Department of Job and Family Services

Workforce Investment Act ARRA Program Audit

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

Contents

Executive Summary

Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include 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 Workforce Investment Act (WIA) ARRA Program which is a formula grant. As of October 31, 2009, JFS has disbursed $54,632,327 of the awarded $138,056,135 for this program and, at September 30, 2009, reported 2,465 jobs created or retained.

Formula grants awarded to states by the U.S. Department of Labor, Employment and Training Administration. CFDA[1] 17.259 – Youth Program: to help low income youth between the ages of 14 and 24 acquire the educational and occupational skills, training, and support needed to successfully transition to careers and productive adulthood. CFDA[1] 17.258 – Adult Program: to fund workforce investment activities that increase the employment, retention, earnings, and occupational skill attainment of program participants 18 years of age and older. CFDA[1] 17.260 – Dislocated Workers Formula and Rapid Response: to reemploy dislocated workers by providing workforce investment activities that increase the employment, retention, earnings, and occupational skill attainment of program participants.

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.

[1] Catalog of Federal Domestic Assistance

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Workforce Investment Act 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

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

- Reporting
    - Financial reporting; and
    - 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 the JFS' ARRA program risk assessment and internal control documentation based on guidance provided by state management.	**Improvements Needed See Observation 1**
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.	**Well-controlled with Improvements Needed**
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.

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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	**Process Flows** – The high level process diagram developed by JFS describing the overall flows for ARRA funding was inadequate in documenting key risks and internal controls. The only key risks identified were related to subrecipients and the only mitigating internal controls that were identified were at the monitoring review phase. There were no key risks identified at the program execution level.	Develop end to end process flows identifying key program risks and mitigating internal controls. This will aide in analyzing the systems and processes so adjustments can be made to significantly reduce potential exposures.	**Moderate**
2	**ARRA Reporting** – JFS is responsible for validating the quality of information of both the department and its subrecipients that is entered into the ARRA Hub. While JFS is currently relying on existing annual DOL data validation processes, JFS should continue to develop, finalize and communicate an effective quarterly validation process for the non-financial information received from its 20 local WIA area subrecipients in order to comply with the more stringent ARRA requirements.	Develop procedures that define the process of validating the non-financial information of subrecipients for ARRA reporting.	**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.

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

Detailed Observations and Recommendations

Observation 1 – Risk Assessment and Program 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 the Office of Budget and Management Guidance Memo #5 issued to state agencies on March 27, 2009.

The Department of Job and Family Services (JFS) completed a high level process diagram describing the overall flows for ARRA funding. This process identified key risks only as they related to subrecipients and mitigating internal controls as they related to the monitoring subprocess. The high level process diagram was inadequate in documenting key risks and internal controls.

Without detailed 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 develop end-to-end process flows to identify key program risks and assist in minimizing potential exposures to the department. Management should consider these types of key risks and internal controls when developing and updating its documentation:

- Recognition of drawdowns and subsequent disbursements are timely, complete, accurate, and appropriately accounted for;

- Management controls are operating to identify and prevent wasteful spending and minimize waste, fraud and abuse;

- Programmatic and accountability objectives are measured through established benchmarking criteria; and

- ARRA Hub information validation procedures are established to ensure that financial and non-financial data that is entered is timely, complete, accurate, and classified correctly.

Management Response
JFS will continue to work cooperatively with the OBM Office of Internal Audit to map out the processes and procedure not presently completed. 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
Moderate	Deputy Director Fiscal and Monitoring Services	March 2010

Observation 2 – ARRA Reporting

An effective reporting process includes documented procedures that define roles and responsibilities and 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.

JFS is responsible for validating the quality of information of both the department and its subrecipients that is entered into the ARRA Hub. While JFS is currently relying on existing annual DOL data validation processes, JFS should continue to develop, finalize and communicate an effective quarterly validation process for the non-financial information received from its 20 local WIA subrecipients. JFS does have adequate validation processes for financial information and for non-financial information generated within the department. It should be noted that, in the initial reporting period as of September 30, 2009, JFS indicated that related federal guidelines in the subject areas was received just prior to report due date.

Without a formal validation process for the non-financial information received from the 20 local WIA area subrecipients, incomplete and /or inaccurate information could be reported to federal oversight agencies, thereby decreasing reliance to the public on whether the department will achieve the overall ARRA program objectives.

Recommendation

Procedures should be developed that define the process of validating for non-financial information of subrecipients that is required to be entered into the ARRA Hub. The data quality review and validation process could include procedures that define:

- who validates the data;
- from where the data is obtained; and
- how management ensures the subrecipients submit accurate, complete, and timely data.

Management Response

JFS has provided technical assistance and training with regards to ARRA funds. In addition, the WIA Areas conduct subrecipient monitoring at the local level. JFS will provide additional information to the WIA Areas to test ARRA program data for verification purposes. As a matter of procedure, JFS will review these reports while conducting required monitoring activities of the WIA Areas.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Acting Deputy Director Workforce Development	March 2010

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.