



# Mary Taylor, CPA

## Auditor of State

December 23, 2009

The Honorable Ted Strickland, Governor  
The Honorable Armond Budish, Speaker, Ohio House of Representatives  
The Honorable Bill Harris, President, Ohio Senate, and  
Mr. William Shkurti, Chairman of the State Audit Committee

This communication is provided pursuant to the parameters of the 2009 Office of Management and Budget (OMB) pilot project. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, prior to the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through December 22, 2009, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

In planning and performing our audit through December 22, 2009, of the Unemployment Insurance Program and the Highway Planning and Construction Cluster, we are considering the State of Ohio's compliance with activities allowed or unallowed, allowable costs and cost principles, cash management, eligibility, reporting, and special tests and provisions as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2009. We are also considering the State of Ohio's internal control over compliance with the requirements previously described that could have a direct and material effect on the Unemployment Insurance Program and the Highway Planning and Construction Cluster in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Ohio's internal control over compliance.

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through December 22, 2009, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the items described in the accompanying schedule of findings to be significant deficiencies.

A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the identified deficiencies in internal control over compliance to be material weaknesses.

The State of Ohio's responses to the findings we identified are described in the accompanying schedule of findings. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them.

This interim communication is intended solely for the information and use of management, the State Legislature, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Mary Taylor, CPA**  
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December 23, 2009

- C: Sally Cooper, Special Assistant for Federal Stimulus Implementation, Office of the Governor
- Doug Lumpkin, Director, Ohio Department of Job & Family Services
- Jolene M. Molitoris, Director, Ohio Department of Transportation
- J. Pari Sabety, Director, Ohio Office of Budget and Management

**STATE OF OHIO  
INTERIM COMMUNICATION THROUGH DECEMBER 22, 2009  
SCHEDULE OF FINDINGS**

**OHIO DEPARTMENT OF JOB & FAMILY SERVICES**

**1. UNEMPLOYMENT INSURANCE – ARRA FUNDS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

<i>Finding Number</i>	2009 Pilot-JFS01-001
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor
<i>Compliance Requirement</i>	Special Tests and Provisions

SIGNIFICANT DEFICIENCY

2 CFR § 176.210, states in part:

...

(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. ... This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards (SEFA) submitted to the Ohio Office of Budget and Management (OBM) is in compliance with the above requirements. Sound internal controls would require a review of the Federal Schedule be performed and documented in some manner, prior to submission, to verify the information the Department reported is accurate and complete. A strong internal control system helps ensure compliance requirements are properly addressed and provides for evidence and documentation of how compliance requirements are being addressed.

The Ohio Department of Job and Family Services (ODJFS or the Department) did not accurately identify the expenditure of federal Unemployment Insurance (UI) awards (CFDA # 17.225) made under the American Reinvestment and Recovery Act (ARRA) on their initial Schedule of Expenditures of Federal Awards. The Department expended over \$350 million in ARRA funds for UI benefit payments and administrative purposes during state fiscal year 2009. However, on the original SEFA submitted to OBM, the Department only accounted for a total of \$37 million in UI ARRA expenditures, with a majority of the ARRA-funded benefit payments incorrectly combined with the Department's non-ARRA benefit payments. As a result, the initial Schedule of Expenditures of Federal Awards underreported ARRA expenditures and over-reported non-ARRA expenditures by approximately \$313 million.

This error occurred because the Department had not implemented controls over the SEFA-reporting of UI ARRA expenditures. The amounts reported on the SEFA for all UI benefits expenditures are derived from reports submitted by the Office of Unemployment Compensation to the Office of Fiscal and Monitoring Services (OFMS). These reports had not yet been adjusted to account for ARRA vs. non-ARRA benefits payments. Furthermore, the Office of Fiscal and Monitoring Services did not verify the amounts shown as UI ARRA funding on the SEFA with the Office of Unemployment Services prior to submitting the schedule to OBM.

**STATE OF OHIO  
INTERIM COMMUNICATION THROUGH DECEMBER 22, 2009  
SCHEDULE OF FINDINGS**

**OHIO DEPARTMENT OF JOB & FAMILY SERVICES**

**1. UNEMPLOYMENT INSURANCE – ARRA FUNDS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

Without established controls designed to help ensure all expenditures are reported accurately and completely on the SEFA, the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated is significantly increased. This, in turn, may result in a reduction in program funds and/or fines and penalties from the federal grantor agency. While OFMS was able to identify and did segregate ARRA vs. non-ARRA UI on its accounting records, based on discussions with ODJFS management, applicable controls for reporting ARRA expenditures on the SEFA had not been implemented due to the newness of the ARRA legislation.

We recommend management implement control procedures to provide reasonable assurance that ARRA information reported on the Schedule of Expenditures of Federal Awards is accurate, complete, and properly separated. The controls identified should be adequately documented to provide management assurance they are performed timely and consistently. These controls should also require proper communication between individuals completing the Schedule and the program areas familiar with the expenditure activity.

**STATE OF OHIO  
INTERIM COMMUNICATION THROUGH DECEMBER 22, 2009  
SCHEDULE OF FINDINGS**

**OHIO DEPARTMENT OF TRANSPORTATION**

**1. NOTIFICATION OF ARRA FUNDING AMOUNT TO SUBRECIPIENTS**

<i>Finding Number</i>	2009Pilot-DOT01-002
<i>CFDA Number and Title</i>	20.205/23.003 – Highway Planning and Construction Cluster
<i>Federal Agency</i>	Department of Transportation
<i>Compliance Requirement</i>	Special Tests and Provisions

SIGNIFICANT DEFICIENCY

2 CFR Section 176.210, Award term – Recovery Act Transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for informing Subrecipients, states, in part:

....

(c) Recipients agree to separately identify to each subrecipient and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

....

It is management's responsibility to design, document and implement policies and procedures to reasonably ensure the amount of American Reinvestment and Recovery Act (ARRA) funding is communicated to subrecipients at the time of award and disbursement, and the Department is in compliance with laws and regulations pertaining to ARRA.

During state fiscal year 2009, the Ohio Department of Transportation (DOT or the Department) reported approximately \$1.158 billion in expenditures for the Highway Planning and Construction Cluster, \$118,307 of which related to ARRA funding spent on DOT-let construction projects. However, the U.S. Department of Transportation – Federal Highway Administration (FHWA) is expected to pass-through approximately \$935.7 million in Highway Planning and Construction program ARRA funding to the Department for the purpose of building, maintaining, and preserving bridges, roadways, and other infrastructure subsequent to June 30, 2009. DOT historically disburses approximately 10% of total expenditures to Local Participating Agencies (LPA), subrecipients who administer these projects. In these instances, DOT enters into an agreement with the LPA to administer the project. DOT has amended their LPA agreement document to make LPAs aware of projects funded through ARRA and the ARRA regulations. However, as of the date of this report, DOT did not have procedures in place to identify to the LPAs the amount of ARRA funding included in each disbursement at the time of disbursement of funds. DOT personnel did identify the need for such procedures and have indicated they are in the process of making the necessary changes. Approximately \$13 million has been paid to the LPA's between July and December 2009 (fiscal year 2010).

**STATE OF OHIO  
INTERIM COMMUNICATION THROUGH DECEMBER 22, 2009  
SCHEDULE OF FINDINGS**

**OHIO DEPARTMENT OF TRANSPORTATION**

**1. NOTIFICATION OF ARRA FUNDING AMOUNT TO SUBRECIPIENTS (Continued)**

Without policies and procedures in place to identify the amount of ARRA funding to the LPA, the Department increases the risk of noncompliance with applicable laws and regulations. In addition, if ARRA funding information is not communicated to the subrecipient at the time of disbursement, there is an increased risk of improper use and improper coding of the disbursement at the LPA level. Ultimately, this could affect the amount of ARRA funding included on Federal reports required to be submitted at the subrecipient level. The Department indicated that compliance with ARRA regulations is extremely important to them and that steps have already been taken to correct this issue.

We recommend the Department continue to develop policies and procedures to specifically address the new regulations required by the Recovery Act. Specifically, the Department should implement a procedure to identify ARRA funding at the time of disbursement to subrecipients. We also recommend management monitor the process to ensure policies and procedures are being consistently followed.