



**Department of Rehabilitation and  
Correction  
Community Residential Programs  
Grants Management Audit**

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**Audit Period: December 2015 through March 2016**

**Results Summary:**

<b>Objective</b>	<b>Conclusion</b>
<b>Awarding Process</b>	<b>Improvement Needed</b>
<b>Monitoring Process</b>	<b>Improvement Needed</b>
<b>Communication and Reporting Processes</b>	<b>Improvement Needed</b>

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



## **Executive Summary**

### **Background**

The Department of Rehabilitation and Correction (DRC) can be viewed as the administrator of a felony sanctioning system comprised of three relatively distinct components: (1) reception centers where inmates are assessed and assigned to the appropriate correctional institution, (2) a large, multi-location physical plant in which inmates are housed, secured, and serviced, and (3) a variety of release mechanisms through which inmates are returned to the community and potentially subject to state supervision and control by the Adult Parole Authority. DRC also manages a system of community control sanctions (supervision and control services, halfway house beds, and subsidies) that provide judges with a range of sentencing options that reduce or eliminate the time that offenders spend in prison or jail.

DRC distributes General Revenue Fund (GRF) monies for Community Residential Programs in the form of grants to contracted Community Based Correction Facilities (CBCFs) to operate community sanctions programming for felony offenders in lieu of prison. The CBCFs can be formed by counties or groups of counties with populations of 200,000 or more. These facilities exist for the diversion of nonviolent felony offenders from state prison and are operated by facility governing boards, which are advised by judicial advisory boards. The CBCFs provide the Common Pleas Court with an effective community sanction so as to reduce prison overcrowding, and to provide services to offenders so as to reduce the probability of recidivism.

The state provides 100% of the financing for the construction, renovation, maintenance, and operation of these residential facilities, each of which house up to 250 felony offenders and offer services such as education, job training, and substance abuse treatment as an alternative to incarceration.

The recommended appropriation for FY 2016 was \$74,491,705, an increase of \$5,038,250, or 6.8 percent from the estimated FY 2015 expenditures of \$69,453,455. The recommended appropriation for FY 2017 is \$78,329,955, an increase of \$3,838,250 or 5.1 percent, from the FY 2016 recommendation. The total number of available CBCF beds stands at 2,583, permitting the diversion of approximately 7,749 felony offenders annually with an average length of stay of around four months. Currently, there are 18 operational CBCFs providing beds to all 88 counties.

During the audit, OIA identified opportunities for DRC to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DRC 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 DRC's grants management process over Community Residential Programs. This work was completed December 2015 through March 2016.

The following summarizes the scope and objectives of the review:

- Evaluate the design and effectiveness of the controls around the awarding of funding to the Community Residential Programs.
- Evaluate the design and effectiveness of the controls around the monitoring of Community Residential Programs.
- Evaluate the design and effectiveness of the controls around the communication and reporting by the Community Residential Programs.

## Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. There were no low risk observations identified during the engagement.

### Observation 1 – Monitoring and Reporting

DRC's Bureau of Community Sanctions (BCS) is the administrator of CBCFs.

An effective program includes periodic monitoring and review to help ensure compliance with program guidelines and expectations. Periodic reviews should be conducted to help identify noncompliance within the program. A reviewer must have adequate information to complete the review. However, the BCS does not have the following monitoring procedures to ensure the CBCFs comply with program requirements:

a) Internal Annual Program Reports: According to Ohio Administrative Code (OAC) § 5120:1-5-04, § 5120:1-14-10, and DRC-BCS policy, the CBCFs' responsibilities include conducting an internal audit of all standards, documenting findings within the BCS Performance-Based Standards Checklist, and submitting it to BCS management through the Intelligrants system within 60 days of fiscal year-end. However, the CBCFs do not regularly complete the reports. OIA selected SEPTA Correctional Facility and STAR Community Justice Center to verify that the Annual Program Report was filed. Neither SEPTA nor STAR had submitted an Annual Program Report in the previous two fiscal years. The BCS does not regularly follow-up on missing reports and does not complete reviews of the reports that are submitted. Also, the



BCS does not have a documented process in place for reviewing and following-up on late reports. Furthermore, the CBCFs are to upload the reports to Intelligrants as “Miscellaneous” instead of to a specific location.

*b) Sampling Receipts:* It is a best practice to regularly monitor expenditure receipts throughout the year to ensure expenditures are allowable and align with the CBCF Program objectives. However, the BCS relies solely on the Ohio Auditor of State (AOS) to perform fiscal monitoring by sampling receipts during the Bi-Annual Financial Audits over the CBCFs to ensure program expenditures are allowable. The AOS audits, although useful, are not conducted to timely detect unallowable and inappropriate expenditures.

*c) Quarterly Fiscal Reports:* According to grant agreements, the CBCFs are required to prepare quarterly financial reports and submit the reports to BCS within 10 days of the end of each quarter. The CBCFs should upload supporting expenditure ledger documentation for the reports into the Intelligrants system. The BCS grant analysts are responsible for ensuring that reports are submitted, reviewed, and traced to supporting documentation provided by the CBCFs. However, the reviews are not evidenced as Intelligrants does not allow edits/tickmarks to the documents uploaded by the CBCFs. Additionally, one of two CBCFs selected for review (STAR Community Justice Center) submitted additional supporting documentation via email that was not uploaded to Intelligrants.

*(d) Admission Criteria Data:* According to OAC § 5120:1-14-09, the grant agreement between BCS and the CBCFs may identify an acceptable percentage of felony offenders committed to the CBCF during each quarter of the grant period that do not satisfy any of the admission criteria. This percentage is referred to as the “CBCF deviation cap”, and shall not exceed 10 percent of the total number of offenders committed to the CBCF during each quarter of the grant period. If the percentage exceeds the CBCF deviation cap, DRC shall promptly inform the grant recipient that two or more consecutive quarters of exceeding the CBCF deviation cap will result in a reduction in the grant amount. CBCFs compile Admission Criteria Reports (ACR) from all their intake files each quarter and indicate any deviations. However, the BCS does not verify the offender data submitted by the CBCFs, specifically the “most serious commitment level” of the admitted offenders to ensure that the deviations in the ACRs are accurate.

*e) 1/12<sup>th</sup> Account / Fiscal Monitoring:* According to the grant agreement, CBCFs are allowed to carry over 1/12<sup>th</sup> of the total grant award amount to the next state fiscal year, and anything in excess of 1/12<sup>th</sup> of the grant award is due back to BCS. If the CBCF’s ending cash balance exceeds 1/12<sup>th</sup> of the grant award amount, then the BCS invoices the CBCF in Intelligrants for the excess amount. The BCS does not monitor to ensure that CBCFs are performing monthly reconciliations to verify that monthly ending cash balances are correct and in order to ensure the 1/12<sup>th</sup> balance that is carried forward is accurate. Instead, the BCS relies on the AOS to perform fiscal monitoring over the CBCFs to verify they are performing cash reconciliations and ending balances are accurate. Additionally, the BCS’ review of the CBCFs’ 1/12<sup>th</sup> balance is not



evidenced. According to the AOS Bi-Annual Financial Report for SEPTA Correctional Facility, the 1/12<sup>th</sup> balance was exceeded and money was due back to BCS in the amounts of \$117,856 for fiscal year 2013 and \$78,206 in fiscal year 2014. BCS did not detect that SEPTA had balances in excess of 1/12<sup>th</sup> of the grant award prior to the AOS report. The AOS audit report also noted that SEPTA had not performed cash reconciliations for several months, resulting in inaccurate ending cash balances.

f) Documenting Communication: Once the BCS invoices the CBCFs for amounts in excess of the allowable 1/12<sup>th</sup> balance, it is the responsibility of the assigned grant analyst to follow-up with the CBCF to collect the invoiced funds due. The grant analysts communicate with the CBCFs to follow up with invoiced funds due through email and phone calls. However, there is not a process in place to document communication to recover funds due.

g) Monitoring Deadlines: According to DRC policy and Ohio Revised Code (ORC) § 5120.01, CBCFs are required to submit ACRs within 10 days of the end of each quarter. Quarterly Fiscal Reports are due within 30 days of the end of each quarter, Annual Program Reports are due within 60 days of the end of the fiscal year, and Plans of Action (POA) are due within 30 days of a BCS request. However, the BCS does not have standards or guidelines for audit staff to track whether reports are submitted by CBCFs and if deadlines are met even though BCS has the ability to run a report from Intelligrants to identify outstanding reports. Instead, each audit staff and grant analyst must independently track receipt of reports, which may include written notes or spreadsheets.

h) Reviewing Financial Reports: As stated in the grant agreement, CBCFs shall prepare a final year-end financial report and submit an Annual Auditor of State (AOS) report to the Grantor. The report should be submitted to DRC by October 10<sup>th</sup> of the following fiscal year. The CBCFs are permitted to have Bi-Annual Financial Reports or an Agreed Upon Procedures (AUP) audit if the CBCF meets the AUP qualifications. However, the BCS does not have documented policies and procedures in place for reviewing CBCFs' Bi-Annual Financial Reports submitted to the AOS. Additionally, the BCS does not regularly review and follow-up on issues noted in the AOS audit reports or management letters, which resulted in the BCS not detecting amounts due from SEPTA as noted in the AOS audit report. See (e) above.

Failure to have monitoring procedures to ensure CBCFs timely submit required reports increases the likelihood that CBCFs do not comply with program requirements and that program objectives and performance based outcomes are not achieved. Lack of timely fiscal monitoring of CBCFs increases the likelihood that unallowable or inappropriate expenditures are not detected or that CBCFs carry forward balances in excess of 1/12<sup>th</sup> of grant awards. Overall, lack of uniform processes to evidence monitoring reviews, follow-up on issues, document communication, and track supporting documentation reduces the BCS' ability to efficiently and effectively administer community residential programs.



### Recommendation

- a) Internal Annual Program Reports: Develop, document, and implement a process to identify persons responsible for ensuring that CBCFs complete and submit their Internal Annual Program Report and follow up procedures are completed for missing reports. Review procedures should be established stating the level of review, as well as ensuring that reviews are evidenced in Intelligrants. Continue to work with the Intelligrants vendor to create a specific location for the CBCFs to upload reports.
- b) Sampling Receipts: Select a sample of receipts for each CBCF during the current year and review documentation to determine if expenditures are allowable. Address areas of noncompliance and maintain evidence of reviews.
- c) Quarterly Fiscal Reports: Develop, document, and implement a procedure for reviewing reports and supporting documentation. Require supporting documentation, such as a spreadsheet or scanned PDF with tickmarks providing evidence of review and accuracy of the reports. Grant analysts should ensure that all supporting documentation received outside of Intelligrants is timely uploaded.
- (d) Monitoring of Admission Criteria Data: Develop, document, and implement guidelines for grant analysts to follow for sampling and performing spot checks on the ACRs. The guidelines should include, but not be limited to sample size, data fields to review, and how/where to document reviews. BCS should select a sample of closed offender files from each CBCF and review the data to ensure that the deviations are accurate. The evidence of the sample and the results of testing should be maintained by BCS.
- e) 1/12<sup>th</sup> Account / Fiscal Monitoring: Develop, document, and implement fiscal monitoring during the grant year to ensure that CBCFs are reconciling cash balances in order to identify if the 1/12<sup>th</sup> balance is exceeded. This may be achieved by having CBCFs upload their monthly reconciliations in Intelligrants. Grant analysts should document their review of the 1/12<sup>th</sup> balance to detect and invoice CBCFs for excess balances.
- f) Documenting Communication: Develop, document, and implement a procedure for documenting all communication between grant analysts and CBCFs when attempting to collect invoiced funds. This may be achieved by creating a spreadsheet in a centralized location that provides a snapshot of each communication (date, type of communication, purpose, CBCF's response, etc.).
- g) Monitoring Deadlines: Establish a uniform tracking method for audit staff and grant analysts to follow to track and monitor required report submissions, deadlines, and POAs. Consider creating a spreadsheet in a centralized location that is a repository dashboard/snapshot of all reports that are outstanding, due dates, and any communication associated with attempts to



obtain the reports.

h) Reviewing Financial Reports: Develop, document, and implement procedures for obtaining and reviewing CBCFs' Bi-Annual Financial Reports submitted to AOS. Procedures should include contacting AOS to obtain and review Management Letter comments which are not included as part of the public report. Follow-up with CBCFs on key issues noted in the audit reports related to the Community Residential Program to obtain a POA. Require CBCFs to upload financial reports and Management Letter comments to Intelligrants.

## Management Response

- a) BCS will request an enhancement to our grant management system (Intelligrants) to incorporate an "Annual Report/Program Analysis" page within the Miscellaneous section of a CBCF application. This will be a uniform location for a CBCF to upload their annual program analysis. CBCF staff will be required to upload their annual program analysis report with their year-end (YER) fiscal report via Intelligrants. The appropriate BCS Grant Analyst will confirm the submission of the report and whether or not it contains all of the elements that are statutorily required by adding a note to the YER. If a program analysis does not contain all of the necessary elements, the YER will be sent back for modification with direction to modify the program analysis accordingly. The projected timeline for incorporating the system and process modifications is 7-1-16. The CBCF Grant Manual will be updated to reflect this process change.
- b) BCS will request CBCFs to provide a sampling of highlighted receipts for at least one quarter during the grant period. BCS grant staff will conduct a review of receipts either remotely or on-site at the CBCF facility. BCS grant staff will complete a "financial review" site visit report via Intelligrants to document the findings. This process change will be incorporated by 9-30-16 and process implementation will begin during FY17. The system enhancement will be fully developed, tested and migrated to the live site by 12-30-16. All reviews will be documented via this site visit type for all reviews conducted during FY18. The CBCF Grant Manual will be updated to reflect this process change.
- c) BCS will request that CBCFs provide supporting documentation with their quarterly financial report. The supporting documentation that directly ties to the quarterly fiscal report shall be highlighted by the appropriate CBCF staff before submission. BCS grant staff will be required to put notes on each quarterly financial report within Intelligrants verifying their review of the report. The process implementation associated with this item will be complete by 10-30-16. The CBCF Grant Manual will be updated to reflect this process change.
- d) BCS auditor staff will verify the information contained on CBCF Admission Criteria Reports (ACR) annually via audit or site visit. This will be done by BCS Audit staff randomly



selecting names on the ACR and comparing the information with conviction information. The BCS audit finding related to the requirement will be noted on the audit or site visit report.

- e) BCS Grant staff will verify the CBCF 1/12th account balance through the review and approval of the Year End Report submitted via Intelligrants. This verification will include a review of the grant award amount, receipts and other supporting documentation submitted by the CBCF. The designated BCS Grant Staff will verify cash balances are accurate through review of each Quarterly Fiscal report to include county records. Documentation of this review will be made via a note on the fiscal report within Intelligrants. The process implementation associated with this item will be complete by 10-30-16.
- f) BCS grant staff currently send invoices to CBCF programs via Intelligrants based on the CBCF year-end report. Currently, only 70% of unspent funds in excess of the 1/12th account are invoiced pending the outcome of the Auditor of State (AOS) report. BCS grant staff currently have the ability to run reports via Intelligrants to determine the status of a CBCF invoice. In order to better monitor any additional unspent funds identified via the AOS report, BCS will request an enhancement to Intelligrants that will add an additional status for "final invoice required". All communication between BCS grants staff and CBCF programs regarding invoiced funds will be documented via notes in Intelligrants. Information contained within any note will include the date of the contact, the person contacted and a brief summary of the interaction to include any direction provided. The process implementation associated with this item will be complete by 10-30-16 and will initially be tracked via a spreadsheet on the BCS shared drive. The system enhancements will be fully operational to include the above referenced additional status by 7-1-17.
- g) Any communication between BCS grant staff/audit staff and a CBCF program regarding the need to submit a report or plan of action (POA) will be documented via notes in Intelligrants. Information contained within any note will include the date of the contact, the person contacted and a brief summary of the interaction to include any direction provided. ACR deadlines will be monitored via the ACR spreadsheet maintained on the BCS shared drive. This spreadsheet will be modified to include a column for submission date. BCS grant staff and supervisory staff can reference this spreadsheet to determine if there are any past due reports. Other reports such as quarterly fiscal reports will be monitored for completion by BCS grant staff via running status reports within Intelligrants. BCS supervisors also have the ability to run these reports to verify completion status. The process implementation will be complete by 7-1-16.
- h) BCS auditors are currently reviewing AOS reports during CBCF audits or site visits and documenting findings via the CBCF specific audit standard or site visit report. A POA will be required if any CBCF has failed to correct a fiscal finding indicated in the most recent AOS report. Upon receipt of the AOS report, the designated CBCF staff shall upload the



report along with the AOS Management Letter Comments into Intelligrants. Specifically, these documents shall be uploaded to the General Correspondence page of the CBCF application under the subsection “Miscellaneous Documents”. The process implementation will be complete by 7-1-16.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Bureau of Community Sanctions Chief	July 2017

### Observation 2 – Methodology for Calculating Grant Award Amounts

DRC’s BCS allocates and distributes GRF monies for Community Residential Programs in the form of grants to 18 CBCFs to operate community sanction programming for felony offenders in lieu of prison. BCS annually administers non-competitive grants to fund the operations of the CBCFs. The grants are awarded annually and disbursed quarterly to the CBCFs.

Utilizing a systematic approach for determining funding of grant awards helps to ensure the amount of funding provided is appropriate for each grantee. This would also help to ensure that the funding is maximized and in line with program goals and objectives.

BCS does not have a formal documented methodology to determine the grant award amount for each CBCF’s Community Residential Program. DRC grants approximately \$72 million to the CBCFs annually. The award amounts are generally based off of the prior year’s award amount and can take into consideration bed usage and cost per offender.

Not having a formal documented methodology to determine grant award amounts can lead to disproportionate amounts to the services provided and potential for misspent public funds.

#### Recommendation

Develop, document, and implement a formal methodology to determine the grant award amount for each CBCF’s Community Residential Program on an annual basis. Consider prior year BCS and Auditor of State audit results and findings, CBCF performance, recidivism rates, bed usage, cost per offender, etc. when determining grant award amounts. Explore the option of developing a formula that calculates the awarded allocations. The formula could take into consideration an average of several previous year’s admitted offenders, number of bed days, average cost per offender, and total award available for allocation.

#### Management Response



The Bureau of Community Sanctions (BCS) will develop and document within its grant manual the formal methodology in determining the grant award amount for Community Based Correctional Facility (CBCF). The methodology will consider the following factors:

- Size of the facility and Number of Funded beds
- Prior year’s cost per diversion (grant award divided by number of intakes)
- Location of facility (rural vs. urban) and other costs related to the location and operation of the facility
- Each facilities cost per diversion compared to the average cost per diversion for all facilities
- BCS audit results
- DRC recidivism report
- Amount of funding available
- Demonstrated need and justification documents submitted by the facility
- DRC priorities
- Data and trends regarding prison commitments by gender, crime type or other category from counties within each facilities catchment area
- A facilities bed utilization throughout the prior Fiscal Year
- Auditor of State fiscal report results and findings
- Prior year’s funding amount
- Expansion of beds or services at the facility
- Any additional relevant information

DRC will consider each of these factors in determining a fair distribution of the funds available to operate the State’s 18 CBCFs. The BCS Chief and staff will determine the recommended funding amounts which will be approved by the DRC Appointing Authority.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Bureau of Community Sanctions Chief	April 2016

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