ACCOUNTING PRACTICES FOR DRUG COURTS: SUGGESTIONS FOR DEVELOPING A FUNDING FORMULA AND MAINTAINING PROGRAM EXPENDITURES

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Problem-solving courts are locally driven programs that frequently rely on state and federal dollars to maintain operations. While most of the federal dollars allocated to problem-solving courts have been for the purpose of program implementation and expansion, state funds are increasingly being relied upon for long-term program maintenance. This change in purpose makes it increasingly difficult for state program administrators to develop funding strategies for their programs. One reason for this is the difference in administrative requirements between a one-time allocation and a commitment of long-term funding. This article is intended to provide insight into good accounting practices for problem-solving court programs and to give suggestions to state administrators and legislators as they consider viable ways of establishing and maintaining problem solving courts.

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ARTICLE SUMMARIES

Accounting Principles for Problem-Solving Courts

[8] This article describes fundamental accounting practices applicable to drug court programs.

A Fiscal Accounting Model for Problem-Solving Courts

[9] This article provides suggestions for the equitable management of state funds being distributed to local programs.

INTRODUCTION

The rapid growth of drug courts and other problem-solving court programs throughout the United States has been challenging for state court administrators and executive branch program managers. A major challenge revolves around the issue of developing responsible funding strategies for problem-solving court programs. More than 30 state legislatures have appropriated funds for the establishment and sustainability of problem-solving courts (Huddleston, Marlowe and Casebolt, 2008). These funds were often provided to executive or judicial branch agencies with little guidance as to how the funds were to be spent. Many state legislatures enacted legislation that defined the programs in general terms without giving specific direction for the management of federal or state dollars (Heck and Roussell, 2007). Consequently, many state program administrators are left with the difficult task of establishing funding strategies that provide accountability while maintaining the independence of local initiatives.

State administrators frequently adhere to the federal model of providing grants for problem-solving courts. In many cases, local programs are required to submit an annual or bi-annual grant application. While cumbersome for many programs, this process serves the needs of state and local programs that are in the developmental stages. One inherent problem with the annual grant process, however, is its tendency to give the impression that the programs are tenuous or not secure. Program managers have frequently complained about the inability to maintain good staff without the promise of long-term funding. This staffing problem can lead to high turnover rates for key positions within the problem-solving court. Additionally, it may be counterproductive to the program's ability to foster a sense of stability and continuity among its clients.

Despite these concerns, many problem-solving court programs around the country have moved past the implementation stage to become well-established enterprises. Although the granting process has some strengths, including the documentation of program activities, there are observable weaknesses that need to be addressed. Weaknesses identified include a perceived lack of continuity, a concern over sustainability and, perhaps more importantly, a concern about programmatic accountability.

In addition to these weaknesses, three significant challenges have emerged for state funding agencies. The first challenge is the issue of fairness in the allocation of funds across competing problem-solving court programs in a given state or region. Although costs can vary dramatically by location, state legislators and drug court coordinators, often make comparisons of allocations by focusing on the number of clients being served. The second challenge is the issue of fiscal oversight. Although the granting process allows for innovation at the local level, it can also raise accountability concerns for those who write the checks. Thirdly, the traditional granting process creates oversight difficulties for those who have to report on the spending of local programs. While flexibility may be a benefit to local program managers, it can pose difficulties for those collecting data on program expenditures and outcomes. In other areas of government, this problem has induced a decided shift in governmental funding to a performance-driven approach.

The purpose of this article is to offer suggestions concerning the state management of problem-solving court funding. These suggestions are based upon generally accepted principles of accounting and U.S. Government Accountability Office (GAO) publications. The objective here is to describe a secure financial platform at the state level upon which problem-solving courts might operate and sustain their funding. Fiscal accountability and transparency need to be the hallmarks of any program supported by state governments (GAO, 2001). Best practices of public accounting must be incorporated into every fiscal transaction. This article describes the basic principles that should apply to line item budgeting and funding of local programs when the monies are allocated from a state budget. Additionally, this paper illustrates a suggested funding formula for problem-solving courts that addresses issues of fairness and responsible spending.

Some Basic Principles

Problem-solving court programs generally take pride in being locally driven initiatives. As such, no two problem-solving court programs are exactly alike. However, although program staff may discern distinct differences among programs, the central tenets of these programs are similar. From the research, it is safe to say that these programs are "principle driven." The principles at work in drug courts are summarized in the "Ten Key Components" (NADCP, 1997).

In the same way, there are principles of responsible fiscal management that fit problem-solving court programs. These principles can be summarized under two general headings: accountability and transparency. Accountability refers to the ability to document or account for every dollar that is allocated to a particular program. Transparency, on the other hand, ensures that records are complete, up to date, and available for inspection. The *Government Auditing Standards* (GAO, 2007), commonly called the *Yellow Book,* provides a wealth of information about acceptable accounting practices that can be applied to problem-solving court programs. The continued financial support of problem-solving courts is likely to be dependent upon the application of these basic accounting principles.

Beyond the basic principles, there are generally accepted accounting principles (GAAPs) that may be applied to the funding of problem-solving court programs. The

GAAPs are generally applied to for-profit businesses that prepare fiscal reports for shareholders or other interested parties (Pratt, 2000). Although problem-solving court programs are non-profit or public entities, the principles still may apply. Of the multiple GAAP principles, there are five that are most relevant to problem-solving court program management (Pratt, 2000).

The first of these principles is called the *Reliability Principle*. This principle states that all information gathered from various sources and used by problem-solving courts should be accurate. Accountants, local program managers and state funding agencies are responsible for checking and double-checking their auditing work.

The second principle is the *Principle of Regularity*, also referred to as the *Principle of Consistency*. The Principle of Regularity provides that entities should conform their accounting practices to applicable rules and laws. In the case of problem-solving courts, state managers have responsibility for ensuring that local program administrators follow federal accounting guidelines as well as state administrative rules.

The third principle is the *Cost Principle.* This principle states that when accountants record transactions that involve assets and services, the transactions should be recorded using actual costs or historical costs. For example, if a problem-solving court bought equipment that was worth $15,000 but was purchased for $10,000, the record should reflect an expenditure of $10,000 since that was the actual amount.

The fourth principle is the *Principle of Sincerity*. This principle states that accounting generated by the program should reflect a good faith effort at accuracy and completeness. Problem-solving court programs should reveal their assets, including funding from secondary sources, when documenting program assets. Likewise, program liabilities should be clearly outlined in the overall fiscal plan.

Finally, the fifth principle is the *Principle of Permanence of Methods.* This principle requires that consistent reporting methods be used at both the local and state levels. Because this principle is applied over time, it is clear that sound methodology for fiscal reporting should be established early in program development. These standards should be followed without exception over time.

ACCOUNTING PRINCIPLES FOR PROBLEM-SOLVING COURTS

[8] The following recommendations are derived from general principles of accounting as well as common problem-solving court practices. Although they are designed to be a guideline for state program operations, the principles can also be applied at the local level. The purpose for adopting these principles is to maintain the essential operations of the problem-solving court through accountability and transparency.

Principle #1. Funds should be disbursed based upon a cost-reimbursement model

It is common practice for state funding sources to allocate funds using one of two approaches: the granting approach or the cost-reimbursement approach. The granting approach is commonly used for new programs and those without long-term financial commitments. This approach involves annual granting requests with frequently cumbersome application processes stemming from Requests for Proposals (RFPs). Grants with basic conditions attached are then made to programs. These conditions often include requirements concerning budgeting categories as well as some fundamental program operations such as compliance with the "Ten Key Components" (NADCP, 1997). Grants provide an excellent means of distributing available one-time appropriations of funds to those who apply.

Although grants bring great strength to problem-solving courts, they also bring some concerns. These concerns generally fall into two categories. The first relates to the perception of fund stability. Problem-solving court managers often have difficulty maintaining quality staff when all contracts have to be limited to the term of the grant. In many locations, particularly those in rural jurisdictions, there are limited treatment and supervision resources available. Oftentimes, short-term contracts are not conducive to retaining personnel.

The second concern relates to the perception that grant funds are often given with limited controls over spending. This may create distress among legislators and state program administrators as actual expenditures may not be tied to program payments. Thus, it is possible for programs to retain dollars or redirect unspent money into other ventures. It is clear that few eventualities can damage the operations or reputation of a program, even a good program, more than misspent state or federal dollars.

Termed here as the "cost-reimbursement" model, this approach provides a different means for distributing state funds to local programs. It involves a shift in the mechanisms through which funds to local programs are transmitted. Rather than a general allocation of funds, the cost-reimbursement model focuses on actual program expenditures. Thus, programs are only given funds to the level of their documented expenses. The cost-reimbursement approach is commonly used with ongoing programs that have relatively stable budget categories and that require functional oversight at the state level. Problem-solving courts seem to fit best in this second category. While all state funded programs that are not constitutionally created could be in jeopardy of losing funding whenever their authorization bills are re-considered, the cost-reimbursement model creates a greater perception of program stability. Further, there is better fiscal oversight afforded to state administrators.

The cost-reimbursement model allows programs to operate as "ongoing concerns" within state budgets. That is, there is an expectation that these programs will continue to operate and that funds will continue to be made available. This expectation makes cost-reimbursement an appealing model of funding at the state level. With federal implementation grants, the expectation is that the federal dollars will only serve to get the program running and are not expected to last beyond the initial granting period.

Instead of a grant application process, operational programs should be expected to submit an annual budget request and documentation of any proposed programming changes in the upcoming fiscal cycle. This process eliminates much of the time-consuming grant-writing process for local courts. As programs are awarded funds for the upcoming cycle, those funds are held by the state until invoiced by the local programs.

The distinctions between these two models are sometimes blurred in common practice. While grants tend to provide the greatest latitude in spending, they are also time- limited and thus create a sense of uncertainty among program managers and employees. Cost-reimbursement models tend to provide greater program accountability; without the requirement of annual grants, the programs are better able to develop long-term fiscal plans and retain valuable staff.

Principle #2. Funds should be allocated, in part, based upon the program population.

Generally speaking, funding should be based, at least in part, upon the number of clients being served. This might be seen as the fairest way to distribute funds. While it is clear that income and expenses vary from location to location, this model provides greater incentives to all programs to streamline expenses and increase productivity. This is reflected in the *economy of scale*, in which programs that serve more clients tend to provide greater services at a reduced price. Further, as problem-solving courts are designed to use existing resources from collaborative partners, this model helps to ensure that programs get all of the necessary partners to the table. The development of a fair and reasonable funding formula is discussed below.

Population census should not, however, be the only consideration, as there are indeed several other outcomes that should be considered, including retention, participation levels, and program completion. One means by which these outcomes can be taken into account is through *performance contracting*. Performance contracting is an approach used in developing contracts between state and/or federal funding agencies and local service providers. This approach focuses on linking funds to client-level outcomes. In the case of problem-solving court programs, these outcomes might include substance abuse and criminal measures of individual performance. These measures could then be aggregated to determine the effectiveness and efficiency of each program under contract. Outcomes should be considered in the annual review process; programs that perform well could then be used as models for other programs in each state. Performance contracting can also be used as a means to ensure that best practices by treatment providers through subcontracts with local programs are employed. Research has linked performance contracting to improved client outcomes (Commons, McGuire, and Riordan, 1997).

Another important consideration is the variation among the populations being served. Courts having large numbers of individuals requiring special services, such as those with mental health issues, may require additional funds to meet the needs of their clients. Additionally, programs with limited access to treatment and other service resources (for example, those in rural jurisdictions) might require individual consideration and augmented funding. It is important that state administrators consider these issues in the allocation of funds in addition to the client census.

One means for accomplishing the allocation of funds is to allow programs to present *special circumstances* that require variations in the allocation process. State administrators could provide a platform to request variations in the annual budget request form. These requests should be supported by documentation of the need for additional spending. One example might be the issue of limited means of public transportation faced by many jurisdictions. This is of particular concern in large rural jurisdictions. Clients frequently need to travel long distances for court appearances and treatment sessions. For many clients, particularly those with limited financial resources and/or restricted driving privileges, the transportation issue could make program participation impractical. One rural jurisdiction in Wyoming resolved this problem by contracting with a local elder-care facility for the use of its vans and drivers. This contract was an unexpected expense that did not fit into any of the usual state budget categories. Therefore, it was necessary to provide a variation in the funding request to accommodate this documented need.

Principle #3. Annual accounting reviews should be conducted.

Funding for programs should be allocated only if there are guarantees of appropriate accounting oversight. Usually, guarantees take the form of a required letter from an accountant certifying that the program is being operated in a fiscally responsible manner. It is good practice for states to perform periodic reviews of program records to ensure compliance with applicable policies. The combination of a letter from an accountant and periodic program reviews should be sufficient to ensure accurate and reliable documentation and to thwart any problems before they become intractable.

Principle #4. Zero-balance budgeting should be pursued.

Program balance sheets should be zeroed out at the end of each fiscal year. Operating capital should be provided at the beginning of the year and program expenses should be documented with the state receiving invoices for all expenses. Funds should be distributed to programs based on actual expenses. These expenses should be reported to the funding source in monthly or quarterly invoices. All receipts and invoices should be maintained in the program offices available for review. At the end of the fiscal year, any residual (unspent) operating capital should be retracted. This is best done over a period of two or three months in order to ensure continuity of ongoing program operations.

Principle #5. Training is essential.

Court program personnel should be adequately trained on maintaining accurate accounting ledgers, including receipts and invoices. All accounting transactions and documentation should be made available for review. It is unfair to have expectations for program managers without ensuring that they are adequately trained and have the knowledge necessary to implement the policies. Fiscal accountability is an area in which clarity is essential. It is the responsibility of the state administrator to ensure that new rules and policies are thoroughly explained, understood and adhered to by all staff personnel.

A FISCAL ACCOUNTING MODEL FOR PROBLEM-SOLVING COURTS

[9] State funding for problem-solving courts is typically allocated as part of the judicial or executive branch budgets. In the case of Wyoming, for example, funds are given to an executive branch agency that is responsible for the oversight and licensing of substance abuse or mental health treatment facilities and providers. Other states, such as Louisiana, include the problem-solving court designated funds in the judicial branch budget (Heck and Roussell, 2007). In either case, the process of allocating funds to local programs has typically taken the form of annual or bi-annual grants. Once the allocation is received, state administrators prepare an RFP and notify local program managers of available funds. Local programs then rush to meet grant application requirements and hope that they are awarded funding. If funding is received, programs typically spend their allocations and report expenditures back to the state.

The model proposed in this paper is different. First, a standardized process of budget submission should be established for state administrative review. Programs that have been operational for a period of time could simply make a short budget request to the state administrative office. The review of these requests would focus on program performance, including services offered and participant outcomes, coupled with the ability to fund the program at a level that is appropriate given the nature of its client population and the available resources within its community.

Funding formulas are a fundamental and necessary part of problem-solving court accountability and sustainability. A funding formula is designed to distribute allocations fairly based upon the actual activities of a program. For example, in many cases a program that is serving 20 people should not receive the same level of funding as one serving 150 people. While this appears to be a simple calculation, it is often difficult to create an equitable calculation of expenditures as issues of economy of scale and available resources must also be taken into consideration. As noted previously, economy of scale refers to the manner in which services and products can be purchased for lower costs as program populations grow. Thus, the cost per individual participant in a program that serves 150 people is ordinarily less than for a participant in a program that serves 20 people. Local resources must also be considered when developing a funding formula. In some locations, the cost of treatment services may be much higher than in others. This is often due to a lack of adequate resources and market competition between programs in a particular area.

Calculating a funding formula can be a difficult task. In order to accomplish this task, program coordinators should collect all available data and chart historical program expenditures. It is advantageous to consider per client cost when calculating a funding formula. For example, a particular program may maintain an average of 40 clients and have an average annual expenditure of $200,000. For this example, the court would spend an average of $5,000 a year per client.[1] Table 1 is an illustrative example of how the data might be represented. After the table has been developed, state administrators can estimate an average annual cost per client, which in some cases might serve well as the final cost per client.

[1] These numbers are for illustrative purposes only and do not necessarily reflect expected program costs for problem-solving courts.

Table 1. Sample Average Cost per Client by Court

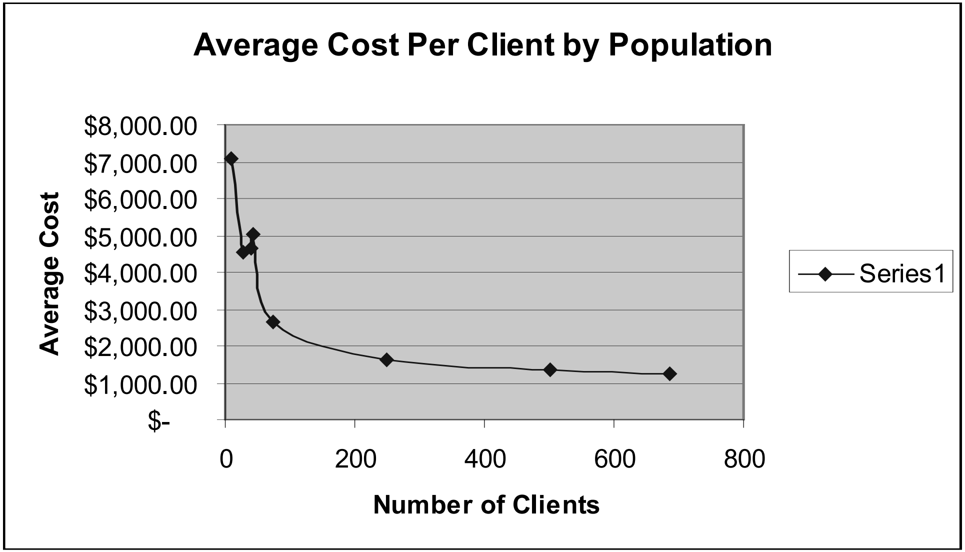
Court Name	Annual Expenditure	Clients Served Annually	Average Annual Cost Per Client
Jonestown DC	$ 71,000.00	10	$ 7,100.00
Smithville DC	$ 185,000.00	40	$ 4,625.00
Littletown DC	$ 211,000.00	42	$ 5,023.81
Metro DC	$ 840,000.00	685	$ 1,226.27
Big Piney DC	$ 122,000.00	27	$ 4,518.51
Fremont DC	$ 600,000.00	500	$ 1,333.33
Coalville DC	$ 400,000.00	250	$ 1,600.00
Muddy Gap DC	$ 200,000.00	75	$ 2,666.67
Total	$ 2,629,000.00	1629	$ 1,613.87

Notes: These are fictitious programs and do not represent any actual jurisdictions or cost figures.

DC = drug court.

If data are available and multiple programs are considered, it is possible to establish an average annual expenditure for each program and combine the numbers into a relatively simple graph. Once the graph is developed, it is easy to identify the broad range of program costs from the jurisdictions in question. In many cases this chart will appear curvilinear; that is, the number of clients that a program carries will be correlated with the average expense per client. The chart will likely reflect a point at which the economy of scale becomes apparent as programs with more clients tend on average to be more cost effective. For the purposes of this analysis, the point identified as the number of clients at which the economy of scale becomes a factor is called the *break point*. This break point provides state administrators with a good estimate of the optimum number of clients needed to ensure maximum cost efficiency. With this number established, managers of programs operating with fewer clients may be encouraged to strive for this as a target census. The sample graph in Chart 1 shows a break point of approximately 100 clients.

Chart 1. Sample Average Cost per Client by Population



There are several additional issues that must be considered. The first of these is that *outliers* may have a disproportionate influence on the analysis. Outliers in this scenario are problem-solving courts that influence the model to a greater degree than is appropriate. If, for example, a particular court serves 1000 clients at very low cost, the effect of this could be to imbalance the scale. Likewise, a court that serves only one client at a very high cost can unduly impact the analysis. In many research situations, outliers are eliminated to avoid skewing the analysis in this manner. Alternatively, the data can be "smoothed out" using what is called a log-linear mathematical transformation to reduce the skewedness. For problem-solving court spending, this approach may be called for if the relative impact of including or excluding a particular program creates vastly different results.

A second, perhaps more difficult problem with this analysis is the lack of context provided in the simple model. Most states are comprised of both rural and urban jurisdictions that may have vastly different resources at their disposal. While there is no empirical methodology in place to determine the relative values of such resources, there are some guidelines that can be considered. In problem-solving court cost analyses, substance abuse treatment tends to be one of the largest expenditure categories. To assist in the determination of appropriate cost levels for this service, it is beneficial to consider the rates at which other state and federal agencies contract for such services. This can be accomplished by contacting the relevant agencies. For example, the Wyoming Department of Health, Substance Abuse and Mental Health Division maintains a standardized scale by which state funded agencies are reimbursed for services provided. It may become necessary to take any major differences in the costs of services across jurisdictions into consideration when interpreting the results of the model.

After a standardized cost per client is established for the state, the program administrator should develop a system to distribute funds equitably. The proposed model suggests that the best means for distributing these funds is through an allocation based upon the expected number of clients to be served in the program. These expected numbers are referred to as *program slots*. A program slot is simply the allocation given for each client. Thus, a program that has been approved to work with 60 clients will be allotted 60 program slots. One of the performance measures for the next fiscal cycle should be the program's effectiveness at servicing the 60 participants that will be paid for by the state. State administrators should gather information about jurisdictions and target populations before making program slot allocations.

When the number of program slots has been set for a jurisdiction and special circumstances have been considered, the overall budget for that jurisdiction can be established. The budget can then be given to the local program in the form of an award letter. The award letter should detail the methods used to establish the going rate for a program slot and the expectations of the program in terms of the number of participants to be served. A signed copy of the award letter should be returned to the state administrator's office and kept on file.

At the beginning of each fiscal cycle, it is important to allocate some operating capital to the programs. In this instance, operating capital is defined as funds provided to a program for basic expenses prior to the submission of the first reimbursement request. In Louisiana and Wyoming, for example, it was determined through fiscal analyses that the programs needed approximately 10 to 15 percent of their total budgets to ensure that bills could be paid in a timely manner. This operating capital should then be recovered to create a zero balance at the end of the fiscal cycle. While this seems somewhat difficult to do, it will ensure that funds are not carried over from one cycle to the next. Most state agencies already operate in this manner. It not only makes bookkeeping easier, it helps to maintain the fiscal integrity of the state program.

During the remainder of the fiscal cycle, it is recommended that funds be distributed based upon signed invoices from local programs. As local programs spend money, they can request reimbursement from the state for those expenditures. The state should develop a simple form for monthly submission to the funding agency that lists actual expenditures in agreed-upon categories. A database of program expenditures should be maintained by the state that lists up-to-date invoices and remaining balances in each budgeting category. By following these procedures, the state will be able to ensure that programs do not find themselves in a situation in which they get over-extended before the end of the fiscal cycle. The cost-reimbursement model requires a strong commitment from state administrators to make sure that invoices are timely paid. Failure to make payments on time could result in suspended services, which would negatively impact participants.

Funds that are not spent during the fiscal year would then be available for reallocation in subsequent years. However, many states do not allow state agencies to rollover unspent funds. Thus, this system can help protect state and local agencies against claims of crossing fiscal year requirements. More importantly, residual dollars will allow state program managers to reassess their funding strategies on a regular basis to determine how such funds may be used to promote and study particular innovations at the local level.

At the local program level, records must be kept of all invoices received, payments made, and receipts when appropriate. A simple way of maintaining these records is by creating a fiscal filing system. Therefore, it is recommended that a file be kept for each month. The file should contain a copy of the invoice sent to the state as well as documentation of all expenditures paid during that particular month. The file can be divided into the budget categories defined by the state. Regardless of the model chosen for record keeping, it is the responsibility of the local program manager to ensure that these records are current and accessible in keeping with the principles of regularity and transparency.

State administrative personnel should routinely audit local records to ensure that there are no gaps in record keeping. This will give state program administrators some assurance of appropriate spending. Additionally, the state administrator should be responsible to train local program managers on fiscal management expectations. Inadvertent mistakes in this aspect of program funding can lead to serious repercussions if they are made public.

Finally, if programs are lacking in their local fiscal management, a policy should be established to allow for corrections. In general, a discovery of fiscal problems should lead to a program developing a *corrective action plan* that should be monitored closely. Any issues that arise need to be resolved as quickly as possible. Failure to comply with state mandated fiscal management policies might result in suspensions of payments until problematic issues are resolved.

CONCLUSION

Problem-solving courts have grown and expanded at a rapid pace. The growth of these programs has frequently exceeded the legislative and administrative mechanisms designed to promote them (Heck and Roussell, 2007). Many problem-solving courts were established as pilot programs to intervene more effectively with repeat substance-abusing and addicted offenders coming into contact with the judicial system. When the evidence supporting the success of these courts started to accumulate, so did the number of programs.

With the revolutionary growth in problem-solving courts, the need for state funding and an administrative structure for their management also increased.

The administrative structure requires careful consideration of not only the amount of funding that should be distributed to programs, but also the means by which that funding may be protected and justified. The problem-solving court model can only be successful if it is supported over time. Substance abuse treatment takes time to be effective. The principles described above are designed to provide both accountability and transparency to local programs that operate with state funding. The goal of building a long-term funding plan is to allow for the development and sustainability of problem-solving courts in all jurisdictions.

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