



---

## Department of Youth Services RECLAIM Funding Audit

---

**Audit Period: December 2013 through February 2014**

### Results Summary:

Objective	Conclusion
RECLAIM Allocation Distribution	Well-Controlled with Improvement Needed
RECLAIM Fiscal Monitoring	Improvement Needed



## Executive Summary

### Background

The RECLAIM Ohio (Reasoned and Equitable Community and Local Alternatives to the Incarceration of Minors) Program was launched as a nine-county pilot in January 1994 and implemented statewide in 1995. RECLAIM Ohio is a funding initiative which incentivizes juvenile courts to develop community-based programs for juvenile offenders, thereby diverting them from further involvement with the juvenile justice system and from the Department's juvenile correctional facilities. In doing so, RECLAIM Ohio is intended to reduce the number of youth sentenced to the custody of the Department resulting in only the most serious offenders being committed to the Department.

Funding is allocated to counties through a formula based on each county's proportion of statewide felony delinquent adjudications and DYS and community corrections facility bed days used. Under the formula, the fiscal allocations for juvenile courts are established and communicated to the counties in May of the prior fiscal year to enable the counties to better plan and manage programming for the upcoming fiscal year. The RECLAIM allocation to each county is reviewed and revised, if needed, prior to the payments in July, January, and June to adjust for any changes or revisions in the prior year's bed day usage.

Courts may use the funds to purchase or develop a broad-based spectrum of community-based programs for youth who are at risk of becoming involved with the juvenile justice system as well as youth who have been adjudicated for a felony offense who would otherwise might have been committed to the custody of the Department. Such programs include day treatment, probation, electronic monitoring, home-based services, residential treatment reintegration, and transitional programs. For FY 2014 and FY 2015, DYS plans to allocate \$30.6 million annually in RECLAIM Ohio funding for local programs. These funds provide the juvenile courts with the tools needed to treat juveniles in the local communities where there is an increased probability of success (i.e., decreased recidivism).

During the audit, OIA identified opportunities for DYS to strengthen internal controls and improve business operations. This audit conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DYS 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 staff was engaged to perform an assurance audit related to the fiscal controls over the agency's RECLAIM program. This work was completed December 2013 through February 2014. The detailed objectives included:



Evaluate the design and effectiveness of the controls around the distribution of RECLAIM funding in accordance with the established formula.

Evaluate the design and effectiveness of the RECLAIM fund monitoring to meet applicable compliance requirements.

## **Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. One low risk observation was discussed with individual agency management and is not part of this report. However, the low risk observation was considered as part of the audit objective conclusions.

### **Observation 1 – Audit Approach & Methodology**

Revised Code defines responsibilities of DYS as a pass-through entity for grant awards. Those responsibilities include monitoring the expenditures financed with grant money. Fiscal monitoring should be augmented with risk assessments of the auditees prior to determining the appropriate level of monitoring needed.

DYS has not documented a risk-based approach to determine the extent, timing, nature, and frequency of how audits of the counties are to be conducted. Currently, the DYS Audit Administrator creates a subsidy grant audit cycle assignment document that lists the counties flagged as higher risk at the top of the audit plan. Issues noted by the program area or changes in county personnel may increase a county's risk level. Although risk level is annually assessed for all counties, it is not adequately documented.

Due to the DYS audit team's low staffing levels, counties are audited approximately every third year. This scheduling has created a somewhat predictable and patterned audit selection process. In addition, the audit scope only includes the most recently completed grant year.

Currently, DYS audit staff conduct monitoring during their audits of the counties, but they have not implemented a risk-based sampling approach for testing transactions. Sampling is used when testing payroll transactions; however, the audit staff tests 100% of non-payroll expenditure transactions for each county. Additionally, due to limited resources, DYS audit does not currently perform asset inventory testing on equipment and high dollar assets as part of their testing.

Utilizing a predictable audit schedule increases the risk of noncompliance, fraud, waste, and abuse by the counties. In addition, not utilizing an adequately documented risk-based audit selection methodology and utilizing the current comprehensive approach rather than a sampling approach of non-payroll expenditures increases the inefficiency of the audits.



### Recommendation

Revise the annual audit plan to include a documented risk assessment of all counties. Develop and implement routine monitoring standards and procedures for each county receiving RECLAIM funds based on results of the annual risk assessment.

Develop a risk assessment, in order to determine risk levels (high, moderate, low) at each county. Utilize the subsidy grant audit questionnaire to evaluate the internal controls in place. Assigned staff should also test to verify controls are in place and evidenced by county personnel. Results from the questionnaire will determine the level of the risk, which will also assist in determining sample sizes.

Some other factors to consider include:

- Findings or questioned costs on their most recent audit
- Significant deficiencies or material weaknesses observed in the past
- Funding a court was required to return to DYS (could be a cash management issue)
- Late submission of the court's program and expenditure reports
- Results or feedback from program monitor reviews
- High turnover in key positions since their last audit
- High volume of activity, or unusual purchases
- Other substantial change in the policies, processes, or personnel associated with the compliance requirement.

Rather than testing 100% of all non-payroll expenditures, implement a risk-based sampling approach to help reduce the time it takes to complete an audit. Also, incorporate testing of equipment and high dollar assets in the audit schedule to verify that the purchased assets are for the benefit of the RECLAIM program and in the court's possession.

### Management Response

Based on the following risk factors, all 88 counties are assessed and evaluated each year before audit selection is made:

- Length of time since the previous audit was conducted
- Turnover of court staff (i.e., Administrative Judge, Court Administrator, Subsidy Grant Coordinator, and/or Bookkeeper)
- Non-compliance issues with previous audit citations and exceptions
- Problems/concerns noted by the DYS Bureau of Subsidies and Grants Program Monitors



- Dollar amount of the grant

Although risk level may not be adequately documented, it is being assessed and evaluated annually among all 88 counties.

We note that non-payroll expenditures typically represent only approximately 15% - 20% of the annual, aggregate Subsidy Grant expenditures while the payroll related expenditures, which are currently being sampled, total approximately 80% - 85% of the annual, aggregate Subsidy Grant expenditures. The testing procedures currently utilized for the payroll related expenditures consist of the sampling of less than 4% of the expense activity. When considering this sample approach already in place for the largest portion of each grant; the infrequency of audits conducted; and the unique, program/line item driven nature of non-payroll expenditures within the Subsidy Grant, we believe that the established sampling procedures provide a reasonable, effective, and collectively efficient testing means for small to medium size grant allocations. For larger grant allocations having a comparatively higher quantity of non-payroll expenditures, however, we plan to develop and implement a sampling methodology based on the number of expense transactions.

While we agree that the physical ascertainment of fixed assets be incorporated within our testing procedures, due to our limited resources—as stated in the audit report—we believe any additional levels of testing beyond our current scope is not presently feasible. In spite of our limited resources, however, it is our intention to develop and incorporate this level of testing within our long-term plans.

We plan to develop a monitoring tool to evaluate the controls for each county’s current fiscal year. This will broaden our scope from auditing the most recently completed grant year. It is our intention to have this developed by May 22, 2014 and to have this implemented by July 31, 2014.

We plan to fully document our risk-based assessment model for audit selection purposes. We plan to incorporate the results of the current year monitoring efforts to aid in these risk assessment and audit selection processes. It is our intention to have this developed by May 22, 2014 and to have this implemented by July 31, 2014.

In addition to utilizing our established sample testing procedures for auditing payroll related expenditures, we plan to develop a sample methodology relative to the testing of higher quantity, non-payroll expenditures for larger grant allocations. It is our intention to have this developed by May 22, 2014 and to have this implemented by July 31, 2014.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Audit Administrator	July 31, 2014



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.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement 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>Major Improvement 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.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<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.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee