

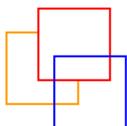


Department of
Job and Family Services

Office of Fiscal and Monitoring Services

Summary of County Technical Assistance Report Observations and Recommendations

May 2009



**Bureau of Monitoring and
Consulting Services
4020 East Fifth Avenue
Columbus, Ohio 43219
Telephone: (614) 644-2186
Fax: (614) 644-2217**

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General Control Procedures

1. Documentation of Policies, Procedures and Internal Control Procedures

Condition - The county family services agency does not have documented policies and procedures, including internal controls, for a number of programs and functions.

Criteria - For effective functioning, organizations must have strong, well-documented internal control. The controls must be appropriately designed, placed in operation and functioning as designed. The agency must have adequate documentation of policies and procedures, including control procedures, and of the performance of the control procedures.

Effect - The lack of appropriately documented policies and procedures, including internal control, creates a risk that:

- Actions will be undertaken without the knowledge or consent of management;
- Necessary actions will not be performed;
- Errors and irregularities may occur and go undetected for a significant period of time;
- Information and reports necessary for effective management will not be reliable;
- Appropriate management decisions will not be made;
- The safety and security of assets of the agency will be compromised; and
- Noncompliance with legal requirements will occur.

In addition, the lack of strong, well-documented internal control may cause the auditor performing an Office of Management and Budget (OMB) [OMB Circular A-133](#) audit of the agency to increase the nature and extent of testing performed in the audit. In the performance of a financial audit of a county, including an [OMB Circular A-133](#) audit, the independent auditor will attempt to rely upon the internal controls of the agency. Where strong, well-documented internal control is in place, this reliance will allow the auditor to modify the nature, timing and extent of his audit procedures. This may reduce the time required for the performance of the audit, to the benefit of the agency, with a concomitant reduction in the cost of the audit. Conversely, if the auditor cannot verify the existence of strong internal controls, he may conclude that he must increase, rather than decrease, the amount of his testing.

In order for the auditor to rely upon internal control, the controls must be appropriately designed, placed in operation and functioning as designed. The auditor will review documentation of internal control to determine whether such reliance is justified. Thus, the agency must have adequate documentation of policies and procedures, including control procedures, and of the performance of the control procedures.

Recommendation - We recommend that agency management review the Guided Self Assessment and identify those areas where documentation of policy and procedures, including internal control procedures, should be developed. As much as possible this should be accomplished by reference to existing documentation, reducing the time and effort required. Documentation of internal control procedures should indicate what is to be confirmed, verified, or checked, and how this is to be done.

2. Documentation of Staff Training

Condition - Agency management does not currently track the types of staff training provided, those in attendance or the dates of the training.

Criteria - Agency management indicated that a part of their internal control rests on periodic training provided to their staff in the correct procedures they are to follow. Effective training for staff is a control activity, ensuring that staff is aware of the appropriate procedures and thereby reducing the risk of error. Documentation of the details of the training is necessary for management to be assured of the effectiveness of the control and for potential auditors to act in reliance upon the control in determining the nature, extent and timing of audit procedures.

Effect - In the absence of documentation of the training, there is a risk that inappropriate training will be provided to staff, using limited resources without benefit to the agency mission. There is also a risk that appropriate staff will not be provided with necessary training. The lack of training may increase the risk that staff will act in an ineffective or erroneous manner, to the operational detriment of the agency and its clients. Resulting errors and irregularities may increase the risk of audit findings in an audit under [OMB Circular A-133](#).

Inadequate documentation of training may also limit the ability of an auditor to adjust the nature and extent of audit testing in reliance on the training, increasing the time, inconvenience and expense of the audit.

Recommendation - We recommend the agency retain agendas, training materials and sign-in sheets from their various staff training sessions to document the provision of the training. This will provide agency management for a basis for assessing the effectiveness of staff training and will also provide evidence of the control, permitting the independent auditor to rely upon the control as a basis for reduced audit testing.

3. Documentation of Internal Control Performance

Condition - County family services agency staff do not routinely document the performance of some internal control procedures, including fiscal review of invoices. As an example, as part of fiscal staff's recalculations of Title IV-D contract invoices, the amounts in the invoices are recalculated as a control. However, the performance of the recalculation is not documented.

Criteria - As noted in item 1, above, the lack of appropriately documented policies and procedures, including internal control, creates significant risks to the organization both in terms of operating efficiency and legal compliance. Such a lack also inhibits the ability of an external auditor to rely upon the internal controls of the agency. Where the auditor cannot verify the

existence of strong internal controls, he may conclude that he must increase, rather than decrease, the amount of his testing.

In order for the auditor to rely upon internal control, the controls must be appropriately designed, placed in operation and functioning as designed. The auditor will review documentation of internal control to determine whether such reliance is justified. Thus, the agency must have adequate documentation of policies and procedures, including control procedures, and of the performance of the control procedures.

Effect - In the absence of documentation of the performance of internal controls, such as fiscal reviews, by such means as the reviewer's initials and the date of a recalculation, management has no record or assurance that the required controls are being performed. This increases the risk that policies and procedures may effectively be changed or discontinued without management knowledge or approval, with unforeseen and unforeseeable consequences.

In addition, an auditor performing an audit of the agency has no evidence of the performance of the fiscal review and cannot use the control as a basis for the reduction of audit testing.

Recommendation - We recommend agency management implement as a routine policy the documentation of the performance of key internal controls. This may include the use of initials and dating, combined with the use of a "reviewer's checklist," to provide evidence of performance of staff reviews and to document the scope of the reviews. This will enable an auditor to verify the performance of the control and may result in reduced audit testing in the agency.

4. Internal Controls Over Cash

Condition - The assignment of duties by county family services agency management to agency staff does not provide for segregation of incompatible duties.

Criteria - Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. The fundamental premise of segregated duties is that an individual should not be in a position to initiate, approve, and review the same action. Custody of assets should be separated from the accounting function; authorization of transactions should be separated from custody of associated assets; and operational responsibilities should be separate from record-keeping responsibilities. These are incompatible duties when performed by the same individual.

Segregation of duties is used to ensure errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Segregation of duties provides two benefits:

- A deliberate fraud is more difficult because it requires collusion of two or more persons; and
- It is much more likely that innocent errors will be found.

Effect - Without adequate segregation of duties, one employee may be in a position to perpetrate a fraud and to alter records to prevent detection of the fraud. For example, where one individual is responsible for the collection of cash, maintaining the record of cash receipts, and preparing the deposit to the county treasury, he is in a position to purloin cash and to conceal its loss.

Recommendation - We recommend the agency implement control procedures to insure proper segregation of cash handling duties. In the example in question, an independent staff person could prepare the deposit after the cashier has verified the cash drawer total. In addition, the agency should institute a verification method for reconciling the receipts to deposits. This could be accomplished through a monthly reconciliation of the receipt book with the county auditor's monthly report of agency receipts.

5. Cash Equivalent Handling Process

Condition - County family services agency management does not provide adequate internal control over cash equivalents, such as gas cards kept on hand for the use of clients.

Criteria - Adequate internal control should be maintained over cash equivalents.

Effect - Cash equivalents are items which are convertible into cash and which share the risks of cash. Gas cards, for example, which are kept on hand by many county agencies for distribution to clients, are the functional equivalent of cash. They are small, easily concealed and easily convertible to cash. Since these cards are pre-paid, they are similar to cash in that they are highly susceptible to theft. Failure to properly account or safeguard cards on-hand could result in cards being lost, stolen or used for unintended purposes.

Recommendation - Management should assign responsibilities to ensure a crosscheck of duties. We recommend that:

- A written record be maintained of the receipt and distribution of all gas cards. When the agency purchases the cards, the number and amount should be recorded. As each card is distributed, it should be recorded, with a notation of who received the card, the program utilizing the card and the employee distributing the card;
- Different individuals should be responsible for maintaining custody of the gas cards and for maintaining the records of receipt and distribution of the cards;
- Distribution of a gas card should require the written authorization of the case manager for the client;
- A receipt should be obtained from the client; and
- An employee independent of the purchasing, tracking and logging of the cards should be assigned to periodically perform a reconciliation of the cards. The procedures performed should:

- Provide for a comparison of the number of cards purchased versus those distributed and those remaining on-hand.
- An inventory should be performed to ensure all cards listed in the records are present;
- A sample of paid invoices should be tested to ensure all cards purchased were recorded on the card log; and
- A sample of clients from the log should be compared with their case file to ensure documentation exists which shows they received the card.

6. No Proof of Services Rendered or Product Received

Condition - The county family services agency does not require proof services were rendered or goods provided prior to making payment to vendors.

Criteria - Federal regulations at [2 CFR 225, Appendix A, Section C.1.a](#) require that for costs to be allowable to federal programs, they must be “necessary and reasonable for proper and efficient performance and administration of Federal awards.” In addition, to be allowable costs must be documented.

Effect - Failure to document that services were rendered or that products were received could result in payment being made by the agency for goods or services not received by or provided to the agency, wasting federal monies. If identified by an auditor in the course of an audit under [OMB Circular A-133](#), this could be the basis for a questioned cost.

Recommendation - We recommend that prior to making payment county agencies require verification that services have been rendered or that products have been received. Verification that products were received can be through a packing slip attached to the payment request or the initial of the individual responsible for receiving the product on the purchase order or invoice approved for payment.

Accounting and Reporting - Inventory

1. Agency Physical Inventory

Condition - The agency creates a new inventory list each year by preparing a list of equipment on a room-by-room basis.

Effect - While this inventory method is sufficient to identify all items on hand as of the inventory date, it does not address the risk that items on the prior year's list or acquisitions during the prior year are unaccounted for.

Recommendation - We recommend agency management implement a perpetual inventory system, with items added to the inventory records upon acquisition and removed from the inventory records upon disposal. An annual physical inventory should be performed to reconcile inventory records to items on hand, with any discrepancies being resolved.

We also recommend that agency management establish internal controls segregating the functions of authorizing, ordering and receiving equipment, controlling inventory, and recording transactions. Maintenance of the inventory records should be separate from the authority to order, authorize, receive and dispose of equipment and from the authority to record transactions. This segregation of duties will reduce the risk that an individual could authorize the purchase of equipment, obtain control of the asset and prevent its recording in inventory and other records of the agency.

2. Incomplete Information as to Equipment Acquired Under a Federal Program

Condition - The county family services agency is not maintaining required information as to property acquired under a federal program.

Criteria - [45 CFR 92.32\(d\) \(1\)](#) requires that where the cost of property is paid in whole or in part from federal monies, property records maintained by a recipient or subrecipient must include:

- A description of the property;
- A serial number or other identification number, the source of property;
- Who holds title;
- The acquisition date;
- The cost of the property;
- The percentage of Federal participation in the cost of the property;
- The location, use and condition of the property; and
- Any ultimate disposition data, including the date of disposal and sale price of the property.

Effect - The information required by [45 CFR 92.32](#) is necessary to properly account for the use and disposition of assets acquired with federal monies. Without such information it is not possible to comply with numerous federal requirements as to cost allocation, internal control,

and accounting for amounts due the federal awarding agency upon disposal. Incomplete inventory detail also increases the risk of undetected theft or loss of items is increased. Failure to maintain the necessary records may directly result in a noncompliance citation in an [OMB Circular A-133](#) audit report; more significantly, the lack of the required information may be the basis for other noncompliance with significant consequences for the county agency in an audit.

Recommendation - We recommend that the agencies determine whether the required information is maintained internally or is maintained by the county auditor. If the county auditor is unable or unwilling to maintain inventory records with the necessary detail, the county agency should do so. A perpetual inventory system should be maintained with verification by means of an annual physical inventory by staff independent of the processes for the acquisition, accounting, and disposition of inventory items.

We have found that some counties use the asset inventory lists to establish coverage under certain insurance policies. Although we are unsure if this is the case, the agency may wish to investigate how asset lists are used and whether any uninsured risk exists as a result of vehicles not being listed as assets. Immediate action should be taken if such a situation does exist.

3. Agency Physical Inventory and Record Keeping

Condition - Assets were missing from the agency's inventory listing and the agency does not reconcile its inventory listing with the county auditor's inventory report. In addition, the agency did not complete a physical inventory at year end 2007 and could not certify its inventory of equipment to the county auditor on the second Monday in January of 2008.

Criteria – [Section 305.18, Revised Code](#), requires that each county agency take inventory on the second Monday in January of each year. This inventory must include all materials, machinery, tools, and other county supplies under the control of the agency. Copies of the inventory are required to be filed with the clerk of the board of county commissioners and with the county auditor.

Effect - Failure to maintain accurate and timely inventory records can increase the risk of inventory items being mislaid, lost or stolen. This can adversely affect agency performance, due to a lack of necessary resources, or can require the unnecessary use of limited financial resources to obtain replacement inventory.

Recommendation - We recommend agency management implement a perpetual inventory system, with items added to the inventory records upon acquisition and removed from the inventory records upon disposal. An annual physical inventory should be performed to reconcile inventory records to items on hand, with any discrepancies being resolved. The physical inventory list should be certified to the county auditor no later than the second Monday in January of each year.

4. Inventory and Equipment Records

Condition - Although the county reports its financial statements on the cash basis, it maintains an inventory listing of the agency's assets. However, the historical costs reported on the county inventory listing and the costs used by the agency to seek federal reimbursement for depreciation claims differ.

The county inventory list recorded the cost of a building as \$551,955. The agency recorded the building cost as \$487,000, and is payment the board of county commissioners rent calculated on the basis of this amount. The amount of the rental payment is then claimed to federal programs.

In addition, the board of county commissioners paid for a flood retaining wall around the building. The agency is reimbursing the commissioners based on a 15-year lease agreement. However, the lease agreement lists the cost as \$33,729, and the inventory listing recorded the cost as \$25,809.

Neither the agency nor the county could account for these differences.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must “[b]e adequately documented.”

Effect - Accurate accounting and financial reporting is necessary in order to properly claim reimbursement from federal programs. Without the ability to document the actual cost of its depreciable assets, the agency is at risk of an adverse audit finding pursuant to an [OMB Circular A-133](#) audit.

Recommendation - We recommend that agency management continue to work with the county commissioners and the county auditor to account for the discrepancies between the county's records and the records maintained by the agency and to discuss alternatives for the correction of these differences.

We also recommend the agency develop internal control procedures to ensure that assets are properly recorded and reconciled with the county's inventory listing. These procedures should be sufficient to provide reasonable assurance that assets are being depreciated based on accurate cost basis information and can be verified through supporting documentation.

General Cost Principles Issues

1. Allowability of Contract Costs

Condition - The county family services agency paid for Title XX/TANF Transfer transportation services which predated the contract period.

Criteria – For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.1](#) require that they be “authorized or not prohibited under State or local laws or regulations.”

The Ohio Supreme Court has indicated that agencies of local government possess only those powers expressly granted by statute or necessarily implied to effectuate a statutory responsibility. The authority for a public entity to act in financial transactions must be clearly granted, and any doubt must be resolved against a proposed expenditure. State, ex rel. Locher v. Menning, 95 Ohio State 97 (1916).

In the absence of a lawful basis under state or local laws for the agency to incur a cost, it is unallowable.

Effect - As payment of the costs was not allowable under state or local law, the agency charged unallowable costs to the federal program. This entails a risk of an adverse audit finding in an audit pursuant to [OMB Circular A-133](#).

Recommendation - We recommend the agency implement control procedures to assure invoice payments are accurately matched to a contract or purchase order for the period in which billed services were provided. To accomplish this, vendors should be required to include sufficient detail on each invoice to allow agency staff to identify the date of service and the contract or purchase order to which the payment is purportedly to be charged. Before any payment is approved, a staff member should verify that the date of service matches the term of the contract or purchase order under which payment is proposed to be made.

2. Income Maintenance (IM) Costs Charged to Shared Cost Pool

Condition - The agency charged the cost of a computer consultant’s contract to the Social Service (SS) cost pool. These costs related to modifications and upgrades to the agency’s in-house child care computer program. Based on discussions with the agency’s fiscal officer, we determined that all other child care costs were charged to the IM cost pool.

Criteria – For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.3.a](#) require that they be “chargeable or assignable . . . in accordance with relative benefits received.” In addition, [2 CFR 225, Appendix A, Section E.1](#) defines “direct costs” as “those [costs] that can be identified specifically with a particular final cost objective.”

Effect - With limited exceptions, all single purpose and multi-purpose contract costs with service providers must be charged directly to benefiting cost centers. These cost centers may be individual programs or cost pools. Where a vendor has indicated that specific costs relate to a

specific program or cost pool, the costs are direct costs of the programs or cost pools in question. Charging IM costs to the Social Services cost pool has the effect of allocating these costs to nonbenefiting federal programs. This may result in the agency receiving more or less federal reimbursement than it is entitled to receive. In the former instance, the result may be a finding in an [OMB Circular A-133](#) audit of the agency; in the latter instance, the result may be a reduction in funding otherwise available to the agency.

Recommendation - We recommend that management familiarize themselves with the provisions of [2 CFR 225](#) relative to the definition and treatment of direct and indirect costs. As these services were acquired by contract, the agency may wish to implement internal controls designed to identify the appropriate accounting method for such costs at the time contracts are established. This should include a supervisory review and approval of the planned accounting method to help ensure costs claimed to federal programs meet federal requirements established in the [2 CFR 225](#) and the [ODJFS Statewide Cost Allocation Plan](#). The accounting for invoices and vouchers should also be reviewed to ensure costs are claimed appropriately and in accordance with the planned methodology.

3. Direct Charging Depreciation Costs

Condition - The county family services agency charged depreciation costs for an imaging system used by income maintenance staff to a TANF/OWF program.

Criteria - For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.3.a](#) require that they be “chargeable or assignable . . . in accordance with relative benefits received.” In addition, [2 CFR 225, Appendix A, Section E.1](#) defines “direct costs” as “those [costs] that can be identified specifically with a particular final cost objective.

Effect - For the cost of an item of equipment to be charged as a direct cost to a single federal program, the agency must determine that the cost is readily assignable to that federal program and that the cost benefits only that federal program. Where equipment is used for multiple programs but, as in this instance, the depreciation costs are directly to a single program, the single program is bearing an inappropriate proportion of the costs. If these circumstances were to be identified in the course of an [OMB Circular A-133](#) audit, an audit finding might result.

Recommendation - We recommend agencies implement internal control procedures to provide reasonable assurance that depreciation costs are charged only to benefiting programs. They may wish to make such a determination at the time of asset acquisition and perform a review during the completion of the inventory of assets to ensure changes in use are reflected in the accounting for such assets. At both points, a supervisory review and approval would help ensure assets costs are properly classified and charged only to benefiting programs.

4. Inadequate documentation to support administrative contract costs

Condition - The county family services agency made payments for services that were not adequately documented.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must “[b]e adequately documented.”

Effect - Where costs charged to a federal program for services which are not adequately documented, there is a risk that the federal program is paying for services which were not received. As a result, limited federal resources are wasted and do not benefit the individuals which the program was intended to serve. In addition, there is a risk of a finding in an [OMB Circular A-133](#) audit of the county agency.

Recommendation - We recommend agency management implement control procedures to ensure services were delivered as evidenced by approval of invoices by someone knowledgeable of the service provided and a review of invoices for accuracy. To accomplish this, vendors should be required to include sufficient detail on their invoices to provide reasonable assurance that contract costs are properly charged to the agency.

5. Incorrect Reporting of Expenditures

Condition - The agency charged the cost of a computer consultant’s contract to the Social Service cost pool, although the costs appear to be related directly to child care.

Criteria - For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.3.a](#) require that they be “chargeable or assignable . . . in accordance with relative benefits received.” In addition, [2 CFR 225, Appendix A, Section E.1](#) defines “direct costs” as “those [costs] that can be identified specifically with a particular final cost objective.

Effect - For contract costs to be charged as a direct cost to a single federal program, the agency must determine that the cost is readily assignable to that federal program and that the cost benefits only that federal program. The charging of costs benefiting child care to the social service cost pool results in the costs being charged to nonbenefiting federal programs. As a result, there is a risk of a finding in an [OMB Circular A-133](#) audit of the agency.

Recommendation - We recommend that management familiarize themselves with the provisions of [2 CFR 225](#) relative to the definition and treatment of direct and indirect costs. For services acquired by contract, the agency may wish to implement internal controls designed to identify the appropriate accounting method for such costs at the time contracts are established. This should include a supervisory review and approval of the planned accounting method to help ensure costs claimed to federal programs meet federal requirements established in [2 CFR 225](#) and the [ODJFS Statewide Cost Allocation Plan](#). The accounting for invoices and vouchers should also be reviewed to ensure costs are claimed appropriately and in accordance with the planned methodology.

6. Direct Costs Charged as Indirect Costs

Condition - The county family services agency charged day care, kinship, foster parent supplies and court testimony costs to a cost pool rather than as direct costs to the benefiting programs.

Criteria - For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.3.a](#) require that they be “chargeable or assignable . . . in accordance with relative benefits received.” In addition, [2 CFR 225, Appendix A, Section E.1](#) defines “direct costs” as “those [costs] that can be identified specifically with a particular final cost objective.

Effect - Where costs are recorded to a cost pool, they are allocated to the various federal programs comprising the cost pool through the Random Moment Sample (RMS) time study. The effect of the agency’s practice is to assign a portion of the costs to non-benefiting federal programs, contrary to federal cost principles. In addition, allocating a direct cost to a cost pool, rather than allocating it as a direct cost to a single federal program, may reduce the amount of federal reimbursement received by the agency. For this reason, where provider costs, including provider administrative costs, are readily assignable to a single federal program, they should not be charged to a cost pool.

Recommendation - We recommend agency management review the provisions of [OAC Section 5101:9-1-04](#), which contains definitions and clarification of cost structures associated with cost pools. The agency may also contact its ODJFS fiscal supervisor concerning proper recording of direct costs.

Building Costs

1. Use of Incorrect Estimated Useful Life

Condition - The county family services agency uses the term of bonds issued to finance a building as the estimated useful life in calculating allowable depreciation costs on a county-owned building, instead of the longer period established by the county auditor as the estimated useful life of buildings for financial reporting purposes.

Criteria - County family services agencies frequently occupy office space provided by the board of county commissioners. A portion of the related cost may be charged to federal programs, subject to the limitations of federal cost principles at [2 CFR 225](#).

The acquisition cost for a building may not be charged directly to federal programs. [2 CFR 225, Appendix B, Section 15 \(b\) \(1\)](#), prohibits the charging of costs for “capital expenditures for general purpose equipment, buildings, and land . . . as direct charges, except where approved in advance by the awarding agency.”

However, [2 CFR 225, Appendix B, Section 37](#), allows the charging of rental costs, provided the rates charged are reasonable.

In determining the reasonableness of rental costs, the following factors must be considered:

- Rental costs of comparable property, if any;
- Market conditions in the area;
- Alternatives available, and;
- The type, life expectancy, condition and value of the property leased.

These requirements are also set forth in [OAC Section 5101:9-4-11 \(B\)](#).

Additional limitations are applicable where the rental space is owned by the board of county commissioners. Where one party to a lease agreement is able to control or substantially influence the actions of the other party, the transaction is considered a “less-than-arms-length” transaction. This includes circumstances where leases are between divisions of a governmental unit, as in a lease between a county agency and a board of county commissioners.

Where a “less-than-arms-length” transaction is in place, federal cost principles allow the claiming of lease costs only to the extent that costs would be allowable if title to the property vested in the county agency. Under [2 CFR 225, Appendix B, Section 37](#), such costs are generally limited to depreciation or use allowance, maintenance, taxes and insurance, and related interest. The amount of interest expense allowed is limited by [2 CFR 225, Appendix B, Section 23](#).

As provided in [2 CFR 225, Appendix B, Section 11](#), allowable depreciation for claims to federal programs is to be based on the acquisition cost of the assets, excluding the cost of land. Calculation of depreciation is to be on a straight-line basis over the expected useful life of the assets. The expected useful life should be the same as that used for financial reporting purposes

by the county auditor. This estimated useful life can be determined by consulting with the county auditor's office.

Effect - In many instances where the board of county commissioners issues bonds for the acquisition of building facilities for a county family services agency, the term of the bonds is less than the expected life of the buildings. Where the claim for rental costs is based not on the estimated useful life of the building, but on the term of the bonds issued to fund the acquisition, the effect is to accelerate the cost recovery for the county beyond that contemplated by federal cost principles.

For example, if a building is acquired at a cost of \$2,000,000, with bonds in that amount issued with a term of 20 years, and the building has an estimated useful life of 40 years as determined by the county auditor for financial reporting purposes, the allowable depreciation is 1/40 of the cost, or \$50,000 per year. If, however, the agency uses the bond term for the calculation of the depreciation component of rental costs, the amount claimed is 1/20 of the bond amount, or \$100,000 per year. The result is an excessive claim to federal programs of \$50,000 per year.

If these circumstances were to be identified in the course of an audit of the agency pursuant to [OMB Circular A-133](#), there is a risk that the excessive claim to federal programs would be considered a questioned cost. There is also a risk, if the excessive claim has been made over an extended period of time, that the federal awarding agency would seek recovery of the total excessive claims.

If these circumstances were to be noted by an auditor performing an [OMB Circular A-133](#) audit of the county, an audit finding might be issued. This could involve a potential county liability to the federal government for the excessive claim.

Recommendation - We recommend that where such circumstances may exist that the agency director consult with the county auditor, the board of county commissioners, and the county prosecuting attorney to discuss the situation and the potential county liability. We recommend the agency review the historical cost data for the building and any remodeling, interest on any related debt, insurance costs, maintenance costs, and utilities to determine the allowable cost to federal programs. Office of Fiscal and Monitoring Services (OFMS) staff is available to provide technical assistance in this regard as needed.

2. Inclusion of the Cost of Land in the Basis for Depreciation

Condition - The county family services agency includes the cost of land in the acquisition cost of a county-owned building when calculating the allowable depreciation as a component of rental costs paid to the board of county commissioners and claimed to federal programs.

Criteria - As noted in item one, above, allowable depreciation for purposes of claims to federal programs is based upon the acquisition cost of a building, exclusive of the cost of the land. [2 CFR 225, Appendix B, Section 11](#).

Effect - Inclusion of the cost of land in the acquisition cost of a building increases the total amount claimed over the estimated useful life of the asset. In the preceding example, where

\$2,000,000 in bonds was issued to acquire a building, the assumption was made that the \$2,000,000 was solely for the cost of the building, and did not include the cost of the land. The allowable depreciation, assuming a 40 year useful life, would, as noted, be 1/40 of \$2,000,000, or \$50,000.

If, however, in addition to the \$2,000,000 in cost for the building, the county included in the depreciation calculation an additional cost of \$500,000 for the land on which the building sat, they would likely claim annual depreciation of 1/40 of \$2,500,000, or \$62,500, an excessive claim of \$12,500 per year.

If these circumstances were to be noted by an auditor performing an [OMB Circular A-133](#) audit of the county, an audit finding might be issued. This could involve a potential county liability to the federal government for the excessive claim.

Recommendation - We recommend that where such circumstances may exist that the agency director consult with the county auditor, the board of county commissioners, and the county prosecuting attorney to discuss the situation and the potential county liability. OFMS staff is available to provide technical assistance in this regard as needed.

3. Inclusion of Building Demolition Costs in the Basis for Depreciation

Condition - The county family services agency includes demolition costs of an existing facility in the acquisition cost of a county-owned building when calculating the allowable depreciation as a component of rental costs paid to the board of county commissioners and claimed to federal programs.

Criteria - Where an existing building is demolished to allow for the construction of a new building, the demolition costs are considered to be part of the cost of the land, not part of the cost of the new building.

Effect - As noted in item two, above, inclusion of the cost of land in the acquisition cost of a building increases the total amount claimed over the estimated useful life of the asset. Inclusion of demolition costs in the acquisition cost of the building improperly allows those costs to be claimed to federal programs, resulting in an excessive claim.

If, for example, in our preceding examples, the county were to incur costs of \$20,000 to demolish an existing building on the site of the new building and include this amount in the acquisition cost used to calculate depreciation, the effect is an excessive claim of \$500 per year over the forty year estimated useful life of the building.

If these circumstances were to be noted by an auditor performing an [OMB Circular A-133](#) audit of the county, an audit finding might be issued. This could involve a potential county liability to the federal government for the excessive claim.

Recommendation - We recommend that where such circumstances may exist the agency director consult with the county auditor, the board of county commissioners, and the county

prosecuting attorney to discuss the situation and the potential county liability. OFMS staff is available to provide technical assistance in this regard as needed.

4. Lack of Documentation for Building Arrangements

Condition - Although the county family services agency occupies space in a county-owned building and claims an amount as rental costs to federal programs, there is no “lease” or similar documentation of the terms and conditions under which the space is occupied.

Criteria - Federal cost principles require that costs claimed to federal programs be “adequately documented.” [2 CFR 225, Appendix A, Section C.1.j.](#)

Effect - The lack of such documentation may cause confusion as to the respective obligations of the parties and doubt as to the basis for a claim to federal programs. This could result in an adverse audit finding in an audit under [OMB Circular A-133](#).

Recommendation - To document the basis for such costs, the agency should memorialize the terms under which they are occupying the space in question, delineating the space to be occupied, the respective responsibilities of the agency and of the Board, and the financial arrangements. This documentation is commonly characterized as a lease, although the legal relationship is not strictly that of lessee and lessor. To accomplish this task, we recommend agency management consult with the board of county commissioners and the county prosecuting attorney, as their statutory legal advisor.

5. Building Costs - Unsupported Building Lease Rate

Condition - The county family services agency occupies office space owned by the board of county commissioners and has a written agreement setting forth the terms and conditions of occupancy. However, information necessary to determine the allowable cost, such as the acquisition cost of the building, the cost of renovation and additions, whether building demolition costs and equipment costs were included in the cost data, and how the allocation of cost was made among different tenants, is not available.

Criteria - Federal cost principles require that costs claimed to federal programs be “adequately documented.” [2 CFR 225, Appendix A, Section C.1.j.](#)

Effect - Without the missing information, it is not possible to determine whether the costs claimed to federal programs for building space by the county family services agency are allowable under federal law. This may result in a sizable adverse audit finding in an [OMB Circular A-133](#) audit of the county.

Recommendation - We recommend that agency management work with the county auditor, the board of county commissioners, and the county prosecuting attorney to obtain support for rental costs. This should include efforts to determine accurate asset costs.

6. Lease Rate in Excess of Market Rate

Condition - The county family services agency occupies a portion of county-owned office space and pays a rate in excess of that paid by other, private sector lessees in the same building.

Criteria - Under [2 CFR 225, Appendix B, Section 37.a](#), rental costs claimed to federal programs must be reasonable in light of such factors as:

- Rental costs of comparable property, if any;
- Market conditions in the area;
- Alternatives available; and
- The type, life expectancy, condition, and value of the property leased.

Effect - The fact that like office space in the same building, presumably of comparable property, with like market conditions, is provided to others at a lower rate does not necessarily make the agency rate unallowable. However, such a variance in rates calls into question whether the agency is paying, and claiming to federal programs, a cost in excess of market rate. If such costs were determined unreasonable in an [OMB Circular A-133](#) audit, the result could be an adverse finding.

Recommendation – We recommend the agency review rates charged to other lessees in the building and seek information as to rates for like office space in the area. If it appears the rental cost claimed to federal programs is in excess of market rate, we recommend that the amount of the claim be reduced to comparable market rates. If circumstances justify the higher rate for the agency, documentation should be prepared explaining the basis for the higher rate.

7. Lack of Clarity as to Responsibility for Building Maintenance Costs

Condition - The county family services agency has provisions in their building lease for payment of maintenance costs as part of the rental costs and the countywide indirect cost allocation plan has provisions for inclusion of building maintenance costs in the indirect costs paid by the agency.

Criteria - Federal regulations at [2 CFR 225, Appendix A, Section C.1.a](#), provides that for costs to be allowable, they must “[b]e necessary and reasonable for proper and efficient performance and administration of Federal awards.”

Effect - If maintenance costs are charged both as a component of building rental and as a component of the indirect costs charged to the agency, there is a risk of a duplicate claim to federal programs. Duplicate costs are not “necessary and reasonable,” and, if identified in the course of an audit under [OMB Circular A-133](#), might result in a finding. Such duplicate costs also reduce the federal funding otherwise available to support the most vulnerable of Ohio’s citizens.

Recommendation - We recommend that where a county agency is renting space from the board of county commissioners, before payment is made on indirect costs charged through the indirect cost allocation plan, agency management review both the applicable lease terms and the

details of the indirect cost allocation plan to verify there is no duplication of maintenance costs which might result in a duplicate claim to federal programs.

8. Inventory and Equipment Records

Condition - Although the county reports its financial statements on the cash basis, it maintains an inventory listing of the agency's assets. However, the historical costs reported on the county inventory listing and the costs used by the agency to seek federal reimbursement for depreciation claims differ.

The county inventory list recorded the cost of a building as \$551,955. The agency recorded the building cost as \$487,000, and rental payments to the board of county commissioners have been calculated on the basis of this amount. The amount of the rental payment has then been claimed to federal programs.

In addition, the board of county commissioners paid for a flood retaining wall around the building. The agency is reimbursing the commissioners based on a 15-year lease agreement. However, the lease agreement lists the cost as \$33,729, and the inventory listing recorded the cost as \$25,809.

Neither the agency nor the county could account for these differences.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must "[b]e adequately documented."

Effect - Accurate accounting and financial reporting is necessary in order to properly claim reimbursement from federal programs. Without the ability to document the actual cost of its depreciable assets, the agency is at risk of an adverse audit finding pursuant to an [OMB Circular A-133](#) audit.

Recommendation - We recommend that agency management continue to work with the county commissioners and the county auditor to account for the discrepancies between the county's records and the records maintained by the agency and to discuss alternatives for the correction of these differences.

We also recommend the agency develop internal control procedures to ensure that assets are properly recorded and reconciled with the county's inventory listing. These procedures should be sufficient to provide reasonable assurance that assets are being depreciated based on accurate cost basis information and can be verified through supporting documentation.

Equipment Costs

1. Allocation of Equipment Costs

Condition - The county family services agency charges the cost of equipment to federal programs upon acquisition, rather than capitalizing the cost of the equipment and claiming the cost as depreciation charges over the estimated useful life of the equipment.

Criteria - County agencies may charge the cost of equipment used in the administration to federal programs in accordance with the requirements of federal cost principles set forth in [2 CFR 225](#).

For general purposes, “equipment” is defined in [2 CFR 225 Appendix B, Section 11](#), as “nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5000.”

If the county auditor of a county establishes a capitalization threshold for equipment which is less than \$5,000, that lower threshold is controlling and must be used by the county. Thus, if the county auditor has set the capitalization threshold for financial statement purposes at \$2,500, all equipment with an acquisition cost of \$2,500 or more must be capitalized and the cost claimed to federal programs in the form of depreciation over the estimated useful life of the asset.

If, on January 1, 2009, the county auditor changed the county’s equipment capitalization level for financial statement purposes from \$2,500 to \$10,000, equipment acquired on or after that date would be subject to a capitalization threshold of \$5,000, the lesser federal threshold.

Effect - Where equipment costs subject to capitalization and depreciation are immediately charged to federal programs, the effect is to accelerate the cost recovery by the county agencies. For example, if an agency purchases a \$10,000 photocopier with an estimated useful life of five years, the allowable claim to federal programs is \$10,000/5, or \$2,000 a year. If the agency immediately charges the cost to federal programs, the \$10,000 claim is \$8,000 more than the allowable amount, and may be the subject of a questioned cost by an auditor performing an audit in accordance with [OMB Circular A-133](#).

Recommendation - We recommend that agency management review the provisions of [2 CFR 225](#) relating to the allocation and allowability of equipment costs to federal programs and institute controls to ensure that the correct capitalization threshold be used for equipment and the costs claimed appropriately to federal programs. This might include education of staff in the basic cost principles and management review of all circumstances involving the acquisition of an item with a cost in excess of the applicable capitalization threshold.

2. Estimated Useful Life in Calculation of Equipment Depreciation

Condition - The county family services agency calculates the depreciation of equipment on an estimated useful life which differs from that established by the county auditor for financial statement purposes.

Criteria - 2 CFR 225, Appendix B, Section 11.d indicates in determining the useful life of equipment, consideration should be given to the nature of the equipment, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit. In addition, [OMB Circular A-87 Implementation Guide, Question 3-28](#), indicates that if a governmental unit elects to depreciate its assets, the depreciable lives and classes used for financial reporting purposes must be used by all components of the government in claims for federal awards

Effect - Where county agency management uses an estimated useful life differing from that established by the county auditor to calculate the depreciation upon an item of equipment, the effect may be to either accelerate or to delay the recovery of the cost of the equipment. If the estimated useful life used by the agency is longer than necessary, it will delay the cost recovery; if it is shorter than necessary, it will accelerate the cost recovery. In the latter instance, if identified by an auditor performing an audit under [OMB Circular A-133](#), the result might be an audit finding.

Recommendation - We recommend that the determination of estimated useful lives be coordinated with the county auditor. Control procedures should include a periodic reconciliation of the agency's capital asset records to those of the county auditor and an annual review of the prescribed estimated useful lives to annual depreciation charges to ensure they match. If agency management is of the opinion that the county auditor's policy is unreasonable, and that they can justify a different estimated useful life for an item of equipment, they should work with the county auditor in an effort to effect a change in county policy, which is controlling.

3. Routinely Claiming of All Equipment Costs to the Shared Cost Pool

Condition - A county agency routinely charges all equipment costs to the shared cost pool.

Criteria - [2 CFR 225, Appendix A, Section E.1](#) indicates that direct costs are costs "that can be identified specifically with a particular final cost objective." "Indirect costs" are defined in [2 CFR 225, Appendix A, Section F.1](#) as costs incurred "for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."

Effect - When equipment costs are charged to the shared cost pool, the allocation by the RMS system results in federal reimbursement at a blended rate. This blended rate is often less than the reimbursement rate which would be applicable if the same equipment could be charged to one federal program as a "direct cost."

For the cost of an item of equipment to be charged as a direct cost to a single federal program, the agency must determine that the cost is readily assignable to that federal program and that the

cost benefits only that federal program. For example, if a photocopier were to be purchased where its intended use is only for activities of the Temporary Assistance for Needy Families (TANF) program, the cost of the copier could be charged as a direct cost to the TANF program and would be reimbursed by that program for 100% of its cost.

Recommendation - Where agencies, as a matter of policy, charge all equipment costs to the “shared” cost pool, we recommend they consider whether circumstances warrant the time and effort necessary to charge any equipment costs as direct costs. If the agency can identify circumstances where equipment costs may be properly charged to a single federal program, the effective return of federal funding to the agency may be increased.

There are complications to this concept which must be considered by agency management. Circumstances must support the limitation of the equipment’s use to the single federal program in question. Is it practicable to use the copier in such a manner that the cost benefits only the single program? It is practicable to track the use of the copier, possibly by a metering system, to make the costs reasonably assignable as direct costs to multiple programs or cost pools? Is the inconvenience necessary to appropriately limiting equipment’s use or to distribute the costs more than any benefit to be derived?

4. Calculation and Recording of Depreciation

Condition - The county family services agency records depreciation for fixed assets annually.

Criteria - Federal regulations at 2 CFR 225, Appendix B, Item 11. a. state depreciation is a means of allocating the cost of fixed assets to periods benefiting from asset use.

Effect - The purpose of depreciation is to allocate a capital cost to the benefiting period of time. Allocation of these costs to periods before the assets are placed in operation or after they have been retired from operation is unallowable, as there is no benefit to such periods. An article of equipment purchased in October but not placed in operation until January should not be the basis for a claim until it has been placed in operation. Similarly, an article of equipment taken out of service in October should not be the basis for a claim after it has been taken out of operation.

Where an agency purchases a capital asset, such as equipment, and charges the entire amount of annual depreciation at one time, the effect may be to either accelerate the claim to federal programs or to delay the claim to federal programs. Where the claim is accelerated, the result may be an audit finding; where it is delayed, the agency is not receiving federal reimbursement in as timely manner as it might.

For example, if a \$12,000 asset is purchased and placed in operation on January 1, 2009, with an expected useful life of five years, the allowable annual depreciation is \$2,400. If this entire amount is claimed in the month of acquisition, the effect is to claim in January costs which do not benefit the federal programs until later in the year. By the same token, if the depreciation is not claimed until the end of December, 2009, the agency has not received reimbursement to which it is entitled.

Recommendation - We recommend agencies implement procedures to ensure that depreciation is not claimed for periods in which an asset was not in service or in excessive amounts. In addition, we recommend that the agencies calculate and claim depreciation on a monthly or quarterly basis, rather than annually. This will effectively allow the agencies to accelerate their receipt of federal monies within the limits of federal cost principles and may prevent the agency from recording depreciation in periods which did not benefit from the asset or in excessive amounts.

5. Direct Charging Depreciation Costs

Condition - Depreciation costs for equipment are charged to non-benefiting federal programs.

Criteria - [2 CFR 225, Appendix A, Section E.1](#) indicates that direct costs are costs “that can be identified specifically with a particular final cost objective.” “Indirect costs” are defined in [2 CFR 225, Appendix A, Section F.1](#) as costs incurred “for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.” Finally, [2 CFR 225, Appendix A, Section C.3](#), states that a “cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

For the cost of an item of equipment to be charged as a direct cost to a single federal program, the agency must determine that the cost is readily assignable to that federal program and that the cost benefits only that federal program. If the cost benefits multiple federal programs and is readily assignable to each program, it may be charged as a direct cost to multiple programs.

However, no portion of a cost may be charged to a program if the program does not benefit from the cost. For example, if an item of equipment benefits only a single program, the depreciation cost related to that equipment may not be charged to a cost pool or as direct costs to multiple programs. If an item of equipment benefits multiple programs, it may be charged to a cost pool if all programs in the cost pool benefit. If all programs in the cost pool do not benefit, the cost must be charged as direct costs to the benefiting programs.

Effect - Incorrectly charging depreciation costs to non-benefiting programs will likely result in findings in audits pursuant to [OMB Circular A-133](#).

Recommendation - We recommend agencies implement internal control procedures which provide reasonable assurance that depreciation costs are charged only to benefiting programs. The agencies may wish to make such determinations at the time of asset acquisition and perform a review during the completion of the inventory of assets to ensure changes in use are reflected in the accounting for such assets. At both points, a supervisory review and approval would help ensure assets costs are properly classified and charged only to benefiting programs.

Random Moment Sample (RMS)

1. RMS Documentation

Condition - The county family services agency was unable to provide documentation to support the activities indicated on RMS forms

Criteria - [OAC Section 5101:9-7-20 \(L\)](#) requires that the RMS observation form include the case number for any case an employee is working on at the observation moment. Documentation is required to be maintained to demonstrate that the program and activity codes selected by the employee match the work being performed at the time of the observation.

Effect - Random moment time studies are used as a basis for the allocation of costs recorded in the agency's cost pools to the various programs administered by the agency. Employees are to indicate the case they were working on, as well as the program and activity they were completing, at the randomly selected "observation moment" (also known as a "hit") specified on their RMS observation form. Where staff cannot document an activity, there is an increased risk of erroneous data, which could cause an erroneous allocation of costs to federal programs. A failure to document a cost claimed to a federal program could result in an adverse audit finding in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the agency adopt a policy whereby the RMS coordinator reviews RMS observation forms to verify the existence, where needed, of documentation of the claimed activity. This could be done on a random sample basis to keep the administrative burden to a minimum. If the documentation is inadequate, the RMS coordinator should return it immediately to the worker to be corrected.

Performance of this control should be documented. Such documentation may allow an independent auditor performing an [OMB Circular A-133](#) audit of the county to reduce the amount of substantive testing performed and the resulting audit cost to the county.

We also recommend agency management train employees as to what constitutes sufficient RMS documentation. The agency may wish to instruct staff to annotate the case file for each RMS hit received or only in cases where the underlying documentation may be insufficient to clearly identify a worker and activity for the time indicated on the RMS sample form.

2. RMS Control Form Observer Not Initialing Forms

Condition - RMS Control group forms are not initiated by the RMS coordinator or by an alternate observer.

Criteria - [OAC Section 5101:9-7-20 \(G\)](#) requires that four percent of RMS samples selected by ODJFS be used as a control group. When this occurs, the words "control member" appear to the right of the time and date of the observation moment. The right side of the form contains a space for the observer to write his or her name; the RMS coordinator or alternate serves as the observer. For the control samples, the observer asks the individual assigned to the position which program or activity he or she is working on at the specified moment and for the case number or

unique identifier associated with that work and completes the form. The observer and the individual are to initial the observation form.

Effect - The failure to perform and to document the performance of the required observations increases the risk of errors going undetected, resulting in a misallocation of costs to federal programs. In addition, an independent auditor performing an [OMB Circular A-133](#) audit would likely perceive the lack of documented observations as having a negative impact on overall internal controls, potentially increasing control risk for audit purposes. Increases in control risk may result in an expansion of substantive testing by the auditor and an increase in audit costs.

Recommendation - We recommend that the agency require staff to complete the required RMS control group forms, including the initialing of the forms by both the employee and the observer at or near the pre-selected time. The agency may also wish to consider contacting its regional fiscal supervisor for further guidance and training.

3. RMS - Sample Reference Listing

Condition - Data on paper RMS forms completed by agency staff differed from data entered into the QUIC+ system and reported on the Sample Reference Listing, which is used to allocate costs to federal programs.

Effect - RMS data entered into the QUIC+ system is used to make the calculations for cost allocation. Data entry errors are indicative of weak internal controls over the RMS data entry process and may result in future errors going undetected. This increases the risk of erroneous cost allocations. In addition, such a weakness in internal controls may affect an independent auditor's opinion on the sufficiency and effectiveness of internal controls in general, which could cause the auditor to extend audit tests, and could result in findings in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the county agencies adopt internal control practice to provide reasonable assurance that RMS data is correctly entered into QUIC+ and uploaded to ODJFS. This could include a process whereby the RMS coordinator selects a sample of RMS observation forms every quarter and reviews them to determine whether they have been correctly entered and uploaded to ODJFS. The performance of these reviews, the review results and any corrective action should be documented and retained for possible review during an [OMB Circular A-133](#) audit. The documentation of the review need not be involved; it should be sufficient for the RMS coordinator to initial and date each form reviewed and to maintain a memorandum summarizing the criteria covered by the review. Brief memoranda describing any errors identified in the review, the cause of the errors and the corrective action should be maintained in a file.

4. Distribution of RMS Time Study Forms

Condition - The county family services agency distributes RMS time study forms to employees every Friday afternoon for the following week.

Criteria - [OAC Section 5101:9-7-20 \(I\)](#) requires that RMS observation forms be distributed to employees “as close to the observation moment as possible, preferably the same day, but no more than twenty-four hours in advance.”

Effect - Distributing RMS forms near the observation moment prompts the employee to complete the form immediately. Employees receiving forms a week in advance may not complete them in a timely manner. This could result in inaccurate time study results, which could adversely affect the amount of federal reimbursement received by the agency.

Recommendation - We recommend agency management implement internal control procedures sufficient to ensure that RMS observation forms are distributed no more than 24 hours in advance of the observation moment. Distribution of the form at or near the date and time of the observation will provide a reminder that this task needs to be completed, which may lead to a more accurate compilation of data.

5. Supervisory Staff Completing RMS Forms

Condition - Income maintenance (IM) supervisors are completing RMS forms, although agency documentation did not indicate they handled an active case load, a prerequisite for participation in the RMS.

Criteria - [OAC Section 5101:9-7-20 \(D\)](#) indicates that administrative and supervisory positions are generally excluded from the RMS time studies. Supervisory employees are only eligible to participate in an RMS time study where they ~~manage a caseload and~~ provide direct services over fifty percent of the time. The agency is required to retain documentation to support the inclusion of supervisory employees in the time study. This documentation must be signed by the agency director, must include a copy of the employee’s position description, and must attest to:

- The directly related program activities and description of the caseload assigned to the position in question; and
- The portion of time spent by the position in question on these program activities.

Effect - Random moment time studies are used as a basis for the allocation of costs recorded in the agency’s cost pools to the various programs administered by the agency. Employees are to indicate the case they were working on, as well as the program and activity they were completing at the randomly selected “observation moment” (colloquially known as a “hit”) specified on their RMS observation form.

The data obtained from the observation forms is used to calculate the percentage of time spent on each IM program by county. With IM Supervisors and employees both completing IM-RMS observation forms, there is a possibility certain programs will have duplicate RMS hits, and administrative dollars may be allocated disproportionately. In addition, such circumstances may be the basis for a finding in an [OMB Circular A-133](#) audit of the agency.

Recommendation - We recommend agencies either remove the IM supervisors from the RMS roster or document the basis for the inclusion of the supervisors in the time study. This

documentation must be retained by the agency to support the decision, be signed by the current agency head, and must include a copy of the position description and attest to the following: (1) the directly related program activities and description of case load assigned to the position, and (2) the portion of time spent by the position on these program activities.

6. Review of the Tabulation Activity Summary

Condition - The RMS quarterly Tabulation Activity Summary provides information on the number and percentage of RMS “hits” to each activity. The agency performs a review of this summary to ensure no invalid codes are being used by staff. However, the agency does not have a procedure for documenting the review.

Effect - If performance of this review is not documented, an independent auditor may assume the review was not performed, possibly decreasing the level of confidence the auditor will place on the internal controls. This could result in additional audit testing and increased audit costs to the agency.

Recommendation - We recommend that management document their review of the quarterly RMS summary by signing, dating, and maintaining a copy. This will provide evidence that the control has been placed in operation.

Procurement and Contract Administration

1. Lack of a Written Procurement Plan

Condition - The county family services agency does not have a written procurement plan setting forth its policies, procedures and standards for the acquisition of goods and services.

Criteria - Federal regulations at [45 CFR 92.36 \(b\) \(2\)](#) require that subgrantees “maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.”

In addition, [OAC Section 5101:9-4-02 \(A\)](#) requires that each county family services agency “establish written acquisition standards to ensure that all purchases of services, supplies, and equipment are performed in accordance with applicable state law and regulations.”

Effect - Where a county agency does not have a procurement plan setting forth written acquisition standards, there is a significant risk that agency staff will unknowingly deviate from compliance with federal and state requirements in effecting procurements. Under such circumstances, it is unlikely that the agency will have in place effective internal controls to prevent or detect errors or irregularities in the procurement process. Without written policies and procedures for the procurement of goods and services, the agency may not make the most effective purchases for the use of limited financial resources.

This creates a risk that the quality of goods or services procured may be unsatisfactory for agency needs, compromising achievement of its objectives; procurements may be made at excessive cost; or the agency may not have the appropriate legal recourse available if performance by vendors is unsatisfactory. There is also a risk of adverse findings, including questioned costs, in an [OMB Circular A-133](#) audit of the agency.

Recommendation - We recommend that agencies establish written acquisition standards or a procurement plan conforming to applicable federal, state, and local standards. The development and implementation of such a plan should provide reasonable assurance that such requirements are being met.

These written standards should include, but are not limited to:

- A written code of standards of conduct for employees engaged in the award or administration of contracts;
- Maintenance of records sufficient to detail the significant history of procurements;
- Protest procedures;
- Written solicitation procedures;

- Procedures for reviewing proposed procurements to avoid purchase of unnecessary or duplicative items;
- The applicable small purchase procurement threshold;
- The applicable competitive bidding threshold;
- A description of types of procurement actions allowed and under what circumstances each is appropriate;
- A requirement of full and open competition for all procurement transactions; and
- Procedures for ensuring that contractors perform in accordance with the terms, conditions, and specifications of their contracts.

The Guided Self-Assessment documentation completed as part of the ODJFS monitoring review and provided to management outlines the specific federal and state requirements which should be included in such a plan. The agency may wish to coordinate the development of such a plan with the county prosecuting attorney and the board of county commissioners.

2. Small Purchases Selection Criteria and Analysis

Condition - A county family services agency made a purchase using small purchase procedures established in [45 CFR 92.36 \(d\) \(1\)](#). However, the agency did not maintain documentation of the selection criteria used or of the selection process.

Criteria - Federal regulations at [45 CFR 92.36 \(b\) \(9\)](#) require that grantees and subgrantees “maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Effect - If this type of documentation is not maintained by the agency, there is a risk that the validity of the resulting contract will be challenged by other vendors. There is also a risk that auditors performing an audit under [OMB Circular A-133](#) will question the entire purchase as being procured noncompetitively.

Recommendation - We recommend that the agency document all procurement activities, and develop and implement internal controls to provide reasonable assurance that documentation is properly maintained for all procurements. For small purchases, the agency may wish to create a standardized form to capture quotes received, selection made, basis for selection made, and any required supervisory approvals. OFMS staff can provide a model upon request.

3. Lack of Documented Approval of Small Purchases

Condition - Although the county family services agency procures price quotations for purchases below the small purchase threshold, there are no procedures in place to document approval of small purchases.

Criteria - [OAC Section 5101:9-4-07 \(B\) \(2\)](#) indicates three quotes should be obtained, if available, for all purchases under the established small purchase threshold (currently \$100,000). In addition, [45 CFR 92.36 \(b\) \(9\)](#) requires that grantees and subgrantees “maintain records sufficient to detail the significant history of a procurement.”

Effect - Failure to document management approval of procurement decisions could result in purchases of unnecessary or inappropriate goods and services, or purchases contrary to federal requirements or agency policy. In addition, this could be the basis of a finding in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the agency implement procedures to require the signature of the individual obtaining the quotes to validate their correctness and accuracy. In addition, the procedures should require the signature of a fiscal representative or other management representative to indicate approval of the selected vendor prior to consummation of the purchase.

4. Non-Competitive (Sole Source) Procurement

Condition - In July of 2008 the CSEA entered into a lease agreement with Pitney Bowes for the use of postage meter equipment for the term of five years at a cost of \$510.32 per month. No competitive procurement procedures were applied.

Criteria - [45 CFR 92.36 \(c\) \(1\)](#) requires that all procurement transactions be “conducted in a manner providing full and open competition.”

Effect - Failure to use a competitive procurement process, such as small purchase procedures, prevented the agency from considering alternative sources of the necessary equipment. It is possible that, as a result, unnecessary cost was incurred to obtain the equipment. In addition, it is possible that this would result in an audit finding in an [OMB Circular A-133](#) audit of the agency.

Recommendation - We recommend that the agency review the requirements of [45 CFR 92.36](#) as to the procurement requirements applicable to federal programs. This includes the general requirement of “full and open competition,” noted above, as well as the various methods authorized to provide for competition, including small purchase procedures, sealed bids, competitive proposals, and noncompetitive proposals. An appropriate methodology should be used by the agency to acquire postage meter equipment when its current lease expires.

5. Lack of Documentation of Basis for Sole Source Procurement

Condition - The county family services agency was unable to document the basis for its determination that a sole source (noncompetitive procurement) was appropriate.

Criteria - [OAC Section 5101:9-4-07 \(E\) \(2\)](#) requires that where a county agency uses noncompetitive proposals (sole source) in a “non-emergency” situation, the agency “must maintain documentation of its attempts to solicit competition.”

Effect - An inability to document that procurement practices meet federal requirements could result in a successful challenge to the procurement by an aggrieved competitor. In addition, the lack of suitable documentation could result in an adverse finding in an [OMB Circular A-133](#) audit.

Recommendation - In making the determination that there is a single source of supply, agency management should first determine the agency’s requirements. After this determination has been made, management should determine what sources of the appropriate goods or services available in the marketplace can meet the agency’s needs. If, after the examination, it is their conclusion there is only one source which can meet the agency’s requirements, agency management should document:

- The process used and the basis for the determination that agency requirements could not be met by other sources;
- Any vendors contacted, and how they were determined to be unable to meet the agency’s requirements; and
- If applicable, a comparison of technical specifications of the agency’s needs and the specifications of sources determined to be insufficient.

Sole source purchases may be subject to close scrutiny by auditors performing an audit of the agency pursuant to [OMB Circular A-133](#). Only in unusual instances can they be justified. In case of reasonable doubt, competition should be solicited or consideration should be given to a request to the ODJFS Office of Contracts and Acquisitions for prior approval of noncompetitive procurement.

6. Lack of Cost Analysis with Non-Competitive Procurement

Condition - A county family services agency entered into non-competitive (sole source) procurement without documenting a cost analysis.

Criteria - Federal regulations at [45 CFR 92.36 \(d\) \(4\) \(ii\)](#) require that subgrantees perform a cost or price analysis in connection with every procurement action. [45 CFR 92.36 \(f\) \(1\)](#) indicates that a cost analysis is necessary “when adequate price competition is lacking, and for sole source procurements, . . . unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation.”

The regulation also indicates that, as a starting point, “grantees must make independent estimates before receiving bids or proposals.”

Effect - Where sole source procurement is made, the competition of market forces is not present to provide assurance that the cost to the agency is reasonable. A cost analysis is necessary to provide reasonable assurance that excessive prices are not being paid for the goods and services being procured. Where such an analysis is not performed, the agency has no assurance that it is not paying excessive amounts for the goods and services received. There is also a risk on a finding by an auditor performing an audit of the agency under [OMB Circular A-133](#).

Recommendation - We recommend the agency implement procedures to perform a cost analysis when non-competitive procurement methods are used. One type of analysis the agency could consider would be to analyze the cost to provide the services internally as compared to the proposal. Alternatively, they could perform a price comparison with costs other county agencies are paying for the same type of services.

7. Lack of Competitive Procurement for Non-Emergency Transportation Contracts

Condition - The county family services agency attempted to procure Non-Emergency Transportation (NET) by means of competitive proposals. The agency received trip rate proposals for the short trip, long trip and wheelchair transportation categories from four providers. The trip rates were then negotiated by the four providers, at a meeting held by the agency, in order to arrive at one rate for each trip category to be used by all providers.

Criteria - [45 CFR 92.36 \(c\) \(1\)](#) requires that all procurements be conducted “in a manner providing full and open competition consistent with the standards of Sec. 92.36.” Prohibited restrictive practices specifically include “[n]oncompetitive pricing practices between firms . . . and . . . “arbitrary action in the procurement process.”

[45 CFR 92.36 \(E\) \(3\)](#) requires that the use of competitive proposals includes a requirement that awards are made “to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered . . .”

Effect - This procurement process resulted in the NET contract rates being higher in all the categories than the rates submitted by the majority of the providers, increasing the cost to the federal government. The action of consolidating the four rates into a single rate is contrary to the basic federal requirement that all procurement transactions are to be “conducted in a manner providing full and open competition . . . “ [45 CFR 92.36 \(c\)](#). If an auditor were to review these transactions in an [OMB Circular A-133](#) audit, the agency would be at risk of an adverse audit finding

Recommendation - We recommend that agency management prepare a hierarchy of vendors and rates, starting with the lowest rate for each category, and inform its employees to use the provider with the lowest rate when the service is needed. This would reduce the cost of the program and meet the intent of the procurement procedure. Due to the history of this procurement, we recommend that the means by which this change is effected should be discussed with the county prosecuting attorney as statutory legal counsel to the agency.

8. Unclear Contract Language

Condition - The county family services agency entered into a contract with a vendor for the purchase of urine screens. The following anomalies were identified in the administration of the contract:

- The contract stated the agency was purchasing consulting services from the vendor; however, the agency actually purchased urine testing;
- The contract stated the agency was procuring urine tests for “Children Service Referrals;” however, the agency used this service to provide urine tests for both children services and income maintenance clients;
- The contract indicated that the agency would reimburse the vendor on an actual cost reimbursement basis. However, the agency paid \$20 per test, with no reconciliation to actual costs;
- The agency was required to monitor the vendor’s actual costs quarterly; however, no monitoring was completed; and
- The vendor was to maintain a separate general ledger account for the revenue and expenses under this contract. The agency never ensured this happened.

Criteria - [45 CFR 92.36 \(b\) \(2\)](#) requires that grantees and subgrantees “maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.” This requirement is repeated in [OAC Section 5101:9-4-07 \(J\) \(8\)](#).

Effect - The significant variance between the terms of the written contract between the parties and the apparent intent of the parties, as manifested in their actual performance, could cause significant problems in the event of disagreement by either party as to the actual terms and conditions intended. In some circumstances, this could cause a contract to be void and unenforceable, hindering the ability of the agency to provide necessary services.

Recommendation - We recommend that agency management ensure contract language is clearly written with an accurately stated purpose. The agreements should include clearly defined expectations for both parties which should be monitored as necessary. The agency has responsibility for monitoring to ensure compliance with the terms, conditions, and specification of the contracts.

9. Lack of Control Over Contract Amendments and Renewals

Condition - The county family services agency awarded two contracts to a transportation provider, one for services for the Non-Emergency Transportation (NET) program (Medicaid) and one for services under the Temporary Assistance to Needy Families (TANF) program. In attempting to increase the unit rate of the NET contract, the agency inadvertently increased the

contract maximum of the TANF contract. The agency subsequently paid for NET services at the higher rate, although the NET contract was never amended.

In another instance, the agency exercised a renewal clause in its contract with the contract monitor. The original contract required the contract monitor to provide proof that business liability insurance was maintained throughout the contract period. However, the agency did not obtain this information from the vendor for the renewal period.

Criteria - For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.1](#). require that they be “authorized or not prohibited under State or local laws or regulations.”

The Ohio Supreme Court has indicated that agencies of local government possess only those powers expressly granted by statute or necessarily implied to effectuate a statutory responsibility. The authority for a public entity to act in financial transactions must be clearly granted, and any doubt must be resolved against a proposed expenditure. State, ex rel. Locher v. Menning, 95 Ohio State 97 (1916).

In the absence of a lawful basis under state or local laws for the agency to incur a cost, it is unallowable.

Effect - The failure to properly amend the contract for NET services resulted in the agency paying for services without legal authority. This increases the risk of an adverse audit finding in an audit of the agency pursuant to [OMB Circular A-133](#). The failure to verify the maintenance of business liability insurance created a risk that an act by the vendor, acting as an agent of the county, might result in monetary damages against the agency.

Recommendation - We recommend the agency establish improved controls for contract amendments and renewals. The agency may wish to develop a control form for the processing of contract amendments and renewals, requiring that the need and basis for an amendment/renewal be clearly stated, identifying specific contract items to be changed, any further documentation to be provided or acts to be performed by the vendor, and a method for tracking authorizing signatures and “good order” verification prior to the execution of any amendment/renewal. This should reduce the risk of erroneous amendments and renewals.

Subgrant Administration

1. Subrecipient and Vendor Determinations

Condition - There is no evidence that the county family services agency management has reviewed agreements with third parties to determine whether the relationship being created is that of a subrecipient or of a vendor.

Criteria - Specific guidance in making such determinations is provided in [OAC Section 5101:9-1-88 \(C\)](#). Application of this guidance in determining the nature of a relationship is required by the administrative rule.

Effect - Appropriate classification of the relationship which is the basis for payment with federal monies is essential to determining the obligations of the agency with regard to the other party in areas such as monitoring, technical assistance and audit resolution. Without a clear understanding of their relationship, the parties may act at variance with the intent of the agreement. For example, subrecipients may not meet program compliance requirements, accurately report expenditures of federal funds, or meet audit requirements established under [OMB Circular A-133](#). Vendors may take on an administrative role when this was not intended or may incur costs for compliance with requirements that are not germane to the relationship.

Recommendation - We recommend that agency management develop and implement a vendor/subrecipient determination policy. Appropriate forms to assist in the performance of such determinations and to document the conclusions have been developed and are available from OFMS. We recommend that one of these forms, or a variant thereof, be completed and maintained in the agreement file for all agreements entered into by the agency.

2. Agreements Unclear as to Nature of Relationship

Condition - A county family services agency uses agreements which do not clearly define the nature of the relationships being created and which contain conflicting language.

Criteria - [OMB Circular A-133, § .400 \(d\) \(1\) and \(2\)](#), requires pass-through entities to communicate specific information to each subrecipient to which it makes an award of federal monies. In addition, pass-through entities must advise subrecipients of the legal requirements imposed upon them as a condition of the award.

In addition, [OAC Section 5101:9-1-88 \(D\)](#), imposes specific requirements as to the content of subaward agreements. The rule requires inclusion of the scope of work, budget, performance requirements, the program authorizing legislation, and the program regulations. The subaward agreement must also include notice the local agency will perform an annual risk assessment to determine the level of monitoring of the subrecipient.

Where county agencies use a standard template for all agreements, whether establishing a subrecipient or a vendor relationship, they often use inconsistent language blending requirements applicable to subrecipients or to vendors, but not applicable to both.

For example, a contract for transportation services for clients, although intended to be for the purchase of services generally available on the open market and to establish a vendor relationship, included provisions indicative of a subrecipient relationship, including:

- Presentation of information, such as the CFDA title and number, federal award name, and federal funding agency;
- Characterization of the basis for payment to the vendor as “reimbursement;”
- Limitation of reimbursements to “allowable costs;”
- A requirement that the vendor “conduct an annual audit” meeting the requirements of the applicable OMB “audit circular;”
- A requirement that the provider comply with the requirements of OMB Circular A-87 (2 CFR 225), relating to cost principles for state and local governments, and procurement regulations in the grants management “Common Rule;”
- Involvement of the provider in eligibility determinations; and
- A requirement that the vendor conform to a requirement for “state hearings.”

Substantially the same provisions were used in an agreement with a nonprofit organization with the apparent intent of establishing a subrecipient relationship. However, the agreement also included some indicia of a vendor relationship, including an emphasis upon “purchased services” and “subcontracting.”

Effect - Without a clear understanding of their relationship, the parties may act at variance with the intent of the agreement. For example, subrecipients may not meet program compliance requirements, accurately report expenditures of federal funds, or meet audit requirements established under [OMB Circular A-133](#). Vendors may take on an administrative role when this was not intended or may incur costs for compliance with requirements that are not germane to the relationship.

Recommendation - We recommend that agencies implement agreements which clearly indicate the nature of the relationship between the parties as either a vendor or a subrecipient relationship. Specifically, we suggest that agency management:

- Adopt and implement a policy of referring to agreements which establish a subrecipient relationship as a “subgrant agreement” and of referring to agreements which establish a vendor relationship as a “contract.” This will reduce the likelihood of confusion in discussion of the various agreements;
- Develop and implement a standard subgrant agreement form. A subgrant agreement template is available upon request to the ODJFS Office of Fiscal and Monitoring Services (OFMS). We recommend agency management consult with their county prosecuting

attorney, as the agency's statutory legal advisor, on any necessary or desirable modification of this template to meet the needs of the agency and of the county;

- Develop and implement a standard contracting form. ODJFS/OFMS is in the process of developing a contract template.

3. Use of General Verbiage in Subaward Agreements

Condition - Rather than giving specific notice to subrecipients of information and requirements which they are required to communicate, county family services agencies merely impose a general requirement that the subrecipient comply with "all applicable federal, state and local requirements."

Criteria - [OMB Circular A-133, § .400 \(d\) \(1\) and \(2\)](#), require that a pass-through entity advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.

In addition, [OAC Section 5101:9-1-88 \(D\)](#), imposes specific requirements as to the content of subaward agreements. The rule requires inclusion of the scope of work, budget, performance requirements, the program authorizing legislation, and the program regulations. The subaward agreement must also include notice the local agency will perform an annual risk assessment to determine the level of monitoring of the subrecipient.

Effect - Where county agencies are not specific as to the audit requirements of [OMB Circular A-133](#) or as to their intention to perform a risk assessment of the subrecipient, but merely include in their subaward agreements a general requirement that the subrecipient comply with all applicable federal, state and local requirements, there is a risk that an independent auditor may consider the notice provided by the agency insufficient to satisfy the requirement of the administrative rule, resulting in an adverse audit finding in an [OMB Circular A-133](#) audit. Such a communication is also less effective than an explicit statement, as it leaves the subrecipient with the task of determining what, in the subrecipient's opinion, are the applicable compliance requirements. This creates a significant risk that the two parties will have differing understandings of the terms and conditions of the award and that conflict will occur.

Recommendation - We recommend county agencies add to their standard language for subaward agreements specific verbiage to notify subrecipients they are to comply with [OMB Circular A-133](#) and that the agency will be performing a risk assessment of the subrecipient. This should resolve any issue as to the sufficiency of its current practice.

4. Inclusion of Required Information for Grants to Subrecipients

Condition - The county family services agency does not provide to its subrecipients' federal program and award identification, including, as applicable, the CFDA title and number, award

number and year, name of the federal agency, and other information required under [OMB Circular A-133](#).

Criteria - [OMB Circular A-133, § .300](#) requires that subrecipients identify, in their accounts, all federal awards received and expended and the federal programs under which they were received. The federal program and award identification shall include the CFDA title and number, award name and number, award year, if the award is R&D, and the name of the awarding federal agency. The CFDA number is the number assigned to a federal program in the Catalog of Federal Domestic Assistance. [OMB Circular A-133, § .400 \(d\)](#) requires that this information be provided to the subrecipient by the county agency as a pass-through entity.

Effect - If the required information is not provided by the county agency, the subrecipients may not be able to properly identify the federal award for inclusion on its schedule of federal awards expended, a necessary step under [OMB Circular A-133](#). In addition, they may unknowingly fail to meet federal compliance requirements for the federal programs in question.

Recommendation - We recommend the agencies establish a procedure to ensure that the required information, including CFDA numbers for grant disbursements, are communicated to subrecipients to provide reasonable assurance that federal compliance requirements are being met for such monies.

5. Lack of Subrecipient Monitoring

Condition - County agencies are not performing the required monitoring of their subrecipients as provided in federal and state rules and regulations;

Criteria - [OMB Circular A-133, § .400 \(d\) \(3\)](#) requires that county agencies monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, [OAC Section 5101:9-1-88](#) requires that county agencies monitor their subrecipients as provided in that rule.

Subrecipient monitoring is an essential element of the internal control structure over federal awards. [OMB Circular A-133](#) provides, in specified circumstances, for a structured audit of recipients and subrecipients of federal awards. In addition, the Circular requires, in all instances, the performance of monitoring to ensure compliance by subrecipients with federal and state legal requirements. Subrecipient monitoring is of particular importance where subrecipients are not required to have an [OMB Circular A-133](#) audit, as the monitoring by the pass-through entity is the only significant oversight activity.

Effect - Failure to perform adequate monitoring of subrecipients significantly increases the risk that errors or irregularities will occur in the administration of federal programs by subrecipients and not be detected within a reasonable period of time. It may allow federal funding to be inappropriately expended by a subrecipient without the pass-through entity's knowledge. Failure to perform adequate monitoring of subrecipients exposes the pass-through entity to the risk of monetary liability for errors and irregularities on the part of its subrecipient. The Auditor of

State has previously issued questioned cost audit findings against county agencies where that office has concluded that adequate monitoring has not been performed.

Recommendation - We recommend that county agencies develop and implement a subrecipient monitoring policy consistent with the requirements of [OMB Circular A-133](#) and OAC Section 5101:9-1-88. In developing the policy, management should consider inclusion or development of the following elements:

- Development of a risk assessment process for use in determining the nature and extent of testing to be performed for each subrecipient agreement. Basic elements of risk should include such factors as the complexity of the program, funding levels, and subgrantee's experience with program requirements. The results of the risk assessment should then be evaluated (e.g., low, moderate, high) to define, at least preliminarily, the frequency and extent of testing;
- Establishment of criteria as to the type and number of items to be subject to detailed testing. For example, if payroll costs represent the majority of program expenditures, testing would likely be directed at assessing the allocability and documentation of payroll charges with only limited reviews of non-payroll transactions being performed;
- Development of procedures which require the reviewer to verify that program costs correspond to services provided only to eligible individuals; and
- Provisions for the performance of additional monitoring procedures for any additional compliance measures associated with a program, including requirements established in a subgrant agreement. For example, procedures should be established for testing subrecipient monitoring when the agency's subrecipient passes through the funding to another subrecipient.

ODJFS/OFMS is available to provide assistance to the agencies in developing and implementing such policies.

6. Failure to Establish Written Policies and Procedures for Monitoring of Subrecipients

Condition - Although an agency employee performed monitoring of subrecipients, the agency did not have written policies and procedures *vis a vis* the monitoring activities to be performed. Specific deficiencies include:

- There were no review procedures performed to assure that payments requested from the agency corresponded to services rendered to eligible program beneficiaries. The agency does not have standardized policies or procedures to address the scope, frequency or extent of activities to be performed during subrecipient monitoring reviews; and
- Agreements between the agency and outside organizations identify specific performance indicators to be obtained or achieved. While the individual agreements typically provide

for the regular submission of reports to demonstrate an organization's use of funding, the agency currently has no standardized process by which the reported information is to be evaluated. As a result, there is limited or no assurance that program funding passed through to other organizations is being used as intended.

Criteria - [OMB Circular A-133, § .400 \(d\) \(3\)](#) requires that county agencies monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, [OAC Section 5101:9-1-88](#) requires that county agencies monitor their subrecipients as provided in that rule.

For effective control over the monitoring process and assurance that the necessary procedures are being performed, they should be reduced to writing.

Effect - Lack of adequate written monitoring procedures may result in the agency not fulfilling its duties as a pass-through entity and increases the risk that funding may be used for unintended purposes or without regard to applicable legal requirements. This may adversely affect the delivery of services to clients and create potential monetary liability for the subrecipient and the county agency.

Recommendation - We recommend that agency policies and procedures be reduced to writing and communicated to the staff or agents responsible for monitoring activities. These policies and procedures should include supervisory review of the monitoring process to provide reasonable assurance that the monitoring activities are being performed appropriately.

7. Failure to Perform Management Resolution of Subrecipients' A-133 Audits

Condition - County family services agencies are not determining whether subrecipients are subject to the audit requirements of [OMB Circular A-133](#); whether, where subject to the audit requirements, they are having such audits performed; or, where such audits are performed, performing management resolution of findings in the resulting audit reports.

Criteria - [OMB Circular A-133, § .405 \(c\)](#) states that pass-through entities are responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients. In addition, [OMB Circular A-133, § .405 \(d\) \(5\)](#) requires that pass-through entities issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Specific guidelines for performance of a management resolution are contained in [OMB Circular A-133, § .405 \(a\)](#).

Effect - [OMB Circular A-133](#) assigns to pass-through entities the primary responsibility for managing their subgrants to subrecipients. This includes the initial responsibility for resolution of audit findings in [OMB Circular A-133](#) audits of their subrecipients. Where management resolution of the findings does not occur, the purpose and value of the audit process is vitiated. Identified errors and irregularities may go uncorrected, with the prospect of continuing noncompliance and federal sanctions as the failure to perform resolution is identified.

Recommendation - We recommend that county agencies adopt policies and procedures to:

- Identify subrecipients subject to the [OMB Circular A-133](#) audit requirement;
- Communicate to subrecipients their obligation to obtain an [OMB Circular A-133](#) audit and to provide a copy to the county agency as required by [OMB Circular A-133](#); and
- Perform management resolution on all [OMB Circular A-133](#) audits submitted in a timely manner as provided in OMB Circular A-133.

Actions to effect this recommendation may include, but are not limited to:

- A requirement that all subrecipients identify to the county agency all federal awards received, regardless of source;
- Communication in all subgrant agreements of the subrecipients' specific obligations under [OMB Circular A-133](#); and
- Training of appropriate county agency staff in federal grants management, including management resolution.

8. Failure to Perform Subrecipient Risk Assessment Determinations

Condition - A county agency does not perform an annual risk assessment of a subrecipient to determine the appropriate degree and method of monitoring to be performed.

Criteria - Where a county agency has subgranted federal monies to another governmental entity or to a nonprofit organization, [OAC Section 5101:9-1-88](#) requires that the agency perform such a risk assessment for each subrecipient.

Effect - There are a number of tools and techniques available to a county family services agency to use in monitoring a subrecipient. Given the limited resources available, it is in the best interest of the agency to perform the most efficient monitoring possible. Performance of excessive or unnecessary monitoring activities wastes limited resources. Performance of insufficient or ineffective monitoring increases the risk that errors, irregularities or inefficiencies in program administration will occur and go undetected and uncorrected. This may adversely affect program outcomes, resources available to clients, and create a risk of monetary liabilities on the part of the subrecipient and of the county agency as a pass-through entity.

Recommendation - We recommend that county agencies develop and implement subrecipient risk assessment criteria as defined by the administrative rule. A subrecipient risk assessment template developed by ODJFS is available upon request.

9. Grant Funds Advanced to Subrecipient

Condition - The county family services agency paid a subrecipient a lump sum payment of the entire grant amount shortly after the inception of the grant period.

Criteria - [45 CFR 92.21](#) requires that methods and procedures for payment with federal monies minimize the time elapsing between the transfer of funds and disbursements by grantees and subgrantees in accordance with Department of Treasury regulations at 31 CFR. In addition, [OAC Section 5101:9-7-03 \(C\) \(1\)](#), states that cash drawn in advance must be limited to the minimum amount needed for actual, immediate requirements. Where Title XX monies are involved, Ohio's Comprehensive Title XX Plan, page 26, Fiscal Resources and Requirements, states that "reimbursement for services should be based upon a monthly invoice submitted by the provider."

Effect - Advancing of federal monies to a subrecipient creates a risk that insolvency or non-performance by a subrecipient would leave the county agency with a liability for the improperly advanced monies. In addition, such an advance payments creates the risk of an adverse audit finding in an [OMB Circular A-133](#) audit of the county agency.

Recommendation - We recommend that agency management develop and implement controls over subgrant payments to provide reasonable assurance that federal monies are disbursed only for the amount needed for actual, immediate requirements. This could be accomplished by providing in the subgrant agreement that subrecipients are to bill actual costs on a monthly basis.

10. Unclear Deliverables and Bases of Payment

Condition - The county family services agency entered into subgrant agreements in which subgrant requirements, outcomes and performance measures were not clearly defined.

Criteria - Effective administration of federal programs requires that the terms and conditions of subgrant agreements be clearly established. For costs to be allowable to federal programs, [2 CFR 225, Appendix A, Section C.1.1](#) requires that they be "necessary and reasonable for proper and efficient performance and administration of Federal awards" and "adequately documented."

Effect - Where grant terms are unclear, there is increased risk both of noncompliance with federal and state requirements and of the development of a program with unintended services and outcomes. Necessary services may not be provided to clients or may not meet client needs.

Recommendation - We recommend that contract deliverables be clearly defined, explicitly specifying the goods or services to be provided, the basis for payment and any basis for variation in the rates paid. Each contract should be reviewed by a manager for clarity and the inclusion of necessary and specific requirements. The agency might consider using its contract monitor to perform such preliminary reviews.

11. Expenditures in Excess of Subgrant Budget Amount

Condition - The county family services agency's TANF reimbursements to the Family and Children First Council (FCFC), a subrecipient of the agency, exceeded the allowable budget as defined in the subgrant.

Criteria - For costs to be allowable to federal programs, federal cost principles at [2 CFR 225, Appendix A, Section C.1](#). require that they be "authorized or not prohibited under State or local

laws or regulations.” The Ohio Supreme Court has indicated that agencies of local government possess only those powers expressly granted by statute or necessarily implied to effectuate a statutory responsibility. The authority for a public entity to act in financial transactions must be clearly granted, and any doubt must be resolved against a proposed expenditure. State, ex rel. Locher v. Menning, 95 Ohio State 97 (1916)

Effect - The authority for payment to a subgrantee is established by the terms and conditions of the subgrant agreement. There is doubt as to the authority of a county agency to make payments to a subrecipient in excess of the amounts authorized in the relevant subgrant agreement. If this circumstance were to be identified in the course of an [OMB Circular A-133](#) audit, there is a risk that the excessive claim to federal programs would be a questioned cost.

Recommendation - We recommend that agency management develop and implement controls over subgrant expenditures to provide reasonable assurance that approved payments do not exceed the amount of the subgrant. Agencies could maintain spreadsheets for each grant, showing the contract maximum, payments made and a declining balance. This could also be used to alert the agency when an amendment would be necessary for continued services.

12. Incomplete Invoice Documentation

Condition - Monthly invoices submitted for payment under various subgrant agreements were very general in nature and did not clearly specify the basis for the amounts requested. For example, the invoice for the agreement with the Area Agency on Aging merely indicated the total amount of the agreement, the amount paid to date, the amount of the “Funds Request in Process,” and the amount requested under the current invoice. There was no indication or documentation of services provided or costs incurred for reimbursement. Similarly, the invoice for the County Schools Career Center merely indicated the amount due, with no detail as to the basis by which this amount was determined.

Criteria - For costs to be allowable to federal programs, [2 CFR 225, Appendix A, Section C.1.1](#) requires that they be “necessary and reasonable for proper and efficient performance and administration of Federal awards” and “adequately documented.”

Effect - Payment of invoices without sufficient detail increases the risks of overpayment by the agency and an unnecessary claim upon federal, state and local monies. This also entails the risk of adverse audit findings by auditors performing an audit of the agency pursuant to [OMB Circular A-133](#).

Recommendation - We recommend subgrant agreements include specific language as to each agreement, specifying detailed information required to be submitted with each invoices and for review of this information by the county agency prior to approval of payment. This information should, for example, substantiate costs incurred for a cost reimbursement agreement.

Lists of the information required to be submitted with invoices with each subgrant agreement should be prepared and provided to the subrecipient, to the subgrant or contract manager with the agency, and to any other agency staff with responsibility for review or approval of the contract or

subgrant agreement. All reviews and approvals of invoices should require reference to the lists, with the reviewer documenting completion of the review and approval of payment.

13. Limitation to Actual Cost

Condition - The county family services agency did not monitor the Family and Children First Council to ensure that payments from the agency did not exceed actual costs.

Criteria - Where county agencies subaward federal monies to governmental or nonprofit entities, [45 CFR 92.22 \(a\) \(2\)](#) provides that the grant funds may be used only for the “allowable costs of the grantees . . . “In addition, [2 CFR 225, Appendix A, Section C.3](#), provides that costs are allocable to a particular federal program only if the goods or services involved are chargeable or assignable to such cost objective “in accordance with relative benefits received.” For this reason, payment of any amount to a subgrantee in excess of actual allowable costs is unallowable.

Effect - Where payments to a subrecipient from federal monies are in excess of actual costs, there is a risk that the federal programs involved were being charged with costs from which they derived no benefit, contrary to federal cost principles. In addition, payment of TANF monies at a unit rate in excess of actual costs may result in the conclusion that the agency has impermissibly advanced TANF monies.

Recommendation - We recommend that agency management implement subrecipient monitoring policies which include procedures to verify actual costs. This will prevent the advancement of TANF funds and allow the agency to avoid overpayments. Payments to subrecipients should be on a reimbursement basis.

Program Administration

Title XX

1. Lack of Eligibility Determination

Condition - The county family services agency is not verifying that clients receiving transportation services funding with TANF/Title XX transfer monies meet the eligibility requirements of TANF.

Criteria - [Section 404 \(d\) \(3\) \(B\) of Public Law 104-193](#) requires TANF/Title XX transfer monies be used “only for programs and services to children or their families whose income is less than 200 percent of the income official poverty line . . .”

Effect - The agency could be paying for transportation services for individuals ineligible for services under this program.

Recommendation - We recommend the agency provide training to employees making eligibility determinations for clients receiving services funded with Title XX/TANF monies. This training should include specific instruction as to relevant program rules and requirements for documentation of program eligibility. A procedure for the review of eligibility documentation in client files should be developed and implemented, with provision for documentation of the supervisory reviews, of the results of the reviews and of any remedial actions required and taken as a result of the reviews.

NET

2. Title XIX Transportation Validation

Condition - The county family services agency does not require that a NET transportation vendor collect information to verify the presence of a client at a billed transportation.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must “[b]e adequately documented.”

Effect - Although the vendor provided the agency with driver logs which indicate the vehicle odometer readings and the time and place for each stop, this is insufficient to provide reasonable assurance that the client was present to take the ride. There is a risk that costs are incurred where no services are being provided.

Recommendation - We recommend the agency require the vendor to have clients sign the transportation log to verify their presence for the transportation for which the agency is billed.

3. Title XIX Transportation - Lack of Documentation Verifying Services Received

Condition - Although the agency requires documentation of the client's attendance from a Medicaid provider prior to reimbursing clients with gas vouchers, it does not have a like requirement where the transportation is provided by a contractor, nor does it require destination information be submitted with transportation invoices.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must "[b]e adequately documented."

Effect - In the absence of such documentation, there is an increased risk that payment might be made to a provider where services were not provided, or for excessive mileage.

Recommendation - We recommend the agency modify its current controls to require that transportation providers obtain the signature of each client, verifying the date, time and purpose of each trip. Documentation of service provided by the rider's signature would decrease the risk transportation vendors might bill and be paid for services which were not provided.

We also recommend that a physician's verification be obtained. Physician's verification provides reasonable assurance that trips were made to a Medicaid provider. If there is concern as to the administrative burden on agency staff, such verifications could be made on a random basis, or could be limited to circumstances where the provider and location is unfamiliar to staff. Alternatively, the agency might consider reviewing a portion of NET transports by checking the Medicaid Management Information System (MMIS) for Medicaid services provided on the same date. These controls should decrease the risk of billing errors and vendor fraud.

Finally, we recommend that all invoices for transportation services indicate all travel points. This should assist agency staff in verifying the accuracy of billings.

4. Use of Client Personal Information

Condition - Daily facsimile transmissions from the local transit board to the agency for eligibility review contained clients' Social Security numbers. In addition, monthly invoices contained the clients' names and Social Security numbers.

Criteria - Federal regulations at [45 CFR 164.530](#) implementing the Health Insurance Portability and Accountability Act (HIPAA) policy regarding the privacy of individually identifiable health information require that the agency "have in place appropriate administrative, technical, and physical safeguards to protect the privacy of protected health information . . . [and] must implement policies and procedures with respect to protected health information that are designed to comply with the standards, implementation specifications, or other requirements of this subpart. . . ."

Effect - Personal information relating to the clients served by the agency must be protected or secured. The agency could be subject to civil liability if personal information were to be inappropriately accessed or used because of its failure to properly protect client's personal data in accordance with HIPAA regulations.

Recommendation - We recommend the agency find a method of identifying NET clients other than using their SSN. Perhaps using the last four digits of a client's SSN, or some form of their case number as an alternative identifier, would allow positive identification of clients on the LCTB billings. If the use of client personal information continues within the agency, administrative policies must be enacted to ensure the safeguarding of this information. The agency should review the [HIPAA Guide to Privacy Rule, Section 3.10](#) available on the ODJFS Innerweb, and [45 CFR 164.530](#), for more information on privacy rules.

5. Non-Emergency Transportation (NET) Appointment Verification Documentation

Condition - Where the county family services agency provides gas cards to eligible Medicaid recipients to allow them to obtain transportation to and from medical appointments, it does not require the recipients to provide any subsequent verification an approved appointment was actually attended.

Criteria - [OAC Section 5101:3-24-01 \(A\) \(2\)](#) indicates that "NET is the provision of transport to and from medicaid providers who meet provider participation requirements in accordance with Chapter 5101:3 of the Administrative Code who are providing medicaid covered service(s)."

[2 CFR 225, Appendix A, Section C.1.j](#) requires that to be allowable to federal programs, costs must "[b]e adequately documented."

Effect - Without such verification, the agency is unable to document that costs of the pre-paid gas cards were used to cover allowable Medicaid transportation costs.

Recommendation - We recommend the agency implement a policy requiring all pre-paid gas card recipients to submit documentation from the service provider to verify the approved medical appointment was attended. This documentation should include the signature of the medical provider or an authorized representative (e.g. a nurse or receptionist) and should be provided to agency personnel within a reasonable time period, as defined within the agency NET plan.

TANF

6. Lack of Eligibility Documentation

Condition - The agency maintains an after school enrichment program for TANF eligible youth through a local school district. Section VI of the agreement states, "A copy of the application and eligibility determination must be provided to the agency with each monthly invoice". The agency was not receiving the required eligibility documentation. When such documentation was requested, the school district sent the agency a letter stating the children were eligible without providing any supporting documentation. The school district was basing their eligibility determination on the participating of youth in the Free Lunch program, and was of the opinion that the applications were protected information.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must "[b]e adequately documented."

Effect - Without the supporting eligibility documentation the agency may be unable to clearly demonstrate such costs were allowable to the TANF program, potentially resulting in an adverse audit finding.

Recommendation - We recommend the agency work with the school district to acquire the eligibility documentation needed to verify such students are TANF eligible. As participation in the Free Lunch program is used as an indicator of presumptive eligibility for TANF services, the subgrantee should maintain documentation to substantiate such eligibility. The agency may wish to amend its subgrant agreement and have the subgrantee complete PRC applications for each child, indicating TANF eligibility was based on participation in the free lunch program and maintaining documentation of free lunch eligibility at the school where it could be reviewed by CDJFS staff as part of the grant monitoring process.

Alternatively, the subgrantee might submit its Free Lunch program roster and redact the names of students which are not receiving the TANF services. Although both programs contain privacy provisions in their rules for participant information, such rules do not eliminate the need to substantiate that eligibility exists. Without the ability to demonstrate TANF eligibility exists, there is no documentation to support claiming such costs to the federal TANF program.

7. Allowability of Prevention, Retention and Contingency (PRC) Costs

Condition - The agency reimbursed a PRC eligible client for the cost of his auto insurance so that he could transport himself to medical appointments in Toledo and Findlay. These costs were charged to a PRC code on the agency's JFS 02827. The county's PRC plan provides for the reimbursement of auto insurance costs in order to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage (TANF goal number 2). The client's file contained no documentation of job preparation, work experience or educational activities.

Criteria - Federal cost principles at [2 CFR 225, Appendix A, Section C.1.j](#) require that for costs to be allowable to a federal program they must "[b]e adequately documented."

Effect – In the absence of documentation to substantiate that the cost in question met TANF goal number two, the agency may be unable to demonstrate such costs were allowable to the TANF/PRC program, potentially resulting in a finding in an [OMB Circular A-133](#) audit.

Recommendation - We recommend agency management document how each of its PRC direct charges meet one of the TANF goals, in order for such costs to be allowable for federal reimbursement. Alternately, the agency may elect to determine whether the client was Medicaid eligible, and provided reimbursement for transportation costs in accordance with their Non-Emergency Transportation plan. If the agency selects the alternative solution, management should seek assistance in amending the agency's financial statements by contacting OFMS.

8. TANF/PRC Contract Language

Condition – The county agency entered into a contract with the local Community Improvement Corporation (CIC) to advocate employment opportunities within the county. An expenditure of

\$10,000 for a billboard to expand economic development in the county was charged to the TANF/PRC program.

Criteria - Ohio's Temporary Assistance to Needy Families (TANF) program gives states the opportunity to develop and implement creative and innovative strategies and approaches to remove families from a cycle of dependency on public assistance and into work. Ohio has two main programs supported through TANF. The Ohio Works First (OWF) program emphasizes employment, personal responsibility and self-sufficiency, while the Prevention, Retention and Contingency (PRC) program was established to help families overcome immediate barriers to self-sufficiency.

The TANF program has four allowable purposes. These are:

- To provide assistance to needy families with children so that they can live in their own home or the homes of relatives;
- To end the dependency of needy parents on government benefits through work, job preparation, and marriage;
- To reduce the incidence of out-of-wedlock pregnancies; and
- To promote the formation and maintenance of two-parent families.

Economic development services are generally allowable under the second purpose of TANF, "To end the dependency of needy parents on government benefits by promoting job preparation, work and marriage."

Effect - The proposed services in Exhibit A of the contract target individuals within the county, rather than needy families. This creates some doubt as to whether expenditures under the contract are a legitimate cost to the TANF program.

Recommendation - We recommend the agency reevaluate the language of its contract with the CIC to ensure it is in compliance with TANF guidelines and the agency's PRC plan. In order to avoid potential audit findings, we recommend the proposed services of the contract be modified to stipulate what benefits and services provided meet the TANF purposes of serving needy families, not individuals without children. We further recommend the agency modify its own PRC plan to reflect the intention of agency management to use PRC funds for these contractual services.

Child Care

9. Incorrect Child Care Payment

Condition – The agency paid a child care provider at the incorrect amount. A new and lower co-payment was charged one month early, causing the provider to be overpaid and the excess amount claimed to federal programs.

Criteria - Participants receiving child care services may be required to pay a co-payment. Where a co-payment is required, [OAC Section 5101:2-16-39 \(H\) \(1\)](#) requires that the co-payment be subtracted from the provider's reimbursement prior to payment by the CDJFS.

Effect - If this were detected in an audit performed under [OMB Circular A-133](#), this could lead to an adverse audit finding.

Recommendation - Washington CDJFS has developed a Childcare Reporting Invoice Billing System (CRIBS) program. CRIBS is a software program that helps agency staff manage the child care payment and reporting process. The program merges information from the Client Registry Information System Enhanced (CRIS-E) system (e.g., family co-payment amounts), on-line contract data and invoice information into one application. This is used to verify the invoice co-payment noted on the invoice. We recommend the agency contact the Washington CDJFS and discuss the feasibility of the agency utilizing the CRIBS software program.

10. Incorrect Child Care Co-payment

Condition - The agency paid a provider at the incorrect rate. The agency uses a spreadsheet to track participant co-payments and the approved provider rates. However, a change in a participant's co-payment following eligibility redetermination was not recorded in the tracking sheet. As such, the agency paid the provider at the older, higher rate and claimed the cost to ODJFS.

Criteria - Participants receiving child care services may be required to pay a co-payment. Where a co-payment is required, [OAC Section 5101:2-16-39 \(H\) \(1\)](#) requires that the co-payment be subtracted from the provider's reimbursement prior to payment by the CDJFS.

Effect - If this were detected in an audit performed under [OMB Circular A-133](#), a questioned cost finding would likely result.

Recommendation - We recommend the agency develop an eligibility determination/redetermination processing checklist, containing all required steps for determining eligibility. This should include a step to ensure the co-payment rate is updated on the reference spreadsheet used for invoice processing. We also recommend a supervisory review of this process. This might include a review of the spreadsheet to ensure rate changes are accurately recorded in the spreadsheet, and a review of invoices processed prior to their release for payment. Both reviews could be performed on a sample basis and should be documented. This should provide reasonable assurance that payments are accurate.

11. Incorrect Child Care Reimbursement Rate Charged

Condition - The agency contracts with Community Action Commission (CAC) to administer its child care program. Child care providers invoice the CAC monthly for their services. The CAC pays the providers and subsequently requests reimbursement from the agency. In one instance, the agency reimbursed the CAC for three weeks of services for one child at the higher rate allowed for non-traditional hours; however, two of the three weeks did not include care during non-traditional hours.

Criteria – [OAC Section 5101:2-16-41 \(F\) \(2\)](#) allows providers who care for children during non-traditional hours to be reimbursed an additional five percent for care provided during the non-traditional hours.

Effect – The agency overpaid the CAC and received federal reimbursement in excess of allowable amounts. Paying providers at the higher rate for non-traditional hours when services were not provided during non-traditional hours puts the agency at risk of adverse findings in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the agency recoup the overpayment and communicate the need for the CAC to closely monitor the payment of premium child care rates to its vendors. We also recommend the agency enhance its subrecipient monitoring procedures to ensure provider invoices are being paid at the correct rate by matching CAC invoice detail to childcare providers' invoice detail and any available records showing care dates and times.

12. Unallowable Incentives

Condition – The agency's subgrant agreement with a Community Action Commission (CAC) includes administrative fees based on actual costs to administer the child care program. In addition to administrative fees, the agreement includes incentive payments ranging from \$300 to \$500 for certifying certain Type B providers.

Criteria – The ODJFS Office of Children and Families has indicated that incentive payments are not allowable expenditures of the TANF or Child Care Development funds. The agency must use local funds to pay for incentives.

Effect - Charging unallowable expenditures to child care codes on its monthly financial statements puts the agency at risk of adverse findings in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the agency review the CAC's expenditures to determine whether incentive payments were made and make any necessary financial adjustments to classify these payments as non-reimbursable costs. The agency should contact OFMS with regard to the adjustments necessary to correct any unallowable incentive payments. In the future, should the agency have questions with regard to unusual costs in the child care grant, it should contact the ODJFS Office of Families and Children.

Title IV-E

13. Provider Approval of Individual Child Care Assessment (ICCA)

Condition – An Individual Child Care Assessment (ICCA) prepared by the agency was signed by all parties but was undated. The ICCA exhibited a facsimile transmission date several months after the placement date of the child.

Criteria - Local courts may remove children from their homes and place them in the custody of the agency. The agency then places these children with foster care providers and may thereafter

be reimbursed under Title IV-E for placement and maintenance costs if the child is eligible for Title IV-E benefits. These costs may also be charged to Title XX where placement and maintenance costs are secondary and incidental to the need for treatment for the child.

[OAC Section 5101:2-42-90 \(G\)](#) requires the agency to complete an Individual Child Care Agreement (ICCA) each time a child is placed in a substitute care setting. The ICCA must be signed by all parties and a copy provided to the substitute caregiver prior to placement or within seven days of an emergency placement.

Effect - Placing a child in a foster care setting without an approved ICCA may result in the substitute caregiver being unaware of certain important information, such as immediate health needs, creating a health and safety risk. In addition, failure to adhere to these requirements puts the agency at risk for adverse findings in an [OMB Circular A-133](#) audit.

Recommendation - We recommend the agency establish internal control procedures sufficient to ensure that all ICCA agreements are signed and dated by all parties within the required time frame. Such procedures might include additional management review, which should include documentation to verify procedures were performed.

14. Required Case File Documentation

Condition – The following required documentation was omitted from an adoption assistance case file:

- The agency’s petition to the court which led to the child’s removal from the home;
- The court order which resulted in the child’s removal from the home;
- JFS 01645 “Agreement for Temporary Custody of Child”, along with a copy of a court determination that continuation in the home would be contrary to the welfare of the child;
- Child study inventory;
- JFS 01616 “Social and Medical History;”
- JFS 01673 “Assessment of Child Placement (Home Study);
- JFS 01673A “ODJFS Child Characteristics Checklist for Foster Care and/or Adoption;”
- JFS 01689 “Documentation of the Placement Decision-Making Process;”
- JFS 01692 “Application for Adoption of a Foster Child;”
- As the basis for eligibility determination is that the child was placed in custody of the agency and the child is in receipt of Title IV-E FCM payments, documentation of receipt of the FCM payments;

- JFS 06612 “Health Insurance Information Sheet;” and
- The final decree of adoption.

Criteria - The Title IV-E Adoption Assistance program facilitates the placement of children with special needs in permanent adoptive homes, thus preventing long stays in foster care. The program provides funds to states in the form of subsidies to adoptive parents who adopt eligible children with special needs.

[OAC Section 5101:2-49-17 \(B\)](#) requires that an adoption case record shall documentation which supports the PCSA's actions in determining initial and continuing eligibility for AA. The rule provides specific types of documentation required to be in the file.

Effect - Failure to adhere to these requirements may jeopardize the status of adoptions and puts the agency at risk for adverse findings in an [OMB Circular A-133](#) audit.

Recommendation - We recommend that management review the Adoption Assistance rules and establish internal control procedures sufficient to ensure that all Adoption Assistance case files include the required information. Such procedures might include a checklist that identifies all the required documents needed in the case file, readily accessible for the case worker to mark off as documents are inserted into the case file and available for management’s review and validation.

15. Title IV-E Adoption Assistance Eligibility Re-Determinations

Condition - The agency was unable to provide documentation to substantiate any re-determinations related to children/families receiving adoption assistance subsidies. Agency management indicated the adoptive placements were initially completed many years ago and the required re-determinations have not been completed.

Criteria - [OAC Section 5101:2-44-08 \(A\)](#) requires that a PCSA complete a re-determination of each state adoption subsidy one year from the initial effective date of the JFS 01615 "Approval for State Adoption Subsidy," or the most recent re-determination and amendment modification date, and annually thereafter.

In addition, [OAC Section 5101:2-49-10 \(A\)](#) requires that a PCSA responsible for the adoption assistance (AA) agreement provide the adoptive parents with the JFS 01451B "Title IV-E Adoption Assistance Continuing Eligibility Determination" (10/2006) to be completed annually or whenever there is a significant change in the family situation . . .

Effect - Failure to complete annual eligibility re-determinations for payments related to adoption assistance could result in assistance being provided to ineligible recipients.

Recommendation - We recommend the agency implement procedures to complete the required forms and re-determinations. Additionally, the agency should establish procedures for

periodic supervisory reviews of these cases to ensure the re-determinations are accurately performed.

16. Review of Title IV-E Eligibility Determinations

Condition - Agency supervisors perform reviews of eligibility determinations for individuals applying for Title IV-E foster care maintenance and Title IV-E Adoption Assistance. This is done to provide reasonable assurance that recipients are eligible and that claims and resulting expenditures are appropriate. The supervisors do not, however, document their reviews of eligibility determinations.

Effect - If supervisors do not document their reviews of foster care eligibility determinations, an independent auditor may assume the reviews were not completed, possibly decreasing the level of confidence the auditor will place on the internal controls. This could result in additional audit testing and increased audit costs to the agency.

Recommendation - We recommend supervisors keep a log of all cases that were reviewed and place a notation in the case file documenting the review. Management and the independent auditor, upon review of the supervisor's logs or case files, should be able to establish that reviews were properly completed in a timely manner.

Food Stamp Employment and Training (FSET) Work Program

17. Lack of Food Stamp (FSET) Work Program

Condition - Two individuals who were approved for food stamps completed and signed an application for Cash, Medical and Food Assistance. They also signed a Work Registration/Information Sharing form (JFS07449). The individuals were not referred to a work program, as the agency does not currently have established WEP (Work Experience Program) sites or a Jobs Program for its FSET clients.

Criteria – [OAC Section 5101:4-3-28](#) requires nonexempt work registrants in receipt of food stamps to participate in employment and training. OAC Section 5101:4-3-29 also requires, as a condition of food stamp eligibility, that individuals in receipt of food stamp benefits who are not exempt pursuant to [OAC Section 5101:4-3-11 \(A\)](#) participate in the FSET program.

Effect – A failure to require nonexempt work registrants to participate in the required employment and training prevents attainment of program outcomes which are a program objective. This may result in an adverse audit finding in an OMB Circular A-133 audit report.

Recommendation - We recommend the agency continue the search for WEP sites and locate resources to provide the requirements of the FSET program. Securing resources or other agencies to meet the requirements of the FSET Work Activity Plan will ensure the agency meets federal and state requirements for work participation.