



# Department of Job and Family Services

## Foster Care ARRA Program Audit

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**Audit Period: October 1, 2009 to November 6, 2009**



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## 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 is 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 Job and Family Services (JFS) has approximately 21 ARRA awards. This audit will focus on the Foster Care ARRA Program which is a formula grant. As of October 31, 2009, the JFS has expended \$10,527,831 of the quarterly awarded \$12,524,933 for this program. The total awarded amount is not finalized at this time. The Foster Care Program is part of the safety net category and is not included in the ARRA Section 1512 reporting requirements. There were no reported jobs created or retained from this program.



The Foster Care Program (Catalog of Federal Domestic Assistance number 93.658) provides funds to assist with the cost of foster care for eligible children; administrative costs to manage the program; and training for the agency staff, foster parents, and certain private agency staff. The program's main purpose is to reunite children with their families and/or find other permanent living arrangements when children cannot safely return home.

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



## Scope and Objectives

OIA staff was engaged to perform assurance work related to the Foster Care ARRA Program. This work was completed between October 1, 2009 and November 6, 2009. The scope of this audit included the following areas:

- Program planning
  - Program risk assessment; and
  - Internal control process documentation
- Application process
  - Public award announcement; and
  - Applicant evaluation and award notification
- Program administration and monitoring
  - Communication of grant requirements; and
  - Program oversight and monitoring

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

Objective	Conclusion <sup>1</sup>
Evaluate the adequacy of the JFS ARRA program risk assessment and internal control documentation based on guidance provided by state management.	Improvements Needed – See Observations 1 and 2
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 controls over the timely, accurate, and completeness of ARRA disbursements.	Well-Controlled

<sup>1</sup> 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. There were no low risk observations and recommendations identified as a result of this audit.

No.	Observation	Recommendation	Risk <sup>2</sup>
1.	<p><b>Risk Assessment Process</b> – JFS has not documented significant risk areas such as:</p> <ul style="list-style-type: none"> <li>• Recognition of award dollars is timely, accurate, and appropriately accounted for;</li> <li>• Expenditure of funds are appropriately recognized, accounted for, and reported;</li> <li>• The presence of internal controls sufficient to mitigate the risk of waste, fraud and abuse; and</li> <li>• Performance issues in dealing with funding recipients.</li> </ul>	<p>JFS should take measures to perform an entity-wide risk assessment considering high level risks that occur at the department and management level then formally document its results.</p>	<p><b>Moderate</b></p>
2.	<p><b>Documentation Process</b> – JFS has not completed detailed process diagrams describing and identifying all key processes with key risks and mitigating internal controls. The department is in process of developing the process diagrams, identifying risks, and evaluating internal controls.</p>	<p>Management should continue to develop end to end process flows, to identify key program risks and assist in minimizing potential exposures to the department.</p>	<p><b>Moderate</b></p>

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.

<sup>2</sup> Refer to [Appendix A](#) for classification of audit observations.



## Detailed Observations and Recommendations

### **Observation 1 – Risk Assessment Process**

An effective and transparent risk management process requires the agency to analyze its operation to evaluate the potential impact on its resources and structure for receiving the additional ARRA funding as described in the Office Budget and Management Guidance Memo #5 issued to state agencies on March 27, 2009.

The Department of Job and Family Services (JFS) developed an implementation plan which outlined how the ARRA funds were to be used and steps taken by the department to disburse the funds. The plan was communicated to Family, Children and Adult Services Manual Holders in Procedure Letter No. 164. JFS has yet to document significant risk areas such as:

- Recognition of award dollars is timely, accurate, and appropriately accounted for;
- Expenditure of funds are appropriately recognized, accounted for, and reported;
- How cost overruns are minimized;
- How improper payments are minimized;
- Training;
- The presence of internal controls sufficient to mitigate the risk of waste, fraud and abuse;
- The risk profiles of final recipients of funds; and
- Performance issues in dealing with funding recipients.

Without considering items such as these when assessing risk, management may miss potential risks in strategic areas of the processes and programs which could allow inefficiency and ineffectiveness to occur and/or allow fraud, waste, and abuse.

### **Recommendation**

JFS should take measures to perform an entity-wide risk assessment and then formally document its results. Additionally, the department should consider periodically evaluating its risk plan to determine whether the risks previously identified remain key risks or need updated to include higher risk areas.



**Management Response**

In discussions with OBM Office of Internal Audit various processes and procedures were reviewed, however many were not documented or had risks formally identified. As JFS works with OBM to complete this task, JFS will provide additional documentation in a narrative which outline those processes, risk areas, and risk mitigation strategies used to lower the overall risk of the Foster Care Program.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Deputy Director Office of Family and Children	March 2010



**Observation 2 – Documentation Process**

An effective and transparent risk management process includes program documentation that identifies key risks, internal controls, decision points, and program outcomes as described in Office of Budget and Management Guidance Memo #5 issued on March 27, 2009.

JFS completed process diagrams describing the flows at a high level. These process diagrams did not identify all key processes with key risks and mitigating internal controls as they relate to ARRA stimulus funding. JFS is in the process of developing process diagrams; however, the narratives and process flows have not been completed or approved by management.

Without all key processes being completed, management may not have identified the highest program risks and effective controls to mitigate those risks to an acceptable level. Additionally, external transparency is increased and opportunities for process improvement efficiencies can result from the completion of key processes.

**Recommendation**

Management should continue to develop end-to-end process flows, to identify key program risks and assist in minimizing potential exposures to the department. When evaluating key risks and internal controls, management should consider:

- adequate training of staff;
- program dollars are disbursed to eligible individuals subrecipients, or vendors;
- amounts requested or disbursed represent only actual or allowable program expenditures;
- drawdowns are complete, accurate, and consider cash management and period of availability;
- reported financial and non-financial information is accurate and complete; and
- process for corrective action to promptly resolve audit findings.

**Management Response**

JFS will continue to work cooperatively with the OBM Office of Internal Audit to map out the processes and procedures not presently documented in a process flow or narrative. In addition, JFS will work to annotate any areas of risk associated with the newly created process flows. JFS anticipates this project to be completed by the end of the third quarter of state fiscal year 2010.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Deputy Director Fiscal and Monitoring Services	March 2010



**Appendix A – Classification of Audit Objective Conclusions and Observations**

**Classification of Audit Objective Conclusions**

Conclusion	Description of Factors
<b>Major Improvements Needed</b>	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.
<b>Improvements Needed</b>	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.
<b>Well-controlled with Improvements Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Well-Controlled</b>	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
<b>High</b>	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
<b>Moderate</b>	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
<b>Low</b>	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.