OBM | Office of Internal Audit

Department of Job and Family Services

Child Care ARRA Program Audit

Audit Period: July 1, 2009 to September 30, 2010

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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:

- <u>Countercyclical Funds:</u> 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.
- <u>Appropriated Funds</u>: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.
- <u>Safety Net Funds:</u> These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.
- <u>Economic Growth Funds:</u> 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 applied for approximately 17 awards. This audit will focus on the Child Care and Development Block Grant (CCDBG) (CFDA number 93.713), which is a discretionary grant. This grant is a safety net program and jobs created/retained reporting was not applicable. As of October 30, 2010, JFS has disbursed $60,908,884 of the $68,140,840 available for this program.

The Child Care and Development Block Grant (CCDBG) is awarded to states by the U.S. Department of Health and Human Services, Administration for Children and Families. The CCDBG is a part of the Child Care and Development Fund (CCDF) program, clustered with the Child Care Discretionary Funds (CFDA number 93.575) and the Child Care Mandatory and Matching Funds (CFDA number 93.596). This funding is intended to provide economic stimulus to the nation while furthering the mission to promote the economic and social well being of children, youth, families, and communities.

Objectives under the CCDBG Act are: To make grants to States for child care assistance for low-income families and to: (1) allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within such State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations.

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

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA performed an audit on the Child Care ARRA Program for the period between July 1, 2009 and September 30, 2010. The primary assurance work occurred between July 20, 2009 and August 28, 2009 when the Child Care ARRA funds were distributed to the counties.

Although the total program award was $68,140,840, this audit focused on the Subsidized Child Care portion which totaled $59,245,395 or 87% of the award. The scope of this audit included the following areas as they relate to subsidized child care funding:

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

Objective	Conclusion[1]
Evaluate the adequacy of JFS' ARRA program risk assessment and internal control documentation based on guidance provided by State management	**Well Controlled with Improvements Needed**
Evaluate the adequacy of communication related to program requirements, state guidance, and federal compliance requirements to subrecipients and vendors	**Well-Controlled**
Evaluate the design and effectiveness of controls over the timely, accurate, and completeness of ARRA stimulus disbursements	**Improvements Needed – See Observation 1**
Evaluate the design and effectiveness of the controls over subrecipient monitoring and vendor monitoring process for the program	**Well Controlled with Improvements Needed**

1 Refer to Appendix A for classification of audit objective conclusions.

Summary of Observations

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

No.	Observation	Risk[2]
1.	**Disbursement Allocations –** The Department stimulus draw requests from the Federal government did not agree to the reported stimulus distributions to the counties for subsidized child care. A variance of $3,113,318 existed in fiscal year 2010. In addition, JFS requested each county receiving stimulus funding make coding adjustments to their initially reported Child Care expenditures so they properly include stimulus funding. A discrepancy of $294,851 was identified in fiscal year 2010.	**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.

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

Detailed Observations and Recommendations

Observation 1 – Disbursement Allocations

Properly documented procedures help ensure stimulus draws and expenditures are tracked and reconciled in a coordinated and timely manner. Procedures include that variances be reviewed, documented and followed up on. Reviews should be evidenced by the supervisor to provide documentation that the process has been performed.

Expenditure reports submitted by county subrecipients for subsidized child care were used to distribute fiscal year 2010 stimulus funds by JFS' Bureau of County Finance and Technical Assistance (BCFTA). Nearly $60 million in stimulus funding was distributed to the counties until the subsidy was exhausted. In order to perform the cash draw, JFS' Bureau of Cash and Cost Reporting Services (BCCRS) prepared draw requests for the Federal government, which included both stimulus funds as well as regular program funds. The BCCRS draw requests did not agree to the BCFTA stimulus funds distributed for subsidized child care. The BCCRS stimulus draw request allocation was less than the BCFTA distribution by $3.1M for the transactions performed in fiscal year 2010.

Once the BCFTA distributed stimulus funding to counties, they requested each county receiving stimulus funding make coding adjustments to their initially reported expenditures so they equaled the amounts received. BCFTA monitored these adjustments to ensure they equaled the total amount distributed; however, a discrepancy of $294,851 was identified between the amount distributed and the adjusted expenditures submitted by a few counties.

The lack of a comprehensive and consistent review processes by the Department increases the risk that discrepancies will occur and not be corrected or remediated timely.

Recommendation

Evaluate the current process for reviewing draws and expenditures. JFS should consider implementing a coordinated review process that would provide reasonable assurance that variances are addressed and adjustments are documented.

Management Response

ODJFS agrees that a clerical error occurred in which funds that were issued to the counties, thought to be only stimulus, did include regular CCDF monies. The $3,113,317.50 draw was corrected on Tuesday November 30, 2010. The, through the closeout process, expenditure amount of $294,850.49 was reconciled.

As an immediate remedy to this issue, ODJFS/Fiscal Cash Management will:

1. Identify the Bureau of County Finance and Technical Support portion of funds drawn on Monday of each week,
2. Perform a weekly manual reconciliation between funds drawn on Monday for BCFTA and funds disbursed on Thursday for BCFTA,
3. Confer with BCFTA to identify any variances noted, and
4. Make necessary real time corrections or adjustments.

Once it is determined that a weekly reconciliation will eliminate the issue, BCFTA and Cash Management will determine the feasibility of automating the reconciliation process.

The Office of Fiscal and Monitoring Services will implement the above listed procedure immediately, and will refine as the process is implemented.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Bureau of County Finance and Technical Assistance ODJFS Office of Fiscal and Monitoring Services	December 31, 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.	State 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.	State 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), State 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.