



# Office of Budget and Management

## ARRA Central Reporting Audit

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**Audit Period: July 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, 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.

Section 1512 of the American Recovery and Reinvestment Act of 2009 (ARRA) details the reporting requirements for each agency/ recipient of the ARRA Funds in order to ensure accountability and transparency. OBM is responsible for the creation and administration of a central reporting application (ARRA Hub) to interface with the federal reporting repository ([federalreporting.gov](http://federalreporting.gov)) and ensures that data input by the agency/recipient is completely and properly collected and submitted to the federal repository on time.

During the audit, OIA identified opportunities for OBM to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank OBM 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 ARRA Central Reporting Process. This work was completed between October 5, 2009 and November 6, 2009. The scope of this audit included the following areas:

- Program planning
  - Program risk assessment; and
  - Internal control process documentation
- 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 effectiveness of management’s internal controls.

Objective	Conclusion <sup>1</sup>
Evaluate adequacy of the agency’s ARRA risk assessment and internal control documentation based on guidance provided by State management.	Well-Controlled
Evaluate design and adequacy of OBM’s communication to agencies in relation to state guidance, federal requirements, and coordination of ARRA reporting.	Well-Controlled
Evaluate the design of the controls over the monitoring process of the central reporting function.	Improvements Needed - See Observations 1 and 2
Evaluate the design of the controls over complete, accurate, and timely reporting of financial and non-financial information.	Well-controlled with Improvements Needed

<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. 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 <sup>2</sup>
1	<p><b>System Documentation – ARRA Hub -</b> The process of monitoring changes to existing queries and reports and adding new queries and reports is not consistently documented in a formal structure. The OBM Management Information Systems section (MIS) monitors the system for any errors or issues on a daily basis. When changes are needed on the system, the OBM MIS writes the system changes and submits them to OBM for review and approval; however, documentation is not maintained as evidence.</p>	<p>OBM should develop policies and procedures for requesting, approving, and documenting changes or additions to queries and reports. These policies and procedures should also encompass any changes to the ARRA Hub (e.g. revisions to the reporting data model), including a disaster recovery plan. Furthermore, evidence to support output validation should be kept to help ensure desired results are achieved.</p>	Moderate
2	<p><b>Internal Controls – Interim Validation</b> - OBM does not maintain documentation to evidence its review to reasonably ensure that agencies were meeting interim validation requirements. Moreover, during the initial reporting quarter at September 30, 2009, various financial errors were detected by OBM and agencies which delayed financial month end close.</p>	<p>OBM should require agencies to perform interim validations of ARRA Section 1512 financial reporting data on a monthly basis and non-financial data during the last month of the reporting period. Policies and procedures should be developed to document OBM’s end-to-end process to include a timeline of when activities are to occur consistently.</p>	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 agency 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 – System Documentation – ARRA Hub**

Effective control procedures require reviews and testing of query and report changes to provide management assurance that desired results are achieved prior to a query or report being posted to the ARRA Hub for agency use. Standard testing procedures are an essential component of the overall change process. Furthermore, documentation of all testing of changes along with evidence of user acceptance of the results should be maintained.

The process of monitoring changes to existing queries and reports and adding new queries and reports is not consistently documented in a formal structure. The OBM Management Information Systems section (MIS) monitors the system for any errors or issues on a daily basis. When changes are needed on the system, the OBM MIS writes the system changes and submits them to OBM for review and approval; however, documentation is not maintained as evidence. All changes are made in batches (i.e. not real time) and a backup recovery process is currently performed every four hours on all data located in the ARRA Hub; however, OBM does not currently have a documented disaster recovery plan for the ARRA Hub. In addition, OBM has not developed written policies and procedures for granting access to the ARRA Hub and periodic review and validation of user access.

Without following standardized procedures for maintaining testing documentation, the Office increases the risk that requested changes are incomplete, unapproved, or do not meet users' expectations. Without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change. In addition, the absence of written policies and procedures and a disaster recovery plan for the ARRA Hub could lead to inconsistent application of rules, inefficiencies, operational and system vulnerabilities, and the inability to resume business in the event of a disaster.

#### **Recommendation**

OBM should develop policies and procedures for requesting, approving, and documenting changes or additions to queries and reports. These policies and procedures should also encompass any changes to the ARRA Hub (e.g. revisions to the reporting data model). Furthermore, evidence to support output validation should be kept to help ensure desired results are achieved. OBM should continue to work together with agencies to help ensure the completeness and accuracy of the data as well as document and test relevant recovery procedures. OBM should establish the recovery priority of the ARRA Hub in relation to all other mission critical applications supported by the agency.



**Management Response**

During the development of the ARRA Hub, information concerning procedures and policies was developed and scattered through miscellaneous emails and documents. In order to meet federal government reporting requirements and timelines, OBM and OIT prioritized system development over the proper formatting of documentation. Now that the system has achieved a steady state environment as we have met the compliance requirements, we will now focus our efforts on gathering the documentation from the disparate sources. Attention will be placed on formalizing system documentation in the proper format.

OBM is in the process of developing a SharePoint portal to log change requests to the ARRA Hub and expects to have the system in place by December 15<sup>th</sup>, 2009. This log will track such information as description, requestor, implementer, resolution and any supporting documentation. OBM will also document the change request and approval process by December 15<sup>th</sup>, 2009.

The ARRA Hub consists of three separate systems hosted by OBM, OIT and OAKS. Disaster Recovery documentation for the ARRA Hub is included with the specific Disaster Recovery plans from OBM, OIT and OAKS. OBM will develop an overview of the full Disaster Recovery plan which will detail roles and responsibilities by December 15<sup>th</sup>, 2009.

OBM will develop written policies and procedures for granting access to the ARRA Hub by December 15<sup>th</sup>, 2009.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	OBM ARRA Coordinator	December 2009



## Observation 2 – Internal Controls – Interim Validation

An effective reporting process includes documented procedures relating to ongoing monitoring of the data to be reported. These procedures should define roles, responsibilities and details of the process 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.

OBM requires each agency reporting Section 1512 data through the ARRA Hub to perform a financial validation at month end, a financial and non-financial information validation at quarter-end, and a final validation before submission to FederalReporting.gov. OBM does not maintain documentation to evidence its review to reasonably ensure that agencies were meeting interim validation requirements. Moreover, during the initial reporting quarter at September 30, 2009, various financial errors were detected by OBM and agencies which delayed financial month end close.

Without a documented interim validation process, errors could go undetected until report preparation, thereby increasing OBM and agency workload at quarter end and potentially causing untimely or inaccurate ARRA reporting.

### Recommendation

OBM should require agencies to perform interim validations of ARRA Section 1512 financial reporting data on a monthly basis and non-financial data during the last month of the reporting period. Policies and procedures should be developed to document OBM's end-to-end process to include a timeline of when activities are to occur consistently. To improve the efficiency of quarter end activities, OBM should consider incorporating periodic interim analysis of the financial data to assist in detecting errors timely rather than at quarter end. Documentation should be maintained to evidence the review, analysis, and results of activities performed.

### Management Response

On November 6, 2009, OBM issued guidance to state agencies requiring a monthly financial validation process for ARRA programs. Included in this guidance was a table itemizing total ARRA revenue and expenditures. If agencies found any issues, they were instructed to work with OBM Budget and State Accounting as soon as possible to make corrections. If they did not find any issues, they were instructed to convey this information to OBM for tracking purposes. This validation will document the agency review and notify OBM to evaluate the agency's progress on outstanding issues on a monthly basis. For the months preceding the end of a reporting period (December, March, June, September) agencies will be required to validate their financial information for that month during the last week of the quarter in order to ensure a timely financial month close. Also, OBM Budget analysts will conduct periodic interim reviews of agency financial and non-financial data to identify potential errors and retain supporting documentation.



On November 12, 2009, OBM published the ARRA Reporting Calendar for the period beginning November 2009 through February 2010. This end-to-end business roadmap provided agencies with the important validation deadlines they will be required to meet in order to certify financial and non-financial information prior to the end of the quarter. Non-financial data is required to be validated during the first week of the last month of the reporting period. The guidance laid out the process requiring agencies to validate financial information on a monthly basis within the ARRA Hub, starting with the data from the month of November. These validation practices will aid agencies and OBM in the submission of accurate 1512 Reports to FederalReporting.gov in a timely manner.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	OBM ARRA Coordinator	December 2009



**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.