Department of Public Safety

Edward Byrne Justice Assistance Grant and Violence Against Women Act ARRA Program Audit

Audit Period: October 1, 2009 to November 13, 2009

Contents

Executive Summary

Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, includes the following statement of purposes:

- To preserve and create jobs and promote economic recovery.

- To assist those most impacted by the recession.

- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.

- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio has applied for over 90 ARRA programs with expected total grant awards to exceed $8 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- Countercyclical Funds: The two largest components of the State's budget that are exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.

- Appropriated Funds: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.

- Safety Net Funds: These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.

- Economic Growth Funds: These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Department of Public Safety (DPS) has applied for two awards. This audit will focus on the Edward Byrne Justice Assistance Grant and the Violence Against Women Act ARRA Programs which are formula grants. As of October 31, 2009, the DPS has disbursed $362 of the planned $38,048,949 for the Byrne program and $220 of the planned $4,605,000 for the VAWA program. No jobs were reported as created or retained for either program.

The Edward Byrne Justice Assistance grant (CFDA[1] 16.803) is a formula grant awarded by the U.S. Department of Justice to support a broad range of activities to prevent and control crime and to improve the criminal justice system.

The Violence Against Women Act grant (CFDA[1] 16.588) is a formula grant awarded to develop and strengthen effective law enforcement and prosecution strategies to combat violent crimes against women, and develop and strengthen victim services in cases involving crimes against women.

During the audit, OIA identified opportunities for DPS to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank DPS staff and management for their cooperation and time in support of this audit.

[1] Catalog of Federal Domestic Assistance

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Edward Byrne Memorial Justice Assistance (Byrne) and the Violence Against Women Act (VAWA) ARRA Program. This work was completed between October 1, 2009 and November 13, 2009. The scope of this audit included the following areas:

- Program planning
    o Program risk assessment; and
    o Internal control process documentation

- Application process
    o Public award announcement; and
    o Applicant evaluation and award notification

- Program administration and monitoring
    o Communication of grant requirements; and
    o Program oversight and monitoring

- Reporting
    o Financial reporting; and
    o Non-financial statistical reporting

The following summarizes the objectives of the review along with a conclusion on the design of management's internal controls.

Objective	Conclusion[2]
Evaluate the adequacy of DPS ARRA program risk assessment and internal control documentation based on guidance provided by State management.	**Well-Controlled with Improvements Needed**
Evaluate the adequacy of the awarding process for ARRA funds to subrecipients and vendors.	**Well-Controlled**
Evaluate the design and adequacy of communication related to program requirements, state guidance, and federal compliance requirements to grant recipients.	**Well-Controlled**
Evaluate the design of the controls over subrecipient and vendor monitoring process for the program.	**Improvements Needed - See Observation 1**

Objective	Conclusion[2]
Evaluate the design of controls over complete, accurate, and timely reporting of financial and non-financial information.	**Improvements Needed - See Observation 2**

[2] Refer to Appendix A for classification of audit objective conclusions.

Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.

No.	Observation	Recommendation	Risk[3]
1.	**Subrecipient Monitoring –** DPS does not have an effective system in place to determine whether subrecipients will use ARRA funds in accordance with the grant agreement and applicable laws and regulations.	A comprehensive, risk-based monitoring program should be developed that aligns controls with associated risks of disbursing funds to subrecipients.	**Moderate**
2.	**ARRA Reporting –** DPS does not have a process in place to reasonably ensure the entire job created/retained total is received each quarter from the subrecipients and a defined process to validate the information prior to entry into the ARRA Hub.	Procedures should be developed that defines the process of accumulating, compiling, and validating information that is required to be uploaded into the ARRA Hub.	**Moderate**

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

[3] Refer to Appendix A for classification of audit observations.

Detailed Observations and Recommendations

Observation 1 – Subrecipient Monitoring

OMB Circular A-133, Subpart D, requires DPS to monitor the activities of subrecipients to reasonably ensure that laws, grant agreements, and performance goals are achieved. Additionally, DPS signed an assurance statement indicating a risk-based subrecipient monitoring process would be in place to ensure achievement of program and economic outcomes.

DPS is responsible for monitoring the use the Byrne and Violence Against Women Act grant funds for approximately 400 subrecipients. Review of documentation and process walk throughs did not reflect a risk-based, coordinated monitoring process that can be used to determine whether subrecipients were using ARRA funds in accordance with grant application and applicable laws and regulations. Organizational changes have reduced previous monitoring activities and the department is working to add staffing to increase its monitoring efforts.

The current monitoring procedures consist of a desktop review and an on-site programmatic review. The desktop reviews are performed by staff from the OCJS Grants Section and utilize a checklist protocol to review the local matching funds, travel, equipment, supplies, indirect costs, and project income. The expenditure categories are supported by invoices and other substantive documentation submitted by the subrecipients.

The on-site programmatic review is performed by staff from the OCJS Policy and Research Section and includes an examination of grant project files to determine if the subrecipient implemented the program in accordance with the grant application, disbursed funds servicing the identified targeted population, and is meeting the stated objectives. The information collected as a result of the programmatic reviews is informally provided to the OCJS Grants Section and the subrecipient. However, no formal process is established to help ensure that the results are provided timely.

DPS currently does not perform in-depth on-site fiscal reviews to validate the disbursements through the accounting records; discuss with subrecipient staff to help ensure they are informed of and carry out the fiscal process in accordance with grant requirements; examine competitive bid information when grant funds apply; and validate equipment purchased with grant funds was properly tagged with subgrant number.

The lack of a risk-based, coordinated monitoring process increases the risk of subrecipient noncompliance or questioned costs and exposes the department to increased oversight by federal agencies.

Recommendation
A comprehensive, risk-based monitoring program should be developed that aligns controls with risks associated with disbursing ARRA funds to subrecipients. The program should prioritize monitoring activities to minimize risk to an acceptable level as established by DPS management. Additionally, procedures should coordinate the frequency and scope of onsite visits, desktop reviews, communication and training, and remediation processes for subrecipient issues identified.

Management Response
Management is in the process of developing a risk-based on-site subrecipient fiscal monitoring program that will complement our already established comprehensive fiscal desktop monitoring and onsite programmatic monitoring programs. We have already hired two onsite fiscal monitors who recently joined our staff. A third monitor will begin in mid December, and we hope to have the final monitor in place by January. These positions are intended to perform on-site fiscal monitorings. The results of the coordinated monitoring efforts will be distributed to the subrecipients and units requiring the information to manage management decisions. This coordinated risk-based monitoring program will help ensure that adequate oversight of subrecipients occurs and that laws, grant agreements, and performance goals for ARRA funds, which were presented to subrecipients during the mandatory ARRA orientation, are achieved. Additionally, the monitoring approach and process will be updated continually to include a review and follow-up on external monitoring results.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Executive Director Office of Criminal Justice Services	March 2010

Observation 2 – ARRA Reporting

An effective reporting process includes documented procedures that define roles and responsibilities as well as details the process steps to achieve the ARRA reporting objectives as described in Office of Budget and Management Guidance Memo #9, issued to state agencies on July 30, 2009.

DPS is responsible for compiling and validating the information of both the department and its subrecipients that is entered into the ARRA Hub. DPS has documented its reporting process; however, DPS has not developed formalized procedures for validating the information. In addition, DPS requires it subrecipients to submit additional information relating to jobs created/retained along with the "Quarterly Subrecipient Report" (QSR). However, at present, subrecipients are not required to submit the QSR on a quarterly basis unless the subrecipient is requesting reimbursement. Consequently, if a subrecipient is not requesting reimbursement, the jobs created/retained information will not be submitted to DPS for that quarter. It should be noted that, in the first reporting period as of September 30, 2009, DPS has not disbursed funds to its subrecipients or reported jobs created or retained from either the Byrne or Violence Against Women Act grants.

Without requiring the subrecipients to submit jobs created/retained every quarter, the jobs created/retained could be reported to the federal oversight agencies inaccurately, thereby decreasing reliance to the public on whether the department will achieve the overall ARRA program objectives.

Recommendation

Requirements should be relayed to the subrecipients stating that the jobs created/retained information shall be submitted quarterly regardless of whether the subrecipient is requesting reimbursement through the QSR. In addition, formalized procedures should be prepared detailing the validation process that define:

- who validates the data;

- from where the data is obtained;

- how management ensure the subrecipients submit accurate, complete, and timely data; and

- how management ensures all reporting data as required by the American Recovery and Reinvestment Act, Section 1512 are included.

Management Response
Management is in process of formalizing its policies and procedures that will provide guidance to staff regarding the validation process of both financial and non-financial information being entered into the ARRA Hub. Additionally, we have already made the decision to require all ARRA subrecipients to submit non-financial jobs created/retained information quarterly by submitting a quarterly subgrant report even when a subrecipient is not requesting reimbursement for program spending.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Executive Director Office of Criminal Justice Services	December 2009

Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-Controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)

Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

Detailed   Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

Limited   Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

Informal   This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.