



# Department of Youth Services Juvenile Correctional Facilities Procurement Audit

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**Audit Period: December 2014 through March 2015**

## Results Summary:

Objective	Conclusion
Procurement of Goods and Services at the Juvenile Correctional Facilities	Improvement Needed

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Department of Youth Services (DYS) is a cabinet-level agency managed by a director appointed by the Governor. The Department's role is to enhance public safety through the confinement of juvenile felony offenders and the provision or support of various institutional and community-based programs to aid in the rehabilitation of delinquent juveniles. In order to perform that mission, the Department most notably:

- Finances the operation of four Juvenile Correctional Facilities (JCFs), including the privately run Paint Creek Youth Center;
- Operates five regional parole offices;
- Funds 12 county-operated community correctional facilities (CCFs);
- Funds a community residential treatment option for females in Cuyahoga County; and
- Distributes \$47.3 million annually to counties statewide for the purpose of supporting local residential and nonresidential treatments and sanctions used by county juvenile justice systems.

GRF funding is the most critical component affecting the Department's ability to deliver appropriate juvenile justice system services, financing around 90% of its total annual operating budget. The budget provides a total GRF appropriation of \$231.5 million and \$233.3 million in FY 2014 and FY 2015, respectively. The total FY 2014 GRF appropriation represents a \$6.7 million, or 3.0%, increase relative to the Department's FY 2013 expenditures. The total FY 2015 appropriation represents a \$1.8 million, or 0.8%, increase from the FY 2014 appropriation.

During the audit, OIA identified opportunities for the DHS to strengthen internal controls and improve business operations related to their procurement process. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DHS 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 controls over DHS's procurement process at the JCFs. This work was completed December 2014 through March 2015. The detailed objective is as follows:

- Evaluate the design and effectiveness of controls over procurement of goods and services at the JCFs.



## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations are discussed with individual agency management and are not part of this report, but they are considered as part of the audit objective conclusions. There were no low risk observations for this engagement.

### **Observation 1 – Noncompliance with Procurement Rules and Internal Policies**

Every agency should have in place an established process for initiating contracts and purchases. Policies surrounding this process provide safeguards for the agency and help ensure a variety of necessary measures, including proper approval, knowledge of requested assets, verifying necessity of purchases, and appropriate attainment of goods.

The Department of Administrative Services (DAS) – State Procurement manual provides requirements surrounding the purchasing and contract processes. State agencies may develop additional policies over these processes, but at minimum are required to adhere to the DAS requirements.

Prior to making a purchase, agencies are required to give first consideration to the following state resources:

- Department of Rehabilitation and Correction (DRC), Ohio Penal Industries (OPI) and Laboratory Services Division;
- DAS, Community Rehabilitation Programs (CRP);
- Department of Mental Health and Addiction Services (DMH), Office of Support Services (OSS);
- Opportunities for Ohioans with Disabilities (OOD); and
- DAS State Term Contracts and Schedules.

In addition, State Procurement rules require a purchaser to research the following items, prior to selecting a vendor:

- The Auditor of State (AOS) Findings for Recovery database;
- The Ohio Department of Transportation (ODOT) Suspended and Debarred listing; and
- The Secretary of State (SOS) registry of businesses licensed in Ohio.



Internal DYS policies and procedures require employees to complete the following when requesting a purchase:

- A Request to Purchase (RTP) or Payment Card Log and justification for the purchase noted on the applicable form;
- The 3-Bid Sheet for purchases over \$500;
- An 'MBE/EDGE Accountability Required Compliance Form' for all purchases over \$500;
- An email approval sent to the procurement administrator for purchases greater than \$10,000; and
- Research of the AOS Findings for Recovery database, including printing and maintaining documentation with purchase documents when a vendor is awarded a contract.

During testing and walk-throughs of the JCF's adherence to DAS requirements and DYS internal policies over procurement, we identified improvement opportunities, as well as commendable processes at the JCFs that may be beneficial to incorporate at all JCFs. We noted the following at each JCF:

### **Cuyahoga JCF:**

#### *Improvement Opportunities:*

- One out of fifteen (7%) transactions reviewed did not have an RTP associated with the transaction, approval documentation, or justification for the purchase.
- Thirteen transactions reviewed were required to have the MBE/EDGE Accountability Required Compliance Form attached; however, the form was not completed for three of them (23%).
- Proof of searching the Suspended and Debarred Listing and the Secretary of State website was not documented.
- Does not regularly contact or document email correspondence with the Procurement Administrator for purchases greater than \$10,000 as stated in the DYS policy.

#### *Commendable Processes:*

- The Business Office places the RTP form on their shared drive (O:Drive) for staff to obtain and complete electronically.
- The Business Manager requests proof that the MBE and EDGE vendor search was performed if the employee states MBE and EDGE vendors were not available.
- The current Business Manager ensures that all hotel stays are accompanied with an RTP



stating the purpose of the travel.

## **Circleville JCF:**

### *Improvement Opportunities:*

- Fifteen of 15 (100%) transactions reviewed did not have an RTP associated with the transaction or justification for the purchase.
- One of one (100%) transactions reviewed that met the criteria to utilize the 3-Bid Sheet did not utilize the 3-Bid Sheet.
- One out of 13 (8%) transactions reviewed did not have a Receiving Report from the Store Room to show receipt of the items.
- Thirteen of 13 (100%) transactions reviewed were required to have the MBE/EDGE Accountability Required Compliance form attached; however, the form was not completed for any of them.
- Proof of searching the Suspended & Debarred Listing and the Secretary of State website was not documented.
- Does not contact the Procurement Administrator via email for purchases greater than \$10,000 as stated in the DYS policy.

## **Indian River JCF:**

### *Improvement Opportunities:*

- Five out of 15 (33%) transactions reviewed did not have a RTP associated with the transaction or justification for the purchase.
- Two of two (100%) transactions reviewed that met the criteria to utilize the 3-Bid Sheet did not utilize the 3-Bid Sheet.
- One of 14 (7%) transactions reviewed did not have a Receiving Report from the Store Room to show receipt of the purchase.
- Twelve transactions reviewed were required to have the MBE/EDGE Accountability Required Compliance Form attached; however, the form was not completed for 11 (92%) of them. The JCF periodically utilizes an RTP form containing boxes to check if the purchase was MBE, EDGE, or neither.
- Two out of three (67%) transactions reviewed did not provide proof that the AOS Findings for Recovery database was checked.
- Proof of searching the Suspended and Debarred Listing and the Secretary of State website was not documented.



- Documentation and support for one of the 15 (7%) transactions selected was unable to be located.
- Does not contact the Procurement Administrator via email for purchases greater than \$10,000 as stated in the DYS policy.

*Commendable Processes:*

- The Fiscal Officer has the purchasing employees access the RTP form via the Intranet to initiate the purchasing process.

**All JCFs:**

There were three instances noted where coding errors occurred when transactions were entered into the state financial system (OAKS.) The transactions were posted to the correct JCF department code, but the “voucher origin description” was associated with an incorrect JCF. Per discussion with the JCFs and Central Office, this appears to occur when Ohio Shared Services (OSS) is entering the information in OAKS.

If the DAS and DYS policies and procedures and communication protocols in place are not adhered to, the agency is not only subject to legal risk, but it may lead to:

- Unauthorized or invalid purchases
- More qualified vendors or better priced options being overlooked;
- Errors and manipulation; and
- Lack of consideration of qualified or potential MBE/EDGE vendors.

**Recommendation**

Central Office should communicate and provide training to the JCFs to ensure the Business Offices are aware and understand the procurement rules; particularly that the state term contracts and emergency purchases still require the MBE/EDGE Accountability Required Compliance Form for all purchases over \$500, and purchases greater than \$10,000 require an email for approval sent to the Procurement Administrator.

Consider utilizing the DAS Compliance Procurement Checklist or establishing a checklist that each purchaser should follow and check-off as tasks are completed to ensure all documentation is provided and appropriate steps are taken.

Central Office should also consider performing periodic monitoring of non-payroll expenditures at the JCFs. An analysis of the transactions could be performed to look for anomalies and unusual activity as well as validating that required documentation is completed and maintained.

Examples of analysis criteria could include identifying transactions that have the following:



- Coding errors,
- Possible purchases lacking Central Office approval, and
- Appropriate forms not completed (i.e. 3-Bid Sheet, MBE/EDGE form, etc.).

**Management Response**

New fiscal policies were released on January 1, 2015. Many of these policies had not been updated in several years.

The staff within all DYS business offices was trained on the new fiscal policies at a Business Managers meeting held on December 8, 2014.

A reminder email will be distributed to all business office personnel along with the purchasing policy for review. This will also include a reminder of when to use the MBE/EDGE accountability compliance form and when purchases greater than \$10,000 should be routed to central office for pre-approval.

The Department will also examine the use of the DAS compliance procurement checklist as a means to assure that all purchasing documents are included.

The Department will also schedule routine purchasing compliance checks throughout the year to assure all facilities are following set policies. The initial sample will occur by the end of March, then on a quarterly basis.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Procurement Administrator	April 2015

**Observation 2 – Uploading Assets into Asset Management System**

The DYS Asset Management Policy:

Requires all assets to be maintained in the OAKS Asset Management System (AMS). It also requires all assets to be affixed with at least one bar code inventory label and an asset identification tag within 15 days from the date received by the site.

Defines tangible personal property as items donated or purchased on behalf of the agency with an initial estimated useful life of two years or more and is neither consumed nor expended during its useful life. Examples include machinery equipment, non-licensed vehicles, furniture, fixtures, firearms, and information technology hardware and components.

Requires the site (JCF) Asset Management Coordinator to record and maintain all site



inventoried assets in the OAKS Asset Management System (AMS) in a timely manner. Each asset record is required to be assigned to an appropriate asset major or sub-class recognized by DAS and OBM.

During testing, walk-throughs, and discussions with the three Juvenile Correctional Facilities (JCFs), it is evident that not all assets are being tagged and maintained in AMS, and not all assets that are tagged are being done in a timely manner.

**Cuyahoga JCF:**

One of one (100%) transaction reviewed that met the classification of an asset was not recorded in OAKS Asset Management System (AMS). A refrigerator was purchased in October 2014, but had not yet been tagged or maintained in OAKS AMS. The Business Manager is currently the only employee that has received the AMS training and has the ability to tag and upload assets in OAKS AMS.

**Circleville JCF:**

Two of the fifteen transactions selected met the criteria of an asset to be tagged and maintained in OAKS AMS, and one of the two (50%) was not tagged or maintained in OAKS AMS. Furniture that was that more \$1,000 per item purchased in November 2014 was not tagged or maintained in OAKS AMS. A golf cart purchased in August 2014 was not tagged or uploaded in OAKS AMS until February 14, 2015. The Store Room staff are currently the only individuals that have received the AMS training and have the ability to tag and upload assets in OAKS AMS.

Failure to regularly tag and maintain assets in OAKS AMS in a timely manner as stated in the DYS Asset Management Policy increases the risk of inaccurate financial reporting and/or misappropriation of assets.

**Recommendation**

Central Office should communicate and provide training to the JCFs to ensure the Business Offices are aware and understand the asset management rules; particularly that JCFs review the agency Asset Management Policy to ensure appropriate assets are being tagged and maintained in OAKS AMS as stated in the policy.

Central Office should also consider periodically sampling asset-related purchases at each JCF to ensure assets are being tagged and maintained according to their policy and reinforcing the importance of timely tagging and maintaining of assets.

It may be beneficial to ensure that more than one person at each JCF has the appropriate training and access role to tag and maintain assets in OAKS AMS in the event that employee turnover occurs.



Management Response		
<p>New fiscal policies were released on January 1, 2015. Many of these policies had not been updated in several years.</p> <p>The staff within all DYS business offices was trained on the new fiscal policies at a Business Managers meeting held on December 8, 2014.</p> <p>A reminder email will be distributed to all business office personnel along with the asset management policy for review.</p> <p>The Department will also schedule routine asset management compliance checks throughout the year to assure all facilities are following set policies which will include training of multiple personnel at each facility. The initial sample will occur by the end of March, then on a quarterly basis.</p> <p>Additionally, each facility will identify at least two people to have the appropriate training and access role to tag and maintain assets in OAKS AMS.</p>		
Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Procurement Administrator	April 2015

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