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of CSOSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CSOSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2008 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, described in Exhibit I, and other deficiencies that we consider to be significant deficiencies, described in Exhibit II. Exhibit III presents the status of prior year significant deficiencies and material weaknesses.

CSOSA's responses to the findings identified in our audit are presented in Exhibits I and II. We did not audit CSOSA's responses and, accordingly, we express no opinion on them.

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

KPMG LLP

November 24, 2009

EXHIBIT I

MATERIAL WEAKNESSES

1. IMPROVEMENTS ARE NEEDED IN THE FINANCIAL REPORTING PROCESS

Compilation and Reporting

CSOSA consists of two major component programs, Community Supervision Program (CSP) and Pre-trial Services Agency (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 by CSP into CSOSA agency financial statements for reporting and disclosure purposes.

CSP's Fiscal Year (FY) 2008 processes used to prepare, analyze and provide management approval and oversight to financial reporting and financial statement development/maintenance need improvement in order to effectively and efficiently prepare and implement changes to its financial statements.

Specifically:

- CSOSA does not have tailored agency-level policies and procedures for monitoring reviews related to financial statement preparation;
- CSOSA does not have a formal documented policy or procedure over entry and authorization of manual journal vouchers recorded in Oracle;
- CSP was initially unable to provide sufficient documentation to support certain balances of the draft, initial financial statements or could not provide support for trial balance amounts, as follows: Property Plant and Equipment $2.9M, Accounts Receivable $1.7M and Advances from other Federal Agencies $533K;
- Allocation between Federal and Public transactions in the Oracle general ledger needs improvement, to ensure accuracy of the Statement of Net Cost allocations.

<u>RECOMMENDATIONS</u>

KPMG recommends CSOSA:

1. Consider obtaining additional financial reporting staff or contracting with NBC for financial statement generation to allow for appropriate separation of duties and depth of financial personnel;

2. Finalize the assessment of the current financial reporting process and related documentation and implement appropriate internal controls in order to reduce complex and manual procedures where feasible.

3. Implement a formalized policy regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process.

MANAGEMENT RESPONSE

In FY 2009, CSOSA is developing an Agency-wide Financial Statement policy and related operational procedures which will govern the preparation, coordination and presentation of quarterly and annual financial statements.

CSOSA has worked with NBC to enhance Oracle reporting to distinguish Federal/Public transactions in subsidiary reports.

Budgetary Resources

During our FY 2008 internal controls and substantive testing procedures over the budget execution process area we noted the following:

- Initial reconciliation of CSOSA's FY 2008 Statement of Budgetary Resources (SBR) to FY 2008 amounts reported in the FY 2010, President's Budget of the United States Government included certain inaccurate and unsupported amounts. The initial reconciliation resulted in a $12M difference which was not identified by CSP.

- CSP did not perform quarterly reconciliations between the SBR to SF-133 FACTSII information on the 1st, 2nd or 3rd quarters of FY 2008.

- Differences between the Statement of Budgetary Resources and the SF-133 in FY 2008 by caption were:
    - Total Budgetary Resources - $5.4M
    - Total Status of Budgetary Resources - $5.4M
    - Total Obligated Balance, end of period - $2.2M

  Of the $5.4M difference noted above, $3.1M relates to prior adjustments from FY 2007 which were not corrected during the FY 2008 FACTSII reporting window due to the fact that the audit was completed subsequent to the window closing.

RECOMMENDATIONS

KPMG recommends CSP:

1. Implement policies and procedures to ensure that the amounts reported in FACTS II are consistent with the amounts in the general ledger and reported in the SBR when feasible.

2. Implement policies to ensure timely, accurate and complete reconciliations related to the Statement of Budgetary Resources.

MANAGEMENT RESPONSE

Condition 1: The differences in Budgetary Resources and Obligations reported in the CSOSA's FY 2008 Statement of Budgetary Resources (SBR) compared to FY 2008 amounts reported in the FY 2010 President's Budget (OMB's MAX system) are because the FY 2008 SBR reports Budgetary Resources and the Status of Budgetary Resources for all open fiscal years (FYs 2003 – 2008) while the FY 2010 President's Budget reports only FY 2008 data for certain categories. CSOSA will clearly articulate this in future disclosures.

- Note that FY 2008 Budgetary Resources ($194M), Obligations ($192M) and Net Outlays ($184M) tie in the FY 2010 PB and FY 2008 SBR, when similar fiscal year categories are considered. There is a slight difference in Gross Outlays reported in the FY 2010 PB ($188M) and FY 2008 SBR ($187M), due to rounding.
- Note that Unpaid Obligations (EOY) reported in the FY 2010 PB ($46M) ties to that reported in the FY 2008 SBR ($46M).

Condition 2: CSP is performing and documenting SBR versus SF-133/FACTSII reconciliations in FY 2009.

Condition 3: The primary causes of the differences in the FY 2008 CSOSA FACTSII (SF-133) and FY 2008 SBR are: a) issues with CSP grant (reimbursable) accounting, and b) manual CSP/PSA obligation adjustments (downward) made to the FY 2005/6 CSOSA financial statements that were not made in Oracle/FACTSII during FY 2006/7/8 reporting windows. CSOSA did not process the FY 2005/6 statement adjustments in Oracle because we decided to adjust the obligation balances on a per-transaction (purchase order obligation) basis in Oracle versus a lump-sum reduction.

- Total Budgetary Resources - $5,363,107 (SBR $211,155,910.83 vs. SF-133 $205,792,803.31): Of the $5,363,107 difference in Budgetary Resources noted above, approximately 2.5M relates to prior adjustments made to the FY 2005/6 financial statements which were not corrected in FACTSII. This understates Budgetary Resources (Unobligated Balance Brought Forward) reported in FACTSII/SF-133. In addition, 'Change in Unfilled Customer Orders (Without Advance)' was understated by $2.7M in FACTSII/SF-133, further understating reported Budgetary Resources.
- Total Obligated Balance, end of period - $2,245,645 (SBR $43,247,784.33 vs. SF-133 $45,493,429.57): the entire $2,245,645 difference in Total Obligated Balance (end of period) is related to overstatement in FACTSII/SF-133 of 'Uncollected Customer Payments from Federal Sources'

CSP's grant reporting issue is related to the recording of FY07/8 Apportionments of reimbursable resources in Oracle. Reimbursable resources were Apportioned using SGL 4119 (Appropriations Realized) versus SGL 4210 (Anticipated Reimbursements). CSP will improve controls surrounding grant (reimbursable) accounting in FY 2009. CSP is working with NBC to ensure FY 2009 Apportionments of reimbursable authority are posting to correct SGL accounts.

CSOSA anticipates that prior-year obligated balances as reported in Oracle, FACTSII and the financial statements will tie effective with the FY 2009 financial statements.

2. IMPROVEMENTS ARE NEEDED IN FINANCIAL ACCOUNTING CONTROL ACTIVITIES

General Ledger Process Activity

CSP's processes to account for certain general ledger activity needs improvement. As described below, certain accruals, capitalization accounts, and general ledger errors existed, and required correction in the financial statements and related supporting documentation.

- Insufficient oversight exists over National Business Center (NBC) services related to the Fund Balance with Treasury process:
  - The SF-224 *Statement of Transactions* was not submitted in a timely manner for 09/30/08 reporting, initially causing a $8.5M difference on the FMS 6652, *Statement of Differences* which was subsequently corrected by the submission of two Supplemental SF-224 *Statement of Transactions;*
  - During FY 2008 NBC did not reconcile and correct certain amounts identified on the FMS 6652 *Statement of Differences* in a timely manner (within 60 days). Several differences originated in FY 2007 and were not resolved until September 2008. These differences totaled a net amount of $1.6M;
- CSP did not record the Accrued Unfunded Annual Leave adjustment appropriately. The amount in the initial draft financial statements was $5.7M; the adjusting entry was corrected resulting in a balance of $5.9M.
- CSP imputed costs were initially calculated incorrectly by $1.2M.
- The ending balance of Advances from Federal Agencies of $533K had not changed from prior year in the initial 09/30/08 draft financial statements. The appropriate entries had not been recorded during FY 2008; the corrected balance was $459K.
- CSP did not perform a complete roll-forward of all Property accounts to support the general ledger balance at 09/30/08. In addition, certain balances held in a clearing asset account were not appropriately reconciled until July 2009 in the amount of $2.9M.

RECOMMENDATIONS

KPMG recommends CSP perform and document monthly or quarterly reconciliations and review and approve at an appropriate level of management.

MANAGEMENT RESPONSE

In FY 2009, CSOSA is developing an Agency-wide Financial Statement policy and related operational procedures which will govern the preparation, coordination and presentation of quarterly and annual financial statements. The policy will provide instructions for data sources and computational techniques for those transactions reported on the financial statements not derived directly from the Trial Balance.

CSOSA is working with NBC to determine improvements in the review and submission of its monthly SF-224 Statement of Transactions.

Undelivered Orders / Accounts Payable

Statement of Federal Financial Accounting Standards No. 1: *Accounting for Selected Assets and Liabilities* and Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, describe the requirement to properly account for certain proprietary and budgetary accounts.

Improvements are needed in internal controls related to the status and valuation of Accounts Payable and Undelivered Orders.

Specifically, we noted CSP obligation(s) that: a) contained status or dollar errors (were partially or fully misclassified as either undelivered or accounts payable), and b) were stale (remained open although all services had been fully performed and billed).

Of the net $13.5M CSP Undelivered Orders sample tested (43 obligations), we noted 17 exceptions and determined Undelivered Orders was overstated by a net $2.4M.

Of the $2.4M CSP Accounts Payable sample tested (56 obligations); we noted 20 exceptions and determined Accounts Payable was understated by a net of $1.9M.

<u>RECOMMENDATIONS</u>

KPMG recommends CSP:

1. Emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training on proper authorization, recordation, and retention of undelivered and delivered order documentation. This communication should be made to appropriate staff and supervisors.

2. Implement policies and procedures regarding timely recording of goods and services received by the requesting department. This should include timely communication to the appropriate individuals in Finance to allow for the accurate recording of transactions in Oracle as the status of transactions change from undelivered orders to accounts payable.

3. Implement or revise procedures to require periodic reviews (at least 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 de-obligate expired obligations.

4. Implement or revise supervisory review procedures to ensure detailed obligation reviews are performed throughout the fiscal year, allowing management to make corrections timely. Management should consider periodically selecting samples of obligations to verify that open obligation reviews are being performed and are working effectively by recalculating undelivered and delivered amounts based on a review of the supporting documentation. This would allow for identification of obligations where errors have not been detected and corrected by the periodic review process. When the sources or causes of the errors are

identified, management should communicate the cause of the error to the appropriate individuals.

MANAGEMENT RESPONSE

In FY 2009, CSOSA began development of an Agency-wide Financial Statement policy and related operational procedures which will govern the preparation, coordination and presentation of quarterly and annual financial statements, including required open obligation status reviews.

In FY 2009, CSP performed detailed reviews of all open obligations, including analysis and updating of open obligation classification statuses.

EXHIBIT II

SIGNIFICANT DEFICIENCIES

3. IMPROVEMENTS ARE NEEDED IN CONTROLS OVER PROPERTY, PLANT AND EQUIPMENT

SFFAS No. 6, *Accounting for Property, Plant, and Equipment* requires that property meeting certain criteria be capitalized and depreciated over its useful life. Improvements are needed in CSP controls over tracking, recording and reporting of certain capitalized Property, Plant and Equipment (PPE). As of 09/30/08 CSP's net PPE is in the amount of $5.8M which represents 8% of the $73M in Total Assets reported on the CSOSA Balance Sheet.

Specifically:

- CSP needs improvement in procedures to track, manage and report Leasehold Improvements and Internal Use Software additions and deletions in the financial statements.
- CSP has no formal policy implemented for Internal Use Software Capitalization and Personal Property Management.
- CSP was initially unable to provide adequate evidence to support Capitalized Equipment, Leasehold Improvements, and Internal Use Software balances, additions and deletions for the period ending 09/30/08.
- CSP identified payment transactions for certain purchased assets in Oracle but did not perform the required manual steps of creating specific Oracle assets (identifiable by asset type and capitalization criteria) and matching the payment transactions to those unique assets. This lack of follow-through caused the identified asset payment transactions, totaling $2.9M, to be recorded in the default General Ledger (GL) account #19999 'Asset Clearing Account' instead of the appropriate USSGL PPE accounts, which would have taken place if the payment transactions had been matched with a properly created asset.

RECOMMENDATIONS

KPMG recommends:

1. CSP develop and implement formal policies and detailed procedures that address the need to adequately and accurately record all PPE purchases that meet the capitalization criteria set forth by a CSP policy.
2. CSP develop a formal and systematic method of accumulating both direct and indirect costs (e.g., labor and hardware) incurred for the development of its Internal Use Software systems. To support this tracking of Internal Use Software costs, CSP should also ensure it retains adequate documentation supporting these capitalized costs.

MANAGEMENT RESPONSE

In July 2007, CSP migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle) with plans to fully integrate property management capabilities within Oracle. Due to Oracle functionality issues, this did not take place, and in FY 2009 it was decided to continue to use Barscan as the agency's stand-alone property management system.

In FY 2009, CSP began tracking and accounting for new, capitalized Property, Leasehold Improvement and Software Development projects using Oracle asset management capabilities and unique Budget Object Classification (BOC) and General Ledger (GL) codes recorded with applicable purchase requisitions. CSP also began creating unique assets in Oracle to track the financial information associated with these transactions. Oracle-reported capitalized Property will be compared to Barscan property data to ensure accuracy and completeness.

CSP is reviewing historical PPE transactions ($2.9M) that were not properly matched with a unique Oracle asset.

In FY 2009, CSOSA is developing an Agency-wide Financial Statement policy which will govern the preparation, coordination and presentation of quarterly and annual financial statements. CSP is developing related operational procedures for capitalized Leasehold Improvement and Software Development. A draft policy for Personal Property Management is in development.

4. DISASTER RECOVERY SERVICE CONTINUITY IMPROVEMENTS ARE NEEDED

In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA's plans for maintaining continuity of operations needed to be completed and fully tested. At the time of prior-year audit follow-up review in March 2009, CSOSA had not tested but had developed and formally adopted a Continuity of Operations Plan (COOP). CSOSA created an office for COOP under the agency Director of Security. As part of the Information Technology (IT) Disaster Recovery (DR) component of the COOP, CSOSA instituted systems backup procedures, and began implementing an IT "alternate site" for CSOSA's mission critical systems

During FY 2008 the IT alternate site was operational. In addition CSOSA had conducted a tabletop test of the COOP, which includes the CSOSA network and mission critical systems, on July 16, 2008. However, the draft COOP, dated September 20, 2007, has not been updated to reflect the COOP test, alternate IT site details, nor any subsequent changes.

RECOMMENDATIONS

We recommend CSOSA:

1. Finalize its continuity of operations plan and effectively implement the plan;

2. Develop specific testing procedures and include them in the contingency plan. Considerations should be given to developing a 12-18 month cycle, rotating through different disaster scenarios;

3. Analyze all test results and adjust the contingency plan accordingly. Test results should be documented and a report, such as a “lessons learned” report, should be developed and provided to senior management. The contingency plan and any related agreements and preparations can then be adjusted to correct any deficiencies identified during testing.

MANAGEMENT RESPONSE

CSOSA’s leadership is committed to ensuring that the agency’s essential functions are maintained throughout all hazards, large and small. To that end, CSOSA continues to finalize the plan from two levels.

The first level is from an agency approach. The agency is diligently working to ensure the concept of operations for offender supervision, treatment, and administrative and IT support services is appropriately conveyed. Because information technology assets are so critical to performance of mission functions and activities, the agency COOP Plan draft is inclusive of the IT Disaster Recovery Plan. The IT DR Test Methodology uses a segmented approach. The Agency COOP will be maintained and updated to document previous, recent, and planned DR segment testing, results, and lessons learned along with segmented test procedures.

The second level is from a city-wide approach. Because CSOSA is a federal executive branch agency inextricably linked with a dozen other District and federal criminal justice entities, it is critical that its COOP Plan appropriately reflect the complex interrelationships between those organizations, the comprehensive city-wide continuity effort, and the federal Continuity of Operations program.

The agency has reviewed its plan of action and milestones and developed a revised COOP Plan vetting schedule. The agency is using an Intranet based tool called “MyCoop” to document and maintain the latest draft COOP Plan and to elicit comments and suggestions. Once comments are analyzed and changes made, and no later than 24 March, the draft plan will be presented to the COOP Coordinator for final review and approval before being sent to the Office of the Director no later than 14 April. No later than 5 May CSOSA plans to have its COOP Plan version 1.00 fully vetted and signed. Using this strategy provides a reasonable time for vetting; it allows two weeks for plan review, followed by one week of comment analyzing and text revising before moving it on to the next review level. After it is signed, the agency will maintain the plan as a living document, continually ensuring it is kept accurate, understandable, and relevant.

5. COMPUTER SECURITY AWARENESS TRAINING IS NOT ENFORCED BY CSOSA

The Security Awareness Training and education process is currently lacking. CSOSA does not enforce mandatory attendance of Computer Security Awareness Training, or track those employees who have not attended the training.

RECOMMENDATION

We recommend that the CSOSA management implement a way of ensuring employees have completed the Security Awareness Training, and continue to update their security awareness training as their environment changes.

MANAGEMENT RESPONSE

CSOSA has in place Management Instruction 2038 "Security Awareness and Training Control" dated 8/31/08. The security awareness and training includes awareness programs that emphasize the importance of security and the adverse consequences of security failure, and training programs that equip personnel with security related roles and responsibilities and with the knowledge and practical application capacities necessary to achieve security objectives.

Awareness training is required prior to granting access to CSOSA systems and as ongoing refresher training for maintaining rights and privileges associated with continued access, management, and support of CSOSA systems.

CSOSA Training Department contains records indicating that of the 1200 users between CSOSA and PSA 1168 users have taken Security Awareness Training during calendar year 2008. The policy requires annual training and CSOSA/PSA chose the *calendar year* as the period of compliance. This finding appears to assess the fiscal period which is incorrect. Currently it is the policy that users who do not attend the mandatory training are reprimanded through a letter of notification of non compliance. This letter is placed in the employee's permanent employee record.

6. CSOSA SYSTEMS ACCESS CONTROL IMPROVEMENTS ARE NEEDED

During the FY 2007 audit, KPMG noted that the CSOSA policy that outlined which restrictive rights should be placed on users as well as how the information system enforces those rights had not been fully implemented. In FY 2008, the CSOSA could not provide any evidence to show progress on this issue. We also noted that overall account management was weak and needed improvement. Specifically, we found the following issues:

- Out of a sample of 45 new network users – 8 forms could not be provided and 2 users did not have an authorizing supervisory signature.
- Numerous active network accounts without a last login date; however the accounts had not been disabled or terminated.
- Numerous user accounts that have been inactive over 45 days, however, the accounts remain active.

- Terminated users with active network accounts.
- Duplicate user accounts; users that inappropriately have more than one network account.
- Numerous service accounts that show no user activity or evidence of active monitoring by the CSOSA.
- User accounts that are set to never expire.

RECOMMENDATION

We recommend that the CSOSA management enforce its own policies and procedures and other aforementioned federal regulations to improve overall account management.

MANAGEMENT RESPONSE

CSOSA OIT has a Management Instruction (MI #2037, "Access Control", Rev 8/08) that must be enforced to remediate these findings. Additionally, CSOSA OIT will add accountability steps and enable or enhance technical capabilities to ensure compliance.

7. WEAKNESSES IN NBC CONTROLS ENVIRONMENT RELATED TO ORACLE FEDERAL FINANCIALS NEED TO BE CORRECTED

During the FY 2008 review of the SAS 70 results, we noted a weakness in the controls environment at the National Business Center (NBC), which houses the Oracle Federal Financials (OFF). Specifically, we found that quarterly reviews of personnel authorized to recall backup tapes from the offsite storage facility for one quarter (out of four) were not documented.

RECOMMENDATIONS

None

MANAGEMENT RESPONSE

NBC corrected the issue in January 2009 (POA&M weakness NBC-OFF-09-00004). The next quarterly review was performed as scheduled. NBC created a formal procedure (DEN-IT-OPS-PRO-001) to address this issue.

EXHIBT III

Status of Prior Years' Findings and Recommendations

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year findings and recommendations. The following table provides our assessment of the progress CSOSA has made in correcting the material weaknesses and significant deficiencies identified during these audits. We also provide the fiscal year it was identified, our recommendation for improvement, and the status of the condition as of the date of this audit report, November 24, 2009:

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
2002	Significant Deficiency: Improvements are needed in the recordation of delivered and undelivered orders.	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.	Open, see Exhibit I.
2004	Significant Deficiency: Improvements Needed in Controls Over Property, Plant and Equipment.	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.	Open, see Exhibit I.
2004		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.	Open, see Exhibit I.

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
2004		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.	Open, see Exhibit I.
2004	Material Weakness: Improvement needed in control activities over financial accounting.	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.	Open, see Exhibit I.

Year	**Material Weakness or Significant Deficiency**	**Recommendation**	**Status**
		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.	Open, see Exhibit I.
2004		CSP and PSA implement or revise supervisory review procedures to ensure detailed obligation reviews are followed throughout the fiscal year, allowing management to correct problems on 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.	Open, see Exhibit I.
2004		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.	Open, see Exhibit I.

Year	Material Weakness or Significant Deficiency	Recommendation	Status
2004		CSP and PSA review all services JMD provides to them, and identify a formal monitoring control over these activities.	Closed
2007		CSOSA consider obtaining additional financial reporting resources to allow for the timeliness of activities and dept of financial personnel. In addition develop and implement procedures to ensure that all transactions are properly supported with adequate documentation.	Open, see Exhibit I.
		CSOSA perform and document monthly and quarterly reconciliations and review and approve at an appropriate level of management.	Open, see Exhibit I.
		CSP implement policies and procedures to ensure that the amounts reported in FACTS II are consistent with the amounts in the general ledger and reported in the Statement of Budgetary Resources.	Closed
		CSP implement policies to ensure timely, accurate and complete reconciliations related to the Statement of Budgetary Resources.	Open, see Exhibit I.
2004	Material Weakness: Improvement needed in the financial reporting process.	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.	Closed
		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	Open, see Exhibit I.

Year	Material Weakness or Significant Deficiency	Recommendation	Status
		coordination between the groups would reduce the substantive effort that is needed to reconcile the differences identified.	
2004	Significant Deficiency: Plans for maintaining continuity of operations need to be completed and fully tested.	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.	Open, see Exhibit II.
2007		CSOSA continue to develop and implement the agency COOP Test Plan. CSOSA continue to establish and test operations at the Alternative IT Hot Site.	
2004	Significant Deficiency: Improvement needed in Controls over Information Security.	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."	Closed
2007		CSOSA continue to implement their C&A program in accordance with 800-53.	

Year	Material Weakness or Significant Deficiency	Recommendation	Status
2004	Significant Deficiency: Need improvement in system change control procedures for applications and system software.	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.	Closed
2007	Significant Deficiency: Systems Access Control Improvements are Needed	CSOSA continue to implement their remediation plan with respect to least-privilege access controls over identified IT administrative duties and, until such controls are fully implemented, continue to leverage mitigating controls (i.e. audit and accountability controls of logging and monitoring activities associated with administrative activities) to address the weaknesses.	Open, see Exhibit II.

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Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the Court Services and Offender Supervision Agency (CSOSA) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 24, 2009.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of CSOSA is responsible for complying with laws, regulations, contracts, and grant agreements applicable to CSOSA. As part of obtaining reasonable assurance about whether CSOSA's financial statements are free of material misstatement, we performed tests of CSOSA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements 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 described in the preceding paragraph disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as described below.

The Accountability of Tax Dollars Act of 2002 requires that agencies submit audited financial statements (included in an Agency Financial Report) within 45 days after the end of the fiscal year. CSOSA did not submit its FY 2008 Performance and Accountability Report within the 45-day time requirement.

Management Response:

Delays in submitting CSOSA's FY 2008 Agency Financial Report including audited FY 2008 financial statements, were due to several reasons, including delayed issuance of the FY 2007 PAR and continued implementation issues associated with our new financial management system (Oracle Federal Financials). CSOSA has devoted resources to ensure the FY 2009, and future, audited financial statements are completed on a more-timely basis.

CSOSA's response to the instance of noncompliance identified in our audit is presented above. We did not audit CSOSA's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 24, 2009