

# Internal Audit Report

Cuyahoga County, Ohio  
Department of Internal Auditing

**Subrecipient/Provider Monitoring Audit  
Invest in Children/Office of Early Childhood  
August 1, 2017 – July 31, 2018**

**Director of Internal Auditing: Cory A. Swaisgood, CPA**

**Audit Manager: Rose Karam, CFE, CIA**

**Staff Auditors: Tom Schneider, CPA  
Tim Verba**



# Audit Report Highlights

**Invest in Children – Subrecipient/Provider Monitoring Audit** **March 2019**

**Total Potential Recoveries<sup>1</sup> = \$55,308** **Total Cost Savings<sup>2</sup> = None**

**Average Annual IIC Budget<sup>3</sup> = \$17.5 million** **County Annual Budget<sup>3</sup> = \$1.4 billion**

## Why DIA Did This Audit

This report provides the Department of Internal Audit’s (DIA) results and recommendations related to monitoring, internal controls and operational procedures in place around Invest in Children/Office of Early Childhood’s (IIC) subrecipient/provider (provider) monitoring during the audit period of August 1, 2017 through July 31, 2018. As part of the 2018 audit plan, DIA selected to audit IIC’s monitoring controls and procedures. The purpose of this audit was to:



- 1) Ensure IIC had monitoring controls in place and the controls were functioning as intended.
- 2) Ensure providers were meeting their contractual requirements.
- 3) Confirm accurate disbursement of funds, invoices appeared reasonable and properly approved, support documentation was complete, and transactions were in accordance with all governing policies, contracts, laws and regulations.

## What DIA Found

DIA performed audit procedures on provider contracts and monitoring controls in place during the audit period. Specifically, DIA tested 120 payments to providers to ensure completeness of supporting documentation. DIA identified control weaknesses related to invoice review and report monitoring. We found recoveries in the amount of \$55,308 that was overpaid to providers and **IIC has already recovered \$54,468 (98%) of the total amount. DIA also identified underpayments of \$13,958 to providers, of which 100% was resolved during the audit.** These discrepancies were caused by reporting errors, such as the use of incorrect contract rates and inaccurate invoice calculations, which went undetected. The following table summarizes our results.

	COUNTY UNDERPAID	COUNTY OVERPAID	AVERAGE ERROR RATE of 120 TESTED
<b>TOTALS</b>	<b>\$13,958</b>	<b>\$55,308</b>	<b>3.5%</b>

DIA also noted additional control weaknesses during review of IIC’s monitoring process, including lack of support for lead agencies, lack of timely reporting, and undocumented reconciliations to FAMIS. This is partially attributed to an incomplete policy and procedure manual. The following page displays these findings and recommendations in more detail.

*“What DIA Found” continued next page.*

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<sup>1</sup> Total overpayment identified by DIA the County could potentially recover.

<sup>2</sup> The amount the County could potentially save annually by implementing recommendations. Due to the nature of this type of audit (monitoring), DIA’s recommendations may require more time and resources to adequately monitor subrecipients/providers. Cost savings may not be identified.

<sup>3</sup> IIC’s annual budget was taken from the updated 2019 budget approved by Council in December 2018. The County Annual Budget includes operating appropriations from all County funds.

# Audit Report Highlights

Invest in Children – Subrecipient/Provider Monitoring Audit

March 2019

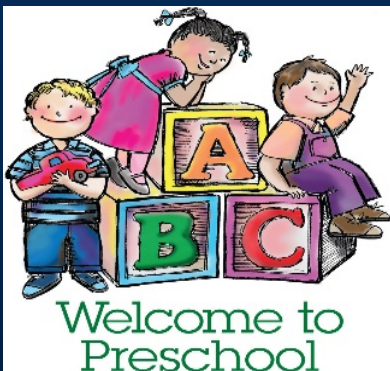
## Background

IIC's mission is accomplished through increasing the development, funding, visibility and impact of early childhood services in Cuyahoga County.

DIA commends IIC for piloting the first UPK program of its kind in the state of Ohio and setting a standard of high-quality preschool education proven through continuous research.

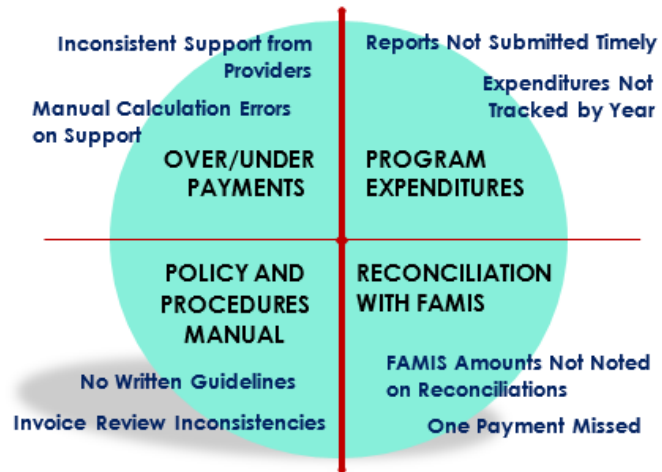
As validated by Case Western Reserve University's independent evaluations, IIC's investments in UPK have resulted in significant gains in UPK site quality and achievement/readiness for students entering kindergarten.

Based on the results of our audit, we believe IIC's subrecipient/provider monitoring is well-managed, especially considering the number of employees, budget and population served.



## What DIA Found (cont'd)

The diagram below illustrates the key areas of this audit, with the findings noted for each area.



## What DIA Recommended

DIA provided IIC management with recommendations for sound internal controls. We communicated these recommendations and internal controls to IIC during the audit to lessen potential risks related to the subrecipient monitoring process and to help move IIC toward a more accountable, efficient and productive operation.

IIC has already implemented some of the recommendations made during the audit. IIC and the Office of Innovation are working to address findings and recommendations in this report. Based on their responses, we believe corrective action will be taken to mitigate the risks identified. Management responses follow each recommendation in the report. We made the following recommendations:

- Pursue recoveries identified during the audit.
- Create specific review checklists to use with every UPK invoice to ensure all procedures are followed consistently and all necessary support documentation is attached to every invoice.
- Add a procedure to the Monitoring Tool to review the program expenditures prior to the site visit and sample some items to test for existence and utilization in the classrooms during the site visit.
- Establish a more rigorous requirement for acceptable forms of supporting documentation and require timely submission of program expenditures.
- Reconciliations to FAMIS should include a column to note the FAMIS amount as both a check and evidence of reconciliation.



**CUYAHOGA COUNTY  
DEPARTMENT OF INTERNAL AUDITING**

**INTERNAL AUDIT REPORT  
Cuyahoga County Invest in Children/Office of Early Childhood  
Cover Letter**

March 28, 2019

To: Director of Health and Human Services Walter Parfejewiec, Director of Invest in Children/Office of Early Childhood Rebekah Dorman, and current management of Invest in Children/Office of Early Childhood:

The Department of Internal Auditing (DIA) has conducted an audit of the financial operations and general internal controls of Invest in Children/Office of Early Childhood (referred to within this report as "IIC") subrecipient and provider monitoring, for the period of August 1, 2017 through July 31, 2018. Our main objective was to conduct an audit of IIC's monitoring controls in place related to subrecipients and providers of IIC's services. We assessed and reviewed these controls to ensure disbursement of funds were accurate and approved, and services were complete and align with agreements in place.

To accomplish our objectives DIA conducted interviews with management and staff and performed walk-throughs of the subrecipient and provider monitoring process in IIC to document the effectiveness of controls in place. We reviewed and assessed the systems utilized as well as the efficiency of operations, and documented policies and procedures. In addition, we conducted control and substantive testing, reviewed internal controls, and reconciliation of transactions and services to invoices and contract requirements. Further, we accompanied an IIC staff member to an annual on-site provider visit to observe IIC's control environment specific to subrecipient and provider monitoring.

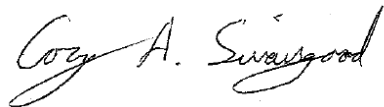
Our audit procedures disclosed internal control weaknesses related to invoice review and report monitoring. DIA identified a recoverable amount that IIC overpaid to providers. IIC recovered \$53,596 of \$55,308 during the audit. This report provides the details of our findings. We are confident corrective action has been taken or will be taken to mitigate the risks identified in this audit report.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to IIC staff and management, and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to IIC's management for review. Management responses are included within the audit report.

Respectfully,

A handwritten signature in cursive script that reads "Cory A. Swaisgood".

Cory A. Swaisgood, CPA  
Director of Internal Auditing

Cc: Cuyahoga County Council  
Matt Carroll, Acting Chief of Staff  
Greg Huth, Law Director  
Michael C. O'Malley, Cuyahoga County Prosecutor

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## Glossary

### **Universal**

### **Pre-Kindergarten (UPK)**

Initiated in 2007, IIC's program for making access to high-quality pre-kindergarten more available and accessible to children in Cuyahoga County, especially those from less advantaged backgrounds.

### **Provider**

A state licensed child care center, licensed home provider, or public preschool within Cuyahoga County enrolled in IIC's UPK program. Providers are a type of subrecipient that receives funding from a pass-through entity such as Cuyahoga County.

### **Lead Agency**

The providers assigned to carry out part of IIC's programs. While UPK providers deliver services directly to the beneficiary, lead agencies provide support to IIC, UPK providers, and beneficiaries (students).

### **Program Year**

August 1<sup>st</sup> through July 31<sup>st</sup> is the funding period for IIC's UPK program. UPK providers are funded for child enrollment and days of service during this period. Also referred to as "school year", although the actual school year for some providers may be shorter than the funding period.

- UPK 1.0 – contract period of 8/1/15-7/31/18
- UPK 2.0 – contract period of 8/1/17-7/31/20 (includes private funding)

### **FAMIS**

Cuyahoga County's financial accounting system.

### **COPA**

Child Outcome Planning and Assessment is the system used by UPK providers to record child enrollment, attendance, assessments, and referrals for services for IIC.

## Report Details

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### Purpose

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The purpose of this audit was to conduct a comprehensive examination of Invest in Children/Office of Early Childhood's (IIC) subrecipient/provider monitoring.

The Audit Committee approved DIA's 2018 audit plan to include an annual review of a County agency providing subrecipient monitoring, beginning with IIC. We conducted our review through inquiry, observation, data analysis, and testing of revenue and expenditure reimbursements and on-site provider monitoring visits during the audit period. DIA evaluated processes for compliance with existing policies and contractual agreements.

The audit included review and evaluation of procedures, practices and controls as deemed necessary.

### Audit Objectives

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The objectives of this audit were to determine whether IIC's:

#### Control conscious environment

Adequate level of internal control awareness; proper separation of duties; existence of a proper monitoring system; appropriate authorization/approval of expenditures; and adequate safeguarding of financial, physical, and information assets.

- Monitoring controls were in place related to lead agencies and providers of IIC's services;
- Procedures currently being utilized were operating as intended by management;
- IIC was operating in a control conscious environment with adequate controls in place to monitor and enforce sub-recipient/ provider contracts, and if controls do exist, determine if they were adequate to effectively and efficiently achieve IIC's goals;
- Systems were complete and secure;
- Providers were meeting the requirements of their contracts;
- IIC revenues and expenditures were accurate, properly approved, recorded, and in accordance with all governing policies, contracts, laws and regulations;
- Reporting information was timely accomplished, accurate and in accordance with all governing laws and regulations.

### Scope

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To accomplish our objectives, we focused on IIC's provider monitoring and operational controls, the major revenue and expenditure cycles, as well as specific compliance mandates for the contract year August 1, 2017 through July 31, 2018. Interviews with management and staff, together with general walk-throughs of the



on-site monitoring visits, effectiveness of monitoring controls, and accuracy of revenue and expenditures, were conducted to document the controls in place and determine if they are operating effectively. In addition, substantive testing methods included analytical procedures, test of details using sampling methods, as well as confirmation of transactions and/or assets.

## Methodology

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DIA made inquiries/observations to gain a general understanding of IIC’s processes. DIA tested IIC’s provider monitoring and operational controls to ensure effectiveness, accuracy and contract compliance. We also performed control and substantive testing on provider transactions to determine if controls were in place and transactions were supported and authorized.

To analyze and test expenditures during the audit period, DIA imported financial data from FAMIS into our data analytics software and filtered by the Contractual Services expenditure account (used exclusively for IIC providers). Testing methods included analytical procedures and sampling methods. We considered transaction amounts for our testing, including the highest paid (dollar amount) UPK provider and Lead Agency and other unusual transactions, such as large one-time reimbursements.

DIA also performed a walk-through of an on-site monitoring visit of a UPK provider to observe IIC’s monitoring procedures of providers for compliance with UPK program requirements and contractual agreements.

## Background

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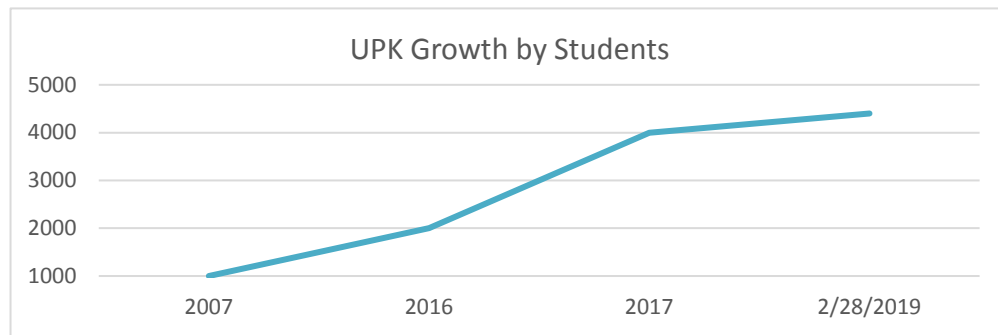
IIC’s mission is to mobilize resources and energy to ensure the well-being of all young children in Cuyahoga County, provide supportive services to parents and caregivers, and build awareness, momentum, and advocacy in the community around children and family issues. IIC accomplishes this through increasing the development, funding, visibility and impact of early childhood services in Cuyahoga County.

<i>Source: Office of Budget and Management Reports</i>	<b>2016 Actuals</b>	<b>2017 Budget</b>	<b>2018 Budget</b>
<b>HHS Levy</b>	\$ 14,890,051	\$ 12,599,696	\$ 12,037,995
<b>Special Revenue Fund~</b>	\$ -	\$ 2,416,498	\$ 5,474,831
<b>All Funds</b>	\$ 14,890,051	\$ 15,016,194	\$ 17,512,826

~Special Revenue Fund consists of donations and the County’s contributions.

IIC’s UPK providers are state licensed child care centers throughout Cuyahoga County offering UPK approved curriculum classroom instruction to children ages three to five years not yet enrolled in kindergarten. These providers agree to follow requirements

stated in their contracts with IIC, and the UPK Program Implementation Handbook. UPK providers record attendance in COPA, a secure, web-based system providing attendance information. Providers submit forms through COPA to facilitate IIC's monthly invoice billing process. Providers also ensure various types of records are complete and available for IIC to inspect during the annual on-site monitoring visits. The chart below illustrates the history of the UPK program.



- In 2007, Cuyahoga County launched the UPK program with 24 UPK providers and 1,000 students.
- By 2016 there were 35 UPK providers (UPK 1.0) with 2,000 students. The County committed \$10 million in new public dollars to fund through 2020 along with an additional \$12.8 million in private funding.
- By 2017, there were 37 new UPK providers (UPK 2.0) that joined the program, increasing the number of students to 4,000.

In February 2019, available UPK seats were filled nearly to capacity (90%), at an earlier point in the school year than in any previous year. UPK is funded through 2020 and all UPK provider contracts are up for renewal on July 31, 2020.

IIC's work is carried out by an administrative staff of ten full-time professionals, including supervisors and management, and a business services manager (Business Manager) shared with HHS (part-time at IIC). Their staff's duties include:

- ◆ Contracting
- ◆ Purchasing
- ◆ Budget management
- ◆ Invoice processing
- ◆ Scholarship processing
- ◆ Business Manager - monitors contract /donor balances, prepares vouchers /revenue receipts.
- ◆ Grant reporting
- ◆ Contract compliance/performance monitoring
- ◆ On-site monitoring of UPK providers
- ◆ Training and consulting UPK providers
- ◆ Implement ReadyRosie (mobile tool for family engagement)

IIC’s programs focus on preparing children to enter school ready to learn, and in good mental and physical health. The seven lead agencies (listed below) do not have preschools; however, they play a supportive role in carrying out IIC’s programs through administrative and operational support. Below are the lead agencies and the specific programs they support:

Lead Agency	Programs
Starting Point	UPK Program; Special Needs Child Care; Early Childhood Mental Health
Case Western Reserve University	UPK Program Evaluations
Educational Service Center of Northeast Ohio	Bright Beginnings
Alcohol, Drug Addiction and Mental Health Services (ADAMHS)	Early Childhood Mental Health
Family Connections of Northeast Ohio	SPARK
City of Cleveland	MomsFirst
Cuyahoga County Board of Health	Newborn Home Visiting, Child Fatality Study

## Commendable Practices

DIA commends IIC for piloting the first UPK program of its kind in the state of Ohio and setting a standard of high-quality preschool education proven through continuous research. Based on Case Western Reserve University’s independent evaluations, IIC’s investments in UPK have resulted in significant gains in UPK site quality and achievement/readiness for students entering kindergarten. DIA noted that IIC strives for continuous process improvement by actively monitoring and evaluating performance.



In 2016, the Cuyahoga County Early Childhood Education Partnership Council was established to oversee the private funding for UPK. On May 8, 2018, the Partnership Council issued a report of a review performed related to payments received by UPK providers. The scope of the review included confirmation that UPK providers received accurate distributions of private funding from IIC for the period August 2017 through February 2018. In the report, the Partnership Council noted no discrepancies and concluded IIC accurately distributed all payments to UPK providers during the review period.

IIC met with DIA to discuss each finding and recommendation as they were identified throughout the audit. We commend and thank IIC for their cooperation. Based on the results of our audit, we believe IIC’s subrecipient monitoring is well-managed, especially considering the number of employees, budget and population served. IIC has already implemented some of DIA’s recommendations made during the audit.

## Findings and Recommendations

### Fiscal Process

#### FINDING Overpayments/Underpayments Identified in UPK Invoices

To pay invoices IIC personnel ensure there is available budget and fund balance sufficient to cover the invoice by checking it against FAMIS. The expense is verified against the support and the contract for compliance and entered in a spreadsheet; the remaining balance is noted. If the documentation supports the expense, a voucher is prepared for payment.

IIC should have adequate controls and efficient procedures in place to ensure the accuracy of disbursements, that services are complete, and rates align with contracts in place. Procedures should be documented to ensure processes are consistently applied, such as the Cost Reimbursement Invoices reporting the monthly student enrollment (Program Costs) and discounted tuition/parent fees for scholarships (Scholarship Costs). We also tested Cost Category Reports, where providers report the spending of funds already received from prior Cost Reimbursement Invoices as evidence that their spending is in accordance with the allowable costs in their budget/contract.

During the audit period, there were 71 active UPK providers to whom IIC distributed a total of \$8,880,192 during the audit period. DIA sampled 120 transactions, totaling \$1,110,754 for ten UPK providers during the program year. During DIA's expenditure testing and walk-throughs of the Program Managers' invoice review process, we noted control weaknesses and inefficiencies resulting in underpayments and overpayments due to discrepancies in the following processes:

Overpayments of \$54,468 (98%) were recovered during the audit. All underpayments (100%) were resolved with the providers during the audit.

TYPE	COUNTY UNDERPAID	COUNTY OVERPAID	# ERRORS of 120	ERROR RATE
Contract Rates*	-0-	\$53,596	6*	4.8%
Invoice Calculations	\$5,074	\$803	6	5%
Attendance reporting	\$1,148	\$718	2	1.7%
Voucher Preparation^	\$7,567	-0-	1	0.8%
Scholarship Worksheet	\$169	\$191	6	5%
<b>TOTALS</b>	<b>\$13,958</b>	<b>\$55,308</b>	<b>21</b>	<b>3.5%^</b>

\* DIA increased the sample size from 120 to 125 transactions to test additional contract rates after noting the overpayment error. The error rate was calculated using 125 tested transactions (6/125).

^Average Error Rate

Additional notes related to this table are found on the following page.

*DIA projected the total dollar amount of errors to determine the materiality of the impact of the errors on the total expenditures. DIA calculated the combined underpaid/overpaid (\$69,266), divided by the dollar amount sampled (\$1,110,754) for an error rate of 6.24%. This resulted in a projected error of \$553,764 to the total population of \$8,880,192.*

**Contract Rates:** The contract rate is determined in the contract by the budgeted amount divided by the anticipated number of enrolled students and class days. Six UPK providers (one agency with six locations) were overpaid \$53,596 by incorrectly using the old contract rates for the first month of the new school year but the correct rates were used in the following months. IIC received the overpayments from the agency during the audit.

**Invoice Calculations:** Providers use a standard spreadsheet form created by IIC (with built-in formulas to calculate the current expenditures) to fill out and prepare their invoices. However, Program Managers should verify the invoices for mathematical accuracy, to ensure formulas were working properly and not overwritten. One UPK provider was underpaid five months and then overpaid the sixth month, due to inaccurate program costs calculations (Contract Rate x Class Days Per Class) in the invoices.

**Attendance Reporting:** The COPA system is used to track student enrollment and attendance. Providers submit invoices with the monthly COPA reports, which determines the Class Days Per Class reported on their invoices. IIC reviews the COPA reports to ensure that Class Days Per Class on the invoices are accurate. DIA noted one UPK provider was overpaid and one provider underpaid due to class day calculations.

**Voucher Preparation:** One UPK provider was underpaid due to an oversight on the voucher. One voucher was prepared to pay both February 2018 and March 2018 invoices. However, on the voucher the amount for the March 2018 invoice was blank, so it was never paid. By comparing the UPK provider's invoices to the payments posted in FAMIS, DIA determined the March 2018 invoice was never paid. Payment was issued to the provider during the audit. (See [Undocumented Reconciliation to FAMIS](#) issue on page 15 for more details.)

**Scholarship Worksheet:** Providers must submit Scholarship Income & Residency Verification Forms (with built-in formulas), for any child listed on the scholarship worksheets, to determine eligibility and scholarship rate. However, for scholarship calculations, Program Managers cannot confirm the formulas were used or not overwritten because the form is printed and mailed.

Seven of the ten providers in our testing offered scholarships. These providers together paid a monthly average of 126 scholarships during our audit period. We sampled 29 of 126 Scholarship Income & Residency Verification Forms. Of the 29 tested, DIA noted 13 instances (45%) where support did not meet IIC's requirements

for verifying income (a tax return was provided but not a W-2). The Program Manager's scholarship application review process checklist permitting *either* type of support was inconsistent with the form's requirement to provide *both*. See [Incomplete Policy and Procedure Manual](#) issue, Recommendation 8 on page 24 for more information.

Also, DIA noted eight instances (28%) where support did not meet IIC's requirements for residency eligibility (missing check stub, ID, or utility bill) because the residency forms were not included in the support. Although DIA was unable to identify all possible over- or underpayments, those identified are noted below:

- One UPK provider was underpaid one month and overpaid for three months due to incorrect income eligibility calculations.
- One UPK provider was overpaid for two months due to students not meeting the scholarship attendance requirements.
- One UPK provider was overpaid because the total scholarship amount in the Scholarship Worksheet was not accurately totaled. Two students were deemed ineligible, but their amounts were not crossed off in the Scholarship Worksheet.
- One UPK provider was overpaid because the 50% scholarship rate in the worksheet was not compared for accuracy and did not match the correct 25% rate in the Verification Form.

### **Risk to the County if Not Corrected**

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Failure to have a process in place to ensure all disbursements to UPK providers are consistently reviewed for accuracy increases the risk of undetected errors and misstatements. This could result in additional liability or cost to the County.

### **Recommendations**

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1. Based on the erroneous billings noted above, DIA recommends IIC request repayment of the \$55,308 from the providers that were overpaid and communicate underpayments to the providers for corrective action. *Note: the \$53,596 overpayment due to incorrect contract rates was received by IIC, and the \$7,567 underpayment due to the missed invoice amount in the voucher was issued to the provider during the audit.*

***Management's Response:***

***Agree – Repayment of the overpayment (\$53,596) from this provider was requested and a check in this amount was received and deposited. The underpayment of \$7,567 was issued to the vendor. Reasonable efforts will be made to contact the other providers to request repayment or correct underpayment.***

***Estimated Implementation Date: Overpayment: March 8, 2019;  
Underpayment: check to vendor issued March 7, 2019. Other providers: June 30, 2019.***

***DIA update: \$54,468 in overpayments (98%) and all \$13,958 in underpayments were resolved during the audit.***

2. DIA recommends that IIC create a specific invoice review checklist to use with every UPK invoice. A stamp can be used with a place for initials and date and used as evidence the checklist is complete. Checklists help the manager approving the invoice ensure all procedures were followed consistently and the necessary documentation was attached to every invoice. The checklist should include, at a minimum, the following:
  - Program Manager's initials that each required document was reviewed and attached to the invoice. (COPA 201 report, COPA 235 report, COPA 236 report, Scholarship Worksheet)
  - Program Manager's initials that Cost Category Expenditure Report (and all other related forms) was received and reviewed.
  - Program Manager's initials that the following review procedures were completed for UPK provider invoices:
    - Cost Reimbursement Invoice
      - Unit Rate on invoice agrees to contract.
      - Class Days per Class on invoice agrees to COPA 201 report.
      - UPK Parent Scholarship invoice agrees to Scholarship Worksheet.
      - Any handwritten adjustments agree to support.
      - Calculations and total are mathematically accurate.
    - COPA 201, 235, 236 reports
      - Class Days Per Class were reviewed for accuracy. Any adjustments are written on the report and any additional support is printed and attached (e.g. e-mail from UPK provider), or a handwritten explanation is provided.
    - Scholarship Worksheet
      - Every student listed on the worksheet has an application on file and is approved. Every student's FPL on the worksheet agrees to the application.



- Every student listed on the worksheet meets the 80% attendance requirement.
- Any adjustments are written on the report and any additional support is printed and attached (e.g. e-mail from UPK provider), or a handwritten explanation is provided.
- UPK Scholarship calculations, Scholarship Subtotals, and Total UPK Scholarship are mathematically accurate.

***Management's Response:***

***Agree – IIC will develop and disseminate a UPK invoice review checklist that incorporates the above recommendations, to assist in correcting invoice errors before they reach the payment process. IIC will work to create a stamp that incorporates the above recommendations, to be affixed to the face of each invoice. IIC will create a laminated desk reference, to be used by staff when reviewing invoices, that will list the current unit rates for all UPK providers.***

***Estimated Implementation Date: August 1, 2019***

3. To ensure that the UPK providers properly credit the scholarship amount to the parent's fees as reported in the Scholarship Worksheet, DIA recommends IIC send an award letter to the parents notifying them of the scholarship rate to be applied to the fees, upon issuance of a scholarship.

***Management's Response:***

***Agree – IIC will develop an award letter that will be sent to each family that, based on the income and family size, is determined to be eligible for a scholarship.***

***Estimated Implementation Date: August 1, 2019***

## **FINDING      Lack of Support for Lead Agency Invoice Review Process**

Lead agencies provide supportive services to IIC and the providers and submit invoices for payment. IIC monitors the lead agencies' services and disbursements to confirm they are fulfilling IIC's mission, are accurate and supported. IIC should have adequate controls and efficient procedures in place to ensure the accuracy of disbursements to lead agencies and performance of services as stated in their contracts. Procedures should be documented to ensure the process is consistently applied. During DIA's expenditure testing and walk-throughs of the lead agency invoice review process, we noted there was a lack of formal review procedures in place for these invoices. DIA reviewed a sampling of invoices and supporting documentation for all the lead agencies during our audit period. The following control weaknesses were noted:



- Supporting documentation for the ADAMHS Board (contract AG1800045) invoices did not include a budget schedule like the other lead agencies to report the budgeted expenditure categories and contract balance. Without an expenditure summary, the Program Managers would be unable to monitor that expenditures are allowable per the contract.
- The expenditure summary in the supporting documentation for the Case Western Reserve University invoices (contracts CE1700063 and CE1800328) did not include budgeted expenditure categories or contract balance like the other lead agencies. As a result, support could be inadequate for the Program Managers to monitor that contract balances are not exceeded. Support documentation for the Case Western Reserve University invoices (contracts CE1700063 and CE1800328) did not include a description of services rendered that month or status update report and actual invoices/receipts for the expenses reported on its accounting reports/ledgers. As a result, support could be inadequate for the Program Managers to accurately monitor performance during the invoice period.
- Supporting documentation for the City of Cleveland – MomsFirst (contract CE1800010) and Educational Service Center of Northeast Ohio – Bright Beginnings (AG1800018) invoices did not include a list of case workers’ home visits and actual invoices/receipts for its billable services and costs reported on its accounting reports/ledgers. As a result, support could be inadequate for the Program Managers to monitor performance during the invoice period.

### **Risk to the County if Findings Not Corrected**

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Failure to have a process in place to ensure all disbursements to lead agencies are consistently reviewed for accuracy increases the risk of undetected errors and misstatements. Failure to have a process in place to obtain the necessary invoice support to review the lead agency’s performance increases the risk of contractual services being performed in a manner that is not consistent with County leadership’s expectations. This could result in additional cost to the County.

### **Recommendations**

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1. DIA recommends that IIC create a lead agency invoice review checklist to use with every invoice, with items specific to this process. Also, see [“Overpayments/Underpayments Identified in UPK Invoices”](#) Recommendation 2 on page 10 for more information. The checklist should include, at a minimum:

#### Budget Schedule

- Program Manager's initials that the total current expenditure calculation is mathematically accurate, and each expenditure category total agrees to the amount in the invoice support.

- Program Manager's initials to show that the expenditures do not exceed the authorized project budget for each expenditure category.
- Business Service Manager's initials that the contract award amount, year-to-date expenditures, and remaining balance calculation agree to the encumbrance balance in the "All Monthly Actual Expenditures" spreadsheet to ensure there is an available balance in FAMIS for payment.

#### Invoice Support

- Program Manager's initials that based on the invoice support the expenditures are allowable per the contract and there is adequate support for billable services and costs (e.g. invoices, receipts).
- A list to reference the required types of invoice support for each lead agency's billable services and costs for the Program Manager to verify the lead agency's expenditures.
- A list to reference the reports the Program Manager receives from each lead agency used to verify the lead agency's performance of its contractual services based on the expenditures reported in the invoice.



#### ***Management's Response:***

***Agree – IIC will work to create a stamp that incorporates the above recommendations, to be affixed to the face of each invoice.***

***Estimated Implementation Date: All Contracts with an effective date of January 1, 2020.***

2. IIC should request all lead agencies provide a budget schedule with the budgeted expenditure categories and contract balance in its expenditure summaries. IIC's request should include a description of services rendered during that month or status update report and actual invoices/receipts for the expenses reported on its accounting reports/ledgers. IIC should work with the Law Department so contracts are consistent for lead agencies.

#### ***Management's Response:***

***Agree – While some lead agencies already provide this document with their invoices, a budget schedule is not required in current contracts with vendors. Moving forward, IIC will work to develop a standardized format to make this a consistent requirement in future contracts with lead agencies.***

***Estimated Implementation Date: All Contracts with an effective date of January 1, 2020.***

- IIC should request all lead agencies provide with its invoices a list of its case workers' home visits and actual invoices/receipts for the expenses reported on its accounting reports/ledgers.

**Management's Response:**

**Partially Agree – While some lead agencies already provide this information with their invoices, a list of case worker's home visits and actual invoices/receipts for expenses is not required in current contracts with vendors. Lead agencies providing home visiting directly, i.e. NBHV and SPARK, submit aggregate data on visits by visitor that is reviewed on a regular basis. For these agencies, IIC will periodically review the actual list of home visits with the lead agency.**

**Estimated Implementation Date: All contracts with an effective date of January 1, 2020.**

## **FINDING UPK Cost Category Expenditure Are Not Reported Timely**

UPK providers are reimbursed monthly for program costs based on child enrollment and days of service. The contracts require the providers also report the spending of previously reimbursed program costs using the UPK Monthly Cost Category Expenditure Report (Cost Category Report) and provide supporting documentation. The Cost Category Report is due within thirty days of the close of each billing month, even if the provider does not have spending during that month.

Program Managers review the expenditures in the reports to make sure they were allowable in the budget and contract and reconcile the supporting documentation to the expenditures for each category on the report. For each provider, the Program Managers record the expenditures from the Cost Category Report in a spreadsheet to ensure the year-to-date expenditures do not exceed the contract budget.



There is a requirement for the providers to spend the money but no requirements to report the program costs within the program year. Therefore, when Program Managers record the monthly expenditures in the spreadsheet, it is not clear when the providers have completed the spending of all the program costs within a program year. Typically, there is a few months delay when the provider submits a Cost Reimbursement Invoice and receives their payment, so the providers are still reporting the spending of one year's program costs well into the following program year.

DIA reviewed the Cost Category Reports for the same ten UPK providers that were sampled to test expenditures during the audit period. Some providers submitted less

verifiable support to IIC, such as accounting ledgers and purchase requisitions, which made the internal controls less effective. Others submitted more verifiable support, such as invoices, packing slips, and receipts from the vendors. DIA noted in its review that the requirements in the contracts do not specify what types of expenditure support are acceptable, causing the support submitted to be inconsistent.

### **Risk to the County if Findings Not Corrected**

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Failure to reconcile the Cost Category Reports timely with all program costs reimbursed within the program year and require evidence of purchase from the vendor (e.g. invoice, receipts, packing slips) could result in the Program Manager's inability to monitor that expenditures are allowable with the budget and contract. These internal control weaknesses may lead to misappropriation of funds unless detection controls are implemented.

### **Recommendations**

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1. IIC should revise its spreadsheet to distinguish program cost expenditures that represent current program year funds versus prior year unspent funds to ensure the UPK providers reported the spending of all the program costs reimbursed within the program year. *Note: This is currently being done as of the audit report date.*

***Management's Response:***

***Agree – IIC has already revised its spreadsheet used to track UPK program expenditures to reflect this recommendation.***

***Estimated Implementation Date: Completed***

2. IIC should establish a more rigorous requirement for acceptable forms of supporting documentation for the Cost Category Reports, such as receipts or packing slips for proof of purchase/receipt and incorporate that into future contracts and current policy, as applicable. Types of support could include, but not be limited to: training receipts, CPE certificates, agendas/lesson plans for evidence of classes from outside vendor, permission slips for field trips. There should also be a special form for UPK providers to note any cost allocations/pro-rated amounts on invoices, so it is clear what part pertains to UPK expenditures.

***Management's Response:***

***Agree – While some UPK providers already provide this type of documentation with their cost category expenditure reports, it is not specifically required in their current contracts.***

***Estimated Implementation Date: Beginning with the 2019-20 program year on August 1, 2019, UPK providers will be required to adhere to a more rigorous requirement for submitting documentation.***

## **FINDING     Undocumented Reconciliation to FAMIS**

IIC should be performing monthly reconciliations comparing their records of receipts, disbursements, and budget figures with those of FAMIS. This process should be performed for all index codes assigned to IIC. It is essential to implement such a system to fully evaluate the status of the organization as well as make sound accounting and business decisions. During DIA's walkthroughs of the Business Manager's budgeting processes, we noted control weaknesses and inefficiencies for the following:

### **Revenues and Expenditures**

After the Business Manager prepares a revenue receipt for deposit, she records the revenue in two spreadsheets, which are used to track donor agreement requirements (grant period, allowable use of funds or types of UPK providers, report due dates), appropriations, and year-to-date revenue received. DIA noted the spreadsheet did not include a reconciliation of transactions and appropriation balances to FAMIS.



After the Business Manager prepares an encumbrance voucher for payment, she records the expenditure in a spreadsheet (“All Monthly Actual Expenditures”) which is used to monitor the encumbrance balance for each contract. Then she uses a spreadsheet (“Invoices Received”) to prepare budget reports for UPK provider contracts. DIA noted the spreadsheets did not include a reconciliation of transactions and encumbrance balances to FAMIS.

As part of our expenditure testing procedures, DIA compared the invoices in the program year folders of ten UPK providers to the payments posted in FAMIS and noted IIC did not pay a provider’s March 2018 invoice. (See [Overpayments/Underpayments Identified in UPK Invoices](#) Recommendation 1 on page 9.) DIA determined the invoice was properly approved, and the County Fiscal Office received the voucher. Although two month’s invoices were combined on one voucher, only one month was noted on the voucher so the second invoice was never paid. Since the Business Manager recorded the expenditure in her spreadsheet when the voucher was prepared but did not reconcile it to FAMIS, she was unable to detect the missed payment.

### **Private Funding Expenditures**

IIC currently receives additional private funding for UPK provider expenditures. DIA noted that across the donor agreements there is a consistent requirement that IIC must have a separate accounting for privately funded expenditures. This is so the donor can, upon request, audit the records related to the expenditures.

FAMIS does not account for privately funded expenditures separately. Currently there is no classification in FAMIS to distinguish UPK expenditures from HHS levy or privately-sourced funding. To properly track the funding source, the Business Manager enters the UPK expenditures from FAMIS into a spreadsheet to provide a separate accounting for the expenditures between the HHS Levy and privately-sourced funding, on a contract-by-contract basis.

This monthly, manual reconciliation to FAMIS to ensure accuracy of the private fund expenditures is a time-consuming process. The Business Manager is only allocated to IIC three days a week. Due to time constraints and other duties, as of February 15, 2019, the Business Manager had only been able to enter UPK expenditures through September 30, 2018.

While DIA was able to confirm the Business Manager was performing the reconciliation for all expenditures, she does not document this reconciliation by recording the amounts from FAMIS into her spreadsheet. Although the spreadsheet is an attempt to reconcile the year-to-date expenditures total reported in FAMIS to the spreadsheet expenditures, there are discrepancies still unaccounted for due to reasons such as indirect costs, salaries, and travel.

### **Risk to the County if Findings Not Corrected**

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Without this reconciliation process, IIC may not have a complete understanding of their financial status, fund cash balances, year-to-date receipt and expenditure totals, accounts payable and accounts receivable balances, and budgetary balance between appropriations and expenditures when making management decisions. It is difficult to detect posting errors into these accounts. Further, the lack of documentation of the reconciliation process could cause some spreadsheets to be overlooked.

### **Recommendations**

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1. The Business Manager should continue to perform monthly reconciliations of the tracking spreadsheets to FAMIS and the reconciliation should be documented by adding a column in the spreadsheet to record the encumbrance balance and year-to-date balance in FAMIS for each contract. Since the Business Manager records expenditures when a voucher is prepared, the spreadsheet calculates the encumbrance balance before payment is issued. By reconciling to FAMIS, the Business Manager can detect any discrepancies or missed payments in a timely manner.

***Management's Response:***

***Partially Agree – IIC currently does not have a full-time business manager. We share the services of an HHS employee with the Family & Children First Council who is available to us 2.5 days per week. On average, each month the Business Manager***

***processes 95 invoices in the approximate amount of \$1.3 million. This, along with other duties, does not permit the implementation of this recommendation at this time. We will work with the CFO of HHS to determine if this recommendation would be best implemented in the Fiscal Office of HHS OR identify additional staffing resources to be able to implement this recommendation internally.***

***Estimated Implementation Date: December 31, 2019***

2. Since the Business Manager attaches a printout of the encumbrance balance in FAMIS to the voucher for the HHS Director to approve, the Business Manager should also document the reconciliation in the report. This should be evidenced by calculating the balance with the expenditure in the voucher that matches the spreadsheet, as well as signing and dating the report.

***Management's Response:***

***Agree – This recommendation has already been implemented.***

***Estimated Implementation Date: Complete***

3. The County is in the process of implementing a new county-wide financial system, and it is not feasible at this time to set up a new index code and/or project codes to track private donation expenditures from each donor in FAMIS separate from HHS levy funding. Therefore, DIA recommends planning with the County's Fiscal Office on how best to incorporate that process change in the new system as soon as possible.

***Management's Response:***

***Agree – IIC will begin planning with Fiscal on the best way to track private donations in the new county-wide financial system.***

***Estimated Implementation Date: December 31, 2019 or later, depending on the roll out of the new system.***

4. The Business Manager was several months behind in some of her responsibilities at IIC due to time constraints. As a result, the HHS Director decided that the vouching responsibilities (on average 140 vouchers per month) would be transferred to a clerk in the centralized payment processing department utilized by other HHS agencies, as part of their shared services initiative. DIA recommends that IIC coordinate with the CFO of Employment and Family Services to ensure the clerk receives all the necessary information needed to fill out the vouchers.

***Management's Response:***

***Agree – This recommendation has been implemented. IIC is coordinating with the CFO of Employment and Family Services to ensure the clerk receives all the necessary information needed to fill out the vouchers.***

***Estimated Implementation Date: Completed***

### **FINDING Missing Procedures Identified in UPK On-Site Monitoring Visits**

In their contracts the UPK providers agree to IIC doing annual on-site monitoring visits (referred throughout as “site visits”). The purpose of the site visits is “to ensure adherence, implementation and demonstration of compliance with the UPK Program”. Contracts require that providers follow curriculum “that align with Ohio’s Early Learning and Development Standards”, and therefore a significant part of the site visit involves monitoring that the curriculum aligns and is represented in the classroom. The providers also agree to a Corrective Action Plan to resolve any non-compliance issues from the site visit.

DIA performed a walkthrough of an annual site visit for one provider by observing the actions of the monitor, re-performing the monitor’s work, and comparing our results to the monitor’s, to ensure the process was working as designed. DIA also reviewed the On-Site Monitoring Tool (referred throughout as “Monitoring Tool”) which is used to fill out results and add any notes, to confirm the monitoring procedures were ensuring the providers’ compliance with all the terms of their contracts. DIA noted the same results and concluded the monitoring procedures were working properly.

Part of the site visit monitoring should include a verification of items the provider purchased in the current year. DIA noted there was not a formal procedure to review the Cost Category Reports prior to the site visit and sample some items to test for existence and utilization in the classrooms during the site visit.

The UPK provider contracts require that providers maintain a 3-star rating in the Step Up To Quality (SUTQ) program. The Ohio Department of Education (ODE) and Ohio Department of Job and Family Services (ODJFS) administer SUTQ. ODE/ODJFS



conducts annual SUTQ on-site verification visits to determine whether providers will maintain their star rating. Starting Point provides ongoing training and technical assistance to IIC’s UPK providers relating to SUTQ requirements.

Since SUTQ also requires providers follow curriculum that align with Ohio’s Early Learning and Development Standards, there are similarities between ODE/ODJFS’ SUTQ verification visits and



IIC's site visits related to monitoring the curriculum.

However, the visits are independent and differ in overall scope of compliance testing. DIA concluded that reviewing ODE/ODJFS' SUTQ on-site verification visit reports could be helpful to gauge the effectiveness of IIC's monitoring procedures and reduce any possible duplication.

### **Risk to the County if Findings Not Corrected**

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IIC is at risk of its monitoring procedures not being effective in detecting instances of non-compliance with expenditures. There is also a risk of contractual services being performed in a manner that is not consistent with County leadership's expectations.

### **Recommendations**

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1. DIA recommends that IIC add an additional procedure to its Monitoring Tool to review the Cost Category Reports prior to the site visit and sample some items to test for existence and utilization in the classrooms during the site visit.

***Management's Response:***

***Agree – Cost Category reports will be reviewed before the monitoring visit and, if applicable, used to test for the existence and utilization of quality-enhancement items purchased with UPK funds.***

***Estimated Implementation Date: To be incorporated into the monitoring visit protocol for visits during the 2019-20 program year, beginning February 1, 2020.***

2. DIA recommends that IIC review ODE/ODJFS' SUTQ on-site verification visit reports for each of its sites on an annual basis and compare IIC's results of its site visits. IIC should consider how it could improve its monitoring procedures to be more proactive and could streamline their process for more efficiency by relying on ODE/ODJFS' results to reduce any duplication of monitoring procedures necessary for IIC's site visits. In addition, it could provide additional assurance that the sites will maintain their 3-star rating.

***Management's Response:***

***Partially Agree – IIC does not have access to ODE/ODJFS SUTQ on-site verification visit reports; the only available reports are the ODE/ODJFS licensing inspection reports. IIC will evaluate how reviewing licensing inspection reports prior to conducting a monitoring visit might lead to potential efficiencies and avoid duplication.***

***Estimated Implementation Date: To be incorporated into the monitoring visit protocol for visits during the 2019-20 program year, beginning February 1, 2020.***

## **FINDING    Incomplete Policy and Procedure Manual**

A Policy and Procedure Manual (Manual) is a written expression of the rules governing the employer/employee relationship. Written policies and procedures function like a rule book for day-to-day operations and are necessary because they eliminate confusion, create structure and enforce uniform standards throughout an operation. The Manual defines the rights and obligations of the employee and the employer and its purpose is presenting a concise summary of the company's operating objectives and management philosophy.

An effective manual is a requirement for professionalism and safety. It can also be used to identify gaps where more training or clearer policy language may be needed. This Manual should contain the materials that employees will refer to and are most effective when policies and procedures are clearly documented. New employees can get up to speed faster with reference guides and produce consistent results.



IIC does not have policies and procedures in place for the following processes:

### Budgeting

- Grant Reporting
- Cost Category Report Review
- Subrecipient/Subcontractor Monitoring
- On-Site Monitoring Visits.
- Job Descriptions

IIC does have a policy and procedure manual in place for the following processes, but some procedures are not documented:

### Contracting

- Invoice Processing
- UPK Scholarship Review

IIC follows County policy but lacks internal codes and other forms of guidance regarding acceptable practices, conflicts of interest, or ethical and moral behavior in their internal written policies.

## Risk to the County if Findings Not Corrected

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Failure to have some form of written internal guidance may result in undefined procedures that can lead to inconsistency in the operations, as well as actions and discipline that are inconsistent with the intentions of management. Further, it could create a gap in how the department functions if an employee is not present for an extended time. Work may not be able to be completed accurately and consistently when absences occur.



## Recommendations

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1. Develop a policy and procedure manual to include all processes and related policies and procedures noted below (Recommendations 2-10). Once drafted, the policy and procedure manual should be approved by the Director and followed diligently.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes all the processes noted below.***

***Estimated Implementation Date: December 31, 2019***

2. Budgeting process: includes the Business Manager's monitoring of encumbrance balances, preparing de-certification forms to adjust encumbrances, UPK program cost and scholarship budget balances and invoice adjustments, donor balances, expenditures and reporting requirements, and the monthly reconciliation of expenditures and revenues to FAMIS.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes the budgeting process.***

***Estimated Implementation Date: December 31, 2019***

3. Donor reporting process: should address receiving the donor award expenditures, methods for receiving the data used in donor reports, submission of the donor reports and preparation of the revenue receipt when the donor check is received.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes the donor reporting process.***

***Estimated Implementation Date: December 31, 2019***

4. Cost category report process: should include the review of the monthly reports and support for allowance with the budget/contract, monitoring the cost category

expenditures with the program year funds reimbursed to the provider within the program year.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes the cost category report process.***

***Estimated Implementation Date: December 31, 2019***

5. Lead agency: should include the additional monitoring procedures outside of invoice review necessary to ensure the accuracy and performance of the agency's contractual obligations.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes the additional monitoring procedures outside of invoice review necessary to ensure the accuracy and performance of the agency's contractual obligations.***

***Estimated Implementation Date: December 31, 2019***

6. Site visits: should address the following:
- Using the On-site Monitoring Reporting Tool and issuing a UPK provider report;
  - Developing and issuing the Corrective Action Plan to the UPK provider;
  - Evaluating responses to Corrective Action Plan and support documentation;
  - Compiling the site visit results, analyzing trends, and sharing the results to inform UPK providers of best practices for ensuring compliance.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes the site visiting process addressing all the above items.***

***Estimated Implementation Date: December 31, 2019***

7. Fiscal Management: IIC should add the following procedures for their contracting processes with UPK providers:
- Process for vetting potential UPK providers to ensure eligibility and budget;
  - Process of determining each UPK provider's annual contract budget;
  - Scholarship Budget – calculating an estimate for each UPK provider;
  - Program Manager's review of UPK Cost Reimbursement Invoices;
  - Program Manager's review of UPK Scholarships; and
  - Program Manager's review of Lead Agency invoices.

***Management's Response:***

***Agree – IIC will develop a policies and procedures manual that includes fiscal management items above.***

***Estimated Implementation Date: December 31, 2019***

8. UPK Scholarships: IIC should revise the language to ensure there are no conflicting requirements with the Scholarship Income & Residency Verification Form.

***Management's Response:***

***Agree – IIC will revise the language on the Scholarship Income & Residency Verification Form to ensure there are no conflicting requirements.***

***Estimated Implementation Date: December 31, 2019***

9. Position duties: IIC should summarize the duties and requirements encompassing each position to ensure responsibilities are well defined and all processes in the policies and procedures manual are assigned to a position. DIA recommends that IIC use the “Program Staff Assignments for Invoice Review” and “IIC Document Distribution List” as a basis to describe each employee’s duties.

***Management's Response:***

***Agree – IIC will develop position descriptions for all positions.***

***Estimated Implementation Date: December 31, 2019***

10. Internal guidance: IIC should incorporate internal codes and other forms of guidance regarding acceptable practices, conflicts of interest, or ethical and moral behavior in their internal written policies.

***Management's Response:***

***Agree – In 2018 all staff attended the annual mandatory ethics training and the Harassment Avoidance training and follow County policy in these areas. When instances arise regarding conflicts of interest or ethical issues not directly addressed in these trainings, as has happened on several occasions, a decision is made on a case-by-case basis as to whether to request an opinion from the Inspector General.***

***Estimated Implementation Date: Completed***