

## 2021 Michigan Indigent Defense Commission Financial Reporting Review

<b>Reporting Period</b>	October 1, 2020 – September 30, 2021	<b>Report Date</b>	September 30, 2023
<b>Client</b>	<b>Michigan Indigent Defense Commission (MIDC)</b>		
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The MIDC is responsible for creating and enforcing minimum standards for indigent defense. To ensure the program standards are satisfied, MIDC has engaged an independent advisory firm, Jefferson Wells, to perform a financial reporting review of each system. The objective of the review is to substantiate the accuracy and completeness of grant financial reporting by the Grantees. Jefferson Wells will also advise on opportunities to improve financial reporting processes if such opportunities are identified during the review.

The scope of the financial reporting reviews included: 1) a financial analysis; 2) general ledger analysis; and 3) a review of invoices. This was performed for the fiscal year October 1, 2020, through September 30, 2021

The following summarizes the result of the review.

### Overview & Accomplishments

The original grant compliance goal was to complete 30 to 40 full compliance reviews of the 120 grantees who receive funding from the Michigan Indigent Defense Commission (MIDC) in the grant year 2021. A full compliance review consists of: 1) a financial analysis; 2) a general ledger review; and 3) attorney invoice reviews. A 2021 compliance review was chosen based on its first year's transition from the judicial system to city and county government offices.

MIDC and Jefferson Wells were able to exceed review goals as evidenced by the completion financial analysis of all 120 grantees, general ledger review for 59 grantees, and attorney invoice reviews for 40 grantees. The completion of these reviews established a foundation for more in-depth compliance reviews in future years. Specifically, grantees with variances should be evaluated further to determine if these variances influence the 2021 year-end unexpended balance and in turn, its impact on future year balances and carryover funds. See attached Summary Variance report for additional details.

### Financial Analysis Review

The objectives of financial reviews were to:

1. Verify grantee's budget, as reported in their Cost Analysis Report, matched what was reported and approved on the MIDC's Budget Report.
2. Verify Carryover Funds as of October 1, 2020, reported by the grantee agreed to MIDC's carryover balance.
3. Verify MIDC payments to grantees were properly recorded by the grantee.
4. Verify expenditures reported quarterly by grantee in their FSRs matched MIDC records.
5. Verify that the unexpended balance as of September 30, 2021, reported by the grantee reconciled to the MIDC records.

Jefferson Wells utilized the following reports to perform the Financial Analysis Reviews:

- 1) Grantee Reports: Cost Analysis Report; Quarterly FSR reports, Unexpended Balance Report
- 2) MIDC Reports: MIDC Budget Report, MIDC Payment Schedule

### **General Ledger Review**

The objectives of general ledger review were to:

1. Verify the grantee had proper support for each line-item detail expenditure.
2. Verify the grantee properly categorized each expenditure in accordance with the submitted and approved annual Cost Analysis Report.
3. Verify each grantee had established a segregated general ledger account (Fund 260) to separately account for MIDC grant funds and related expenditures.
4. Verify grantee "local share" was properly recorded in Fund 260.
5. Verify the attorneys receiving payments were reflected in the grantee's original Cost Analysis Report submitted to the MIDC.

### **Attorney Invoice Review**

The objectives of invoice reviews were to:

1. Verify the grantee had proper back-up supporting invoice for each line-item detail expenditure related to contracted attorney invoices and capital expenditures.
2. Verify invoices from contracted attorneys included a case number, defendant name and approved signatures.
3. Verify invoice amounts for various services (i.e., initial interview, court appearances, sentencing hearings) agreed with the Cost Analysis budget.
4. Verify the services provided on the invoice at various approved rates reconciled to the invoice total.
5. Verify capital expenditures have an associated invoice and visually inspect capital improvements or renovations during onsite visits.

## Observations and Recommendations

### Financial Analysis Review

#### Cost Analysis & MIDC Budget

*Observation:* - The attached financial summary shows 12 grantees with variances between the grantee's cost analysis and the MIDC Summary budget document. The highlighted areas indicate line-item variances that did not impact the total approved budget.

*Recommendation:* Verify budget amendments were completed by the grantee to authorize budget adjustments.

#### Expenditure variances

*Observation:* – Expense variances were analyzed for each quarter FSR submission as well as the quarterly expense reporting from the Unexpended Balance report. There were 24 exceptions noted on the attached financial summary document.

*Recommendations:* Expense variances should be further investigated to shore up expenditure financial reporting. Variances that carry over to the unexpended balance should be the highest priority. Expense variances without any other exception notes can be determined as reporting errors that were reconciled by year end.

#### Unexpended Balance

*Observation:* – the financial summary document indicates 33 variances in unexpended balances between the grantees reports and MIDC. These variances are of the highest risk because they can be carried into future grant years and impact grantee services provided.

*Recommendation:* Variances related to differences in unexpended balances should be the highest priority for further review. This may require a complete reconciliation from the first grant to the current grant year.

#### Carryover and Payment variances

*Observation:* Payment variances related to carryover funds are most likely related to crossover between grant years. Jefferson Wells identified 46 variances between grantees reports and MIDC reports.

*Recommendation:* MIDC internal reporting and grantees internal reporting should be updated and noted. No action necessary unless these variances carry over to year-end variances in unexpended balances. Most of these variances are related to activity between grant years.

### General Ledger Review

*Observation:* Grantees ' fiscal years do not match up with grant years which resulted in two accounting reports from different years. Due to the number of different reporting systems and formats, this presents a risk slowing down the review process if any questions or concerns regarding expenditure detail between grant years.

*Recommendation:* Grantees should be required to submit a full year general ledger detail report as part of the final submission for each grant period. This will create efficiencies in future years grant review process and the ability to audit variances immediately. Requesting the grantee to also provide a reconciliation spreadsheet of the 2 general ledger detail reports would create additional efficiencies.

### **Invoice Review**

*Observation:* Most grantees who paid flat rates to attorneys didn't list the number of arraignments they completed on their invoices submitted.

*Recommendation:* Identifying the number of arraignments will help identify workload and if payment schedules should be adjusted for an increase or decrease in activity.

*Observation:* Attorneys who had annual contracts paid at a flat monthly rate did not have detail to support the work for each month. Jefferson Wells was provided with copies of annual contracts when requested. The risk is lack of transparency for publicly funded expenses.

*Recommendation:* All attorneys should be required to submit invoices based on hourly or event-based detail unless location and proximity don't allow it. During the 2021 compliance review, several grantees were in the process of converting.

*Observation:* Administrators of the MIDC program and funds were paid monthly flat rate amounts based on contracts. These invoices do not provide the level of detail required for transparency of publicly funded expenses.

*Recommendation:* Michigan Indigent Defense Commission addressed this concern at its May 2023 meeting requiring an additional level of detail. No additional action necessary.

### **Summary**

Jefferson Wells' interactions with grantees were generally productive and positive. Grantees were communicative and responsive to information requests and questions prompted during the compliance review.

The process was greatly improved by moving the management of MIDC grants from the judicial system to city and county governments who are more familiar with grant accounting. The Regional Directors were instrumental in helping Jefferson Wells staff contact grantees when there were issues related to getting emails through the firewall and answering questions.

Overall, half the grantees are larger county government agencies that do a great job managing all the financial aspects of the MIDC grant. The remaining grantees are encouraged by and welcome any assistance or consultative ideas on how to do a better job managing these funds and providing the services required. Providing additional assistance to those grantees who need it would assist in the overall management MIDC funding.