

Office of Fiscal and Monitoring Services

**To:** All CDJFS, CSEA, and PCSA Directors

**From:** Michelle Horn, Deputy Director  
Office of Fiscal and Monitoring Services  
Monitoring Services Division

**Date:** November 4, 2009

**Subject:** County Monitoring Advisory Bulletin 2009-004: Alert as to Major Monitoring Issues

### Background

The monitoring approach adopted by ODJFS in mid-2008 focused on the identification and communication of areas of risk in the administration of federal programs to county family services agencies' management. These areas of risk are to be addressed in advance of the planned implementation of OMB Circular A-133 audits for calendar year 2009. Audit field work for these audits will be commenced by the Auditor of State (AOS) or by independent public accountants (IPAs) in early 2010.

The ODJFS Office of Fiscal and Monitoring Services (OFMS) has used various methods to communicate these areas of risk to county agency management. These include individual Technical Assistance (TA) Reports, issued directly to the county agencies in question; Advisory Bulletins targeting specific areas of risk; a compilation of major observations and related recommendations; and presentations at meetings of the various county associations.

Notwithstanding these steps, we are concerned that the major areas of risk have not been adequately addressed by all county agencies. For this reason, we are issuing this Advisory Bulletin to identify the five major areas of risk identified as a result of our monitoring activities, including the federal grants monitoring reviews and technical analyses of financial information submitted to the department. For each of the five major areas, we are providing a summary of the issues involved, describing steps which have been taken by ODJFS to address these issues, and indicating possible actions by county agency management to address the risks.

### Summary

The five most significant areas of risk identified to date include:

- Application of federal cost principles to costs for capital assets;
- Documentation of procurement policies, procedures, and internal controls and of specific procurement actions;

- Administration of subrecipient relationships;
- Internal control; and
- Cash management and accountability.

## Detailed Summary

**Capital Asset Issues** – A majority of the TA Reports issued during state fiscal year 2009 contain significant observations relating to the treatment of cost for capital assets. The majority of these observations concern the treatment of the cost of buildings owned by the board of county commissioners and “leased” to county agencies for their use.

The majority of the building cost issues concern the use of improper estimated useful lives to determine a component of the “rent” charged to the agencies by the commissioners. Federal cost principles consider such “leases” to be less-than-arms-length transactions, and limit the allowable costs to those costs which would be allowable if the county agency owned the building. The most significant effect of this requirement is to limit the depreciation component of the rental costs. This component is limited to the amount derived by the straight-line depreciation of a building’s acquisition cost over the estimated useful life for like structures. The estimated useful life used for these purposes should be that developed by the county auditor for financial reporting purposes. If this information is not prepared by the county auditor, a useful life should be used which is consistent with established practice, such as those developed by the Ohio Department of Administrative Services, consistent with the requirements of 2 CFR 225, Appendix B, Section 11.d.1.

In most instances, the county auditor has established a formal useful life for buildings of 40 years or more. However, county agencies have commonly claimed to federal programs building costs based upon the funding period of the debt incurred by the board of county commissioners to acquire the building, most often 20 or 25 years. The effect has been to accelerate the funding of the building cost with federal monies, contrary to 2 CFR 225.

This issue, which has the potential to result in significant questioned cost findings in OMB Circular A-133 audits of counties, has been discussed with the County Commissioners Association of Ohio, the Ohio Job and Family Services Directors Association, the Ohio CSEA Directors Association and the Public Children Services Association of Ohio. We recommend that agency management undertake the following steps:

- Review County Monitoring Advisory Bulletin 2008-001: Claiming Costs of Building Space Under “Less-Than-Arm’s-Length” Transactions to determine whether changes to current policies and procedures are desirable;
- Review County Monitoring Advisory Bulletin 2009-003: Sale and Lease Back of Federally Funded Buildings to determine whether limitations discussed in this Bulletin are applicable to the county agency’s current plans for any changes;

- Review Ohio Administrative Code and Code of Federal Regulations provisions noted in the Advisory Bulletins.

Additional information as to this issue may be found in the County Compilation Summary, a collection of monitoring observations, issued to all county agency directors in May 2009. Specific issues or questions may be directed to the ODJFS Bureau of Monitoring and Consulting Services (BMCS) at the e-mail addresses noted at the end of this Advisory Bulletin.

**Procurement** – A majority of TA Reports issued during state fiscal year 2009 contain observations and recommendations related to procurement activities of county agencies. The most frequent issues noted involve documentation issues ranging from the lack of the required procurement policy to failure to document the history of specific procurement actions. The dollar amounts of these procurements are significant and failure to maintain adequate documentation of specific procurements may result in questioned costs in OMB Circular A-133 audits.

Due to the variety of procurement issues identified, it is not practicable to address them in detail in this Advisory Bulletin. However, given the large number of significant observations, we recommend that agencies undertake the following steps:

- If you have received a TA Report with procurement observations and recommendations, take steps to ensure that appropriate corrective action has been implemented;
- Review the procurement section of the County Compilation Summary sent to you to determine whether there are any observations and recommendations which may be relevant to your current operations;
- Review the Procurement Plan templates sent to all agency directors in May 2009 to see if any changes in your policies and procedures are desirable; and
- Review Ohio Administrative Code Section 5101:9-4-02 and applicable Code of Federal Regulations provisions.

As with building issues, specific issues or questions may be directed to the ODJFS BMCS at the e-mail addresses noted at the end of this Advisory Bulletin.

**Subrecipient Policies** – A large number of observations and recommendations to date relate to county agencies' administration of subawards to other entities. The general areas of concern include:

- Failure to clearly differentiate between vendors and subrecipients;
- Insufficient subrecipient monitoring; and
- Inadequate or incorrect subgrant agreements.

The observations indicate a considerable amount of confusion remains as to the difference between vendors and subrecipients. This lack of understanding is reflected in significant inadequacies in subgrant agreements and in the administration of county subgrants to other governmental agencies and to non-profit organizations.

Resources on these issues are available on the BCFTA website in the “Tools” section. Additional materials developed by BMCS staff for training to county agency staff are available upon request through the ODJFS BMCS at the e-mail addresses noted at the end of this Advisory Bulletin. In addition, BMCS has made available to county agency staff a Subgrant Agreement template for their use. Pending changes to our web site will provide additional materials to assist the agencies.

We recommend that agencies undertake the following steps to address risks in these areas:

- If you have received a TA Report with observations and recommendations related to federal grants management and your treatment of subrecipients, take steps to ensure that appropriate corrective action has been implemented;
- Review the Subgrant Administration section of the County Compilation Summary to determine whether there are any observations and recommendations which may be relevant to your current operations;
- Review the Subgrant Agreement template and consider its implementation or use to effect changes in your current policies and procedures to assure compliance with federal requirements;
- Review the Federal Grants Management materials prepared by BCMS and BCFTA, which are available upon request; and
- Review Ohio Administrative Code 5101:9-1-88 and applicable Code of Federal Regulations provisions.

As with other risk areas, specific issues or questions may be directed to the ODJFS BMCS at the e-mail addresses noted at the end of this Advisory Bulletin.

**Internal Control** – In addition to specific control issues addressed in other observations, most TA Reports contain observations and recommendations under the general appellation of “General Control Procedures.” These involve a variety of issues, but in most instances consist of a general citation as to a lack of documentation of policies, procedures and internal controls. Some county agency staff do not appear to be well versed in basic internal control concepts and the control environment appears, in general, weak. This appearance of weak controls may take two forms. First, checks and balances are in place, but no written policies exist and/or the application of internal controls is not documented. Second, there may be little or no internal controls in operation and/or checks and balances are poor or not consistently applied. A perception by the AOS or an IPA of a lack of concern as to internal control may result in

significantly increased testing in an OMB Circular A-133 audit, including increased scrutiny of the agency. This may also result in a significant increase in audit costs.

The Guided Self Assessment (GSA) forms completed by county agency management as part of our monitoring process are intended to provide a basis for the development of internal control documentation and the GSA process is an educational process for many agency managers. The AOS has based its OMB Circular A-133 audit approach for counties upon the GSA forms and will expect each agency to have completed GSAs available at the start of their audit field work. This audit approach will be used by both AOS and IPA auditors performing county audits.

If you have not completed a GSA form, we strongly recommend that you do so as expeditiously as possible. If you have completed such a form in the past, it should be reviewed and updated as necessary to reflect current policies, procedures and internal controls. Structural changes in the service delivery systems should be considered when updating the GSA to ensure tasks assigned to specific staff are still being completed in the same manner as before, or to update the process and the related internal controls. If assistance is needed, please contact the ODJFS BMCS at the e-mail addresses noted at the end of this Advisory Bulletin.

**Cash Management and Accountability** – Cash management and accountability has only recently been identified as a separate area of inclusion in the GSA process and in our limited substantive testing. For this reason, there are few, if any, observations in released reports to date. However, in discussions with county agency management while providing consulting services and in our analyses of county cash conditions to date, it has been apparent that some county agency managers and staff do not have a basic knowledge or understanding of fund accounting or of the legal limitations on the use of federal or state cash.

In terms of federal compliance, there does not appear to be significant comprehension of the requirements of the grants management common rule as to separate accountability for federal cash from each distinct federal funding stream. Some counties do not appear to be managing their cash draws and expenditures in a manner which conforms to Cash Management Improvement Act requirements, as specified in their Subgrant Agreement. This includes a lack of effective budgeting and cash forecasting. In some instances, it appears county agencies are drawing down federal funds when it is clear they will not have expenditures related to those funding streams. This may result in federal cash being used for costs of other federal programs, for non-federal (local) costs, and even for expenditures claimed for federal reimbursement (matching federal funds with federal funds).

All of these activities would violate federal general administrative requirements, program specific requirements, 2 CFR 225 (OMB Circular A-87) rules for allowable costs, and the Cash Management Act. As such, these would be very significant violations of federal law which would place both the county and ODJFS at risk of federal penalties and sanctions, as this style of cash management is reminiscent of the former consolidated funding methodology, which is unallowable. Additional guidance as to cash management has recently been issued by the OFMS Bureau of County Finance and Technical Assistance in FAPMTL 115, FAPMTL 116, FAPMTL 119 and FAPMTL 122.

In some county agencies it appears that agency financial managers would benefit from training on the requirements of state law as to the treatment of cash belonging to separate statutory funds, limitations on interfund transactions, and the legal status of monies received as federal reimbursements. We recommend that agencies undertake the following steps:

- Review County Monitoring Bulletin 2009-001: Interfund Cash Transactions to identify and better understand applicable legal requirements;
- Review applicable Ohio Administrative Code and Code of Federal Regulations provisions; and
- Review current county operations and the related internal controls to ensure the agency is conforming to these legal requirements.

Our advisory bulletin on interfund cash transactions may provide some assistance in understanding and planning cash movements between county agency funds. BMCS is preparing additional guidance as to cash accountability and BMCS and BCFTA are developing training on these subjects for county agency staff.

**Consulting Services Requests:**

The BMCS has established a GroupWise e-mail account for questions related to technical issues. Questions may be submitted through the GroupWise system to BMCS\_INQUIRIES or through the Internet to [BMCS\\_INQUIRIES@jfs.ohio.gov](mailto:BMCS_INQUIRIES@jfs.ohio.gov).

The e-mail account will be checked frequently for new inquiries. Within the limits of our resources, we will respond to you as quickly as possible. Any inquiries which are appropriate to another ODJFS Office or Bureau will be forwarded to that department.

c: ODJFS Director's Office  
ODJFS Senior Staff  
Associations