WESTERN OHIO REGIONAL TREATMENT AND HABILITATION CENTER
ALLEN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2004-2003-2002

Auditor of State
Betty Montgomery

WESTERN OHIO REGIONAL TREATMENT AND HABILITATION CENTER
ALLEN COUNTY

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Auditor of State
Betty Montgomery

Western Ohio Regional Treatment and Habilitation Center
Allen County
243 East Bluelick Road
Lima, Ohio 45802

To the Judicial Corrections Board:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Betty Montgomery

Betty Montgomery
Auditor of State

July 5, 2005

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INDEPENDENT ACCOUNTANTS' REPORT

Western Ohio Regional Treatment and Habilitation Center
Allen County
243 East Bluelick Road
Lima, Ohio 45802

To the Judicial Corrections Board:

We have audited the accompanying financial statements of the Western Ohio Regional Treatment and Habilitation Center, Allen County, (the Facility), as of and for the years ended June 30, 2004, 2003 and 2002. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in paragraph seven, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The financial statement for 2002 presents only the receipts, disbursements, and cash balances related to State appropriations the Ohio Department of Rehabilitation and Corrections paid to the Facility. This statement is not intended to present the cash receipts, disbursements, and balances of all Facility funds.

As described more fully in Note 1, the Facility has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Facility to reformat its financial statement presentation and make other changes effective for the year ended June 30, 2004. Instead of the individual funds, the accompanying financial statements present for 2004 (and 2003 and 2002), the revisions require presenting entity wide statements and also to aggregate its smaller funds (i.e. nonmajor) funds for 2004. While the Facility does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Facility's financial statement format conforms with guidelines the Ohio Department of Rehabilitations and Corrections prescribes. Since this Facility does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended June 30, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Facility as of June 30, 2004, or their changes in financial position for the year then ended.

Because of inadequacies in the Facility's accounting records, we were unable to satisfy ourselves with the amount of recorded cash receipts and cash disbursements in the Offender Personal Funds.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Offender Personal Funds been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the fund cash balances and unpaid obligations of the Western Ohio Regional Treatment and Habilitation Center, Allen County, as of June 30, 2004 and 2003, and State Appropriations cash balances as of June 30, 2002, and the related cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Facility to include Management's Discussion and Analysis for the year ended June 30, 2004. The Facility has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2005, on our consideration of the Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

July 5, 2005

WESTERN OHIO REGIONAL TREATMENT AND HABILITATION CENTER
ALLEN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL FUNDS
FOR THE PERIOD ENDED JUNE 30, 2004

	State Appropriations and Grants		Offender Funds				
	ODRC 501-501	Nutrition	Offender Personal Funds	I&E Telephone Commissions	Commissary	Vending/ Misc.	Totals
Cash Receipts:							
Intergovernmental	$2,708,698	$21,970					$2,730,668
Receipts for offenders			$116,973				116,973
Commissions				$36,763		$7,294	44,057
Reimbursements					$13,980		13,980
Total Cash Receipts	2,708,698	21,970	116,973	36,763	13,980	7,294	2,905,678
Cash Disbursements:							
Personnel	1,873,137						1,873,137
Operating costs	440,386				13,992	8,027	462,405
Program costs	183,537	21,937		41,650			247,124
Equipment	41,690						41,690
Offender Disbursements:							
Offender legal obligations			14,110				14,110
Offender reimbursements			43,322				43,322
Offender payments to CBCF			39,020				39,020
Offender savings paid at exit			22,892				22,892
Total Cash Disbursements	2,538,750	21,937	119,344	41,650	13,992	8,027	2,743,700
Disbursements from prior fiscal year	131,638						131,638
Total Receipts Over/(Under) Disbursements	38,310	33	(2,371)	(4,887)	(12)	(733)	30,340
Fund Cash Balances, July 1, 2003	513,917	4,872	3,955	7,218	1,224	1,493	532,679
Fund Cash Balances, June 30, 2004	$552,227	$4,905	$1,584	$2,331	$1,212	$760	$563,019
Unpaid Obligations/Open Purchase Orders	$227,872						

The notes to the financial statements are an integral part of this statement.

WESTERN OHIO REGIONAL TREATMENT AND HABILITATION CENTER
ALLEN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL FUNDS
FOR THE PERIOD ENDED JUNE 30, 2003

	State Appropriations and Grants		Offender Funds				
	ODRC 501-501	**Nutrition**	**Offender Personal Funds**	**I&E Telephone Commissions**	**Commissary**	**Vending/ Misc.**	**Totals**
Cash Receipts:							
Intergovernmental	$2,546,505	$23,682					$2,570,187
Receipts for offenders			$131,873				131,873
Commissions				$41,027		$11,072	52,099
Reimbursement					$14,790		14,790
Total Cash Receipts	2,546,505	23,682	131,873	41,027	14,790	11,072	2,768,949
Cash Disbursements:							
Personnel	1,688,654						1,688,654
Operating costs	387,519						387,519
Program costs	192,754	24,466		47,890			265,110
Equipment	171,642						171,642
Offender Disbursements:							
Offender legal obligations			18,188				18,188
Offender reimbursements			74,718		18,416	11,639	104,773
Offender payments to CBCF			37,968				37,968
Total Cash Disbursements	2,440,569	24,466	130,874	47,890	18,416	11,639	2,673,854
Disbursements from prior fiscal year	149,068						149,068
Refund to ODRC - Fiscal Years1999 through 2001	420,987						420,987
Total Receipts Over/(Under) Disbursements	(464,119)	(784)	999	(6,863)	(3,626)	(567)	(474,960)
Fund Cash Balances, July 1, 2002	978,036	5,656	2,956	14,081	4,850	2,060	1,007,639
Fund Cash Balances, June 30, 2003	$513,917	$4,872	$3,955	$7,218	$1,224	$1,493	$532,679
Unpaid Obligations/Open Purchase Orders	$131,638						

The notes to the financial statements are an integral part of this statement.

WESTERN OHIO REGIONAL TREATMENT AND HABILITATION CENTER
ALLEN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCE
FOR THE PERIOD ENDED JUNE 30, 2002

	ODRC 501-501
Cash Receipts:	
Intergovernmental	$2,718,892
Total Cash Receipts	2,718,892
Cash Disbursements:	
Personnel	1,661,370
Operating costs	377,124
Program costs	193,119
Equipment	148,283
Total Cash Disbursements	2,379,896
Disbursements from prior fiscal year	123,383
Total Receipts Over/(Under) Disbursements	215,613
Fund Cash Balance, July 1, 2001	762,423
Fund Cash Balance, June 30, 2002	$978,036
Unpaid Obligations/Open Purchase Orders	$149,068

The notes to the financial statements are an integral part of this statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Western Ohio Regional Treatment and Habilitation (W.O.R.T.H) Center, Allen County, a Community Based Correctional Facility (the Facility), provides an alternative to prison incarceration for felony offenders. The Facility is the last step in the continuum of increasing punishment before prison incarceration. The Facility is a minimum security operation housing approximately 95 offenders as of June 30, 2004. The Judicial Corrections Board administers the Facility. The Board includes at least one common pleas court judge from each county the Facility serves. The Facility serves the following counties:

Allen County	Auglaize County	Hancock County
Hardin County	Mercer County	Paulding County
Putnam County	Shelby County	Van Wert County

For the year ended June 30, 2002, the accompanying financial statement presents only the activity of State appropriations received through the Ohio Department of Rehabilitations and Corrections. For the years ended June 30, 2004 and 2003, the financial statement presents all funds related to the Facility.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Facility recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State requires.

C. Cash

The Allen County Treasurer is the custodian of the Facility's grant funds and State appropriations. The County holds these Facility assets in the County's cash pool, valued at the County Treasurer's reported carrying amount. The Facility holds offenders' cash in demand deposit accounts.

The Facility credits interest earnings to each account as presented on the financial statements. The County credits earnings on Facility investments to the County's General Fund. Approximate investment earnings were $9,000, $14,159 and $53,518 in 2004, 2003 and 2002, respectively.

D. Fund Accounting

The Facility uses fund accounting to segregate amounts that are restricted as to use. The Facility has the following funds:

State Appropriations and Grants

Ohio Department of Rehabilitation and Corrections (ODRC) 501-501 Funding: ODRC grants this funding, appropriated from the State's General Fund, to the Facility to support general operating costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Funds

The facility participates in the National School Lunch Program and is reimbursed an established amount for each meal served, which in turn is used to support the lunch program.

Offender Funds

Offender Personal Funds: Are amounts the Facility receives and holds in a custodial capacity for each offender while confined. The Facility holds personal funds, including salaries offenders earn while confined, and maintains separate balances for each offender. The Facility makes payments as directed by the offender or per program requirements. Upon release, the Facility pays remaining funds to the offender.

Industrial and Entertainment Fund (I&E): This fund receives other Offender Funds, such as amounts received from telephone commissions generated by calls offenders place to locations outside the Facility, commissary commissions, and per diem rates charged to employed offenders. The Resident Fund reimburses this Fund for costs chargeable to offenders. This fund pays for programs and services benefiting offenders, such as indigent offenders' supplies and entertainment.

Commissary: Reports amounts charged to non-indigent offenders' personal funds for use of the commissary, per Ohio Revised Code § 2301.58.

Vending and Other/Miscellaneous: Other significant sources of receipts, such as vending machine commissions.

E. Budgetary Process

1. Appropriations

The Facility must budget its intended uses of ODRC 501-501 funding as part of its funding application to ODRC. After ODRC approves the budget, the Board formally adopts it. The Facility cannot spend or obligate (i.e., encumber) more than the appropriation. Facilities must obtain approval from ODRC to transfer amounts between budget categories.

2. Encumbrances

Disbursements from State appropriations and Grants are subject to Allen County's payment approval process. The County Auditor must approve (i.e., certify and encumber) certain payments when the Facility commits to make a payment. The budgetary disbursement amounts reported in Note 2 include cash disbursed against the current year budget plus amounts reported as spent within ninety days of June 30 to liquidate year-end commitments. Amounts not liquidated within ninety days of June 30 are subject to refund to ODRC, unless ODRC approves an extension. (See Note 4.)

A summary of 2004, 2003 and 2002 budgetary activity appears in Note 2.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Facility records acquisitions of property, plant, and equipment as capital project disbursements when paid. The financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the basis of accounting the Facility uses. During 2004, 2003 and 2002 cash payments were made for accumulated leave in the following amounts $12,252, $7,687 and $25,895, respectively.

2. BUDGETARY ACTIVITY

Budgetary activity for ODRC 501-501 funding for the years ending June 30, 2004, 2003 and 2002 follows:

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Budget	Budgetary Expenditures	Variance
$2,708,698	$2,766,622	($57,924)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Budget	Budgetary Expenditures	Variance
$2,546,505	$2,572,207	($25,702)

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Budget	Budgetary Expenditures	Variance
$2,718,892	$2,528,964	$189,928

The above budgetary note and accompanying financial statements have been adjusted to report expenditures in the grant year in which they occurred.

In addition, the proper purchase order certification and encumbrance procedures were not followed for all expenditures.

3. COLLATERAL ON DEPOSITS AND INVESTMENTS

Grants and State Appropriations

The County Treasurer is responsible for collateralizing deposits and investments for grants and State appropriations the County holds as custodian for the Facility.

3. COLLATERAL ON DEPOSITS AND INVESTMENTS (Continued)

Offender Funds

Deposits

The Facility has Federal Deposit Insurance Corporation (FDIC) coverage of $100,000 for Offender Funds. Offender funds did not exceed the FDIC coverage during the audit period.

4. REFUND TO ODRC

The agreement between the County and ODRC permits the Facility to retain a maximum of one-twelfth of the grant award after liquidating encumbrances outstanding at June 30. The Facility must refund any excess over this amount to ODRC. The schedule below computes the refund to ODRC for the years ending June 30. Disbursements below include cash paid to liquidate encumbrances outstanding at June 30 and exclude disbursements made during the fiscal year against amounts encumbered the prior June 30. The schedule below has been adjusted to agree with the adjusted financial statements. The Facility refunded the refund due at July 1, 2001 to the Ohio Department of Corrections on September 24, 2002. The Facility refunded $28,015 after June 30, 2004.

Refund to ODRC

	2004	2003	2002
Cash, July 1	$513,917	$978,036	$762,423
Disbursements Against Prior Year Budget	(131,638)	(149,068)	(123,383)
Payable to ODRC, July 1	(195,772)	(602,394)	(420,987)
Sub-Total	186,507	226,574	218,053
501 Cash Receipts	2,708,698	2,546,505	2,718,892
Allowable Budgetary Basis Disbursements	(2,708,698)	(2,546,505)	(2,528,964)
Amount Subject to Refund, June 30	186,507	226,574	407,981
Lesser of One-Twelfth or Balance of 501 Award	(186,507)	(212,209)	(226,574)
Refundable to ODRC	$ -	$14,365	$181,407

Calculation of Payable to ODRC

	2004	2003	2002
Payable, July 1	$195,772	$602,394	$420,987
Cash Refunded	-	(420,987)	-
Refundable to ODRC, June 30	-	14,365	181,407
Payable, June 30	$195,772	$195,772	$602,394

5. RETIREMENT SYSTEMS

The Facility's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

The Ohio Revised Code also prescribes contribution rates. For 2004, 2003 and 2002, OPERS members contributed 8.5 percent of their gross salaries to OPERS. The Facility contributed an amount equal to 13.55 percent of participants' gross salaries. The Facility has paid all contributions required through December 31, 2004.

6. RISK MANAGEMENT

Commercial Insurance

The Facility is included in Allen County's commercial insurance policies through CORSA (County Risk Sharing Authority) for the following:

- Comprehensive property and general liability.
- Vehicles.

The Facility is further insured through Westfield Insurance for the following risks:

- Law Enforcement liability – occurrence coverage.
- Public Officials liability – claims made coverage
- Employment practices liability - claims made coverage
- General liability for equipment, electronic data, and property
- Bonding (employee dishonesty) through Old Republic Surety Company

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Western Ohio Regional Treatment and Habilitation Center
Allen County
243 East Bluelick Road
P.O. Box 5305
Lima, OH 45802

To the Judicial Corrections Board:

We have audited the financial statements of Western Ohio Regional Treatment and Habilitation Center, Allen County, (the Facility), as of and for the years ended June 30, 2004, June 30, 2003, and June 30, 2002, and have issued our report thereon dated July 5, 2005, wherein we noted the Facility followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Our audit for the year ended June 30, 2002 included only State appropriations the Ohio Department of Rehabilitation and Corrections paid to the Facility. We qualified our report because of inadequacies in the Facility's accounting records regarding the amount of recorded cash receipts and cash disbursements in the Offender Personal Funds Account. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Facility's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Facility's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-004 through 2004-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider item 2004-004 listed above to be a material weakness.

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Internal Control Over Financial Reporting
(Continued)

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Facility in a separate letter dated July 5, 2005.

Compliance and Other Matters

As part of reasonably assuring whether the Facility's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings as items 2004-001 through 2004-003. In a separate letter to the Facility's management dated July 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, the Judicial Corrections Board, and the Ohio Department of Rehabilitation and Corrections. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

July 5, 2005

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2004-001

Year-end Encumbrances

CBCF FY 2004-05 Grant Manual and Application, Section II D1b and c, requires that "Expenditures encumbered prior to the end of the grant period must be paid within ninety days after the close of the grant period." Also, **II F.3.f** permits obligating projected salary expenses for the remainder of the fiscal year. Obligated expenditures remaining after ninety days must be paid for out of the next grant year. Also, expenditures not encumbered with a purchase order prior to close of the grant period will not be allowed as expenditures from that grant award period.

Some expenditures made after June 30, were charged to the prior year's grant for which a purchase order was not issued or was not dated prior to June 30. Also, some payments not made against blanket purchase orders were made after September 30, and payments were made for obligations not pertaining to the related grant year. In addition, the majority of purchase orders outstanding at June 30 were blanket purchase orders with a maturity date of December 31.

The expenditures made against the outstanding blanket purchase orders (encumbrances) at June 30, for each year were compiled to determine the amount of allowed expenditures. There were no expenditures made against these blanket purchase orders beyond August of each year. Based on these computations, the amounts determined to be unallowable expenditures for the above stated reasons are as follows:

Year	Outstanding Encumbrances/ Payroll At 6/30	Expenditures Against 6/30 Encumbrances/Payroll	Client Reported Expenditures	Overstatement
2004	$263,151	$227,872	$303,597	$75,725
2003	192,594	131,638	277,834	146,196
2002	196,561	149,068	326,037	176,969

In addition, **CBCF FY 2004-05 Grant Manual and Application, Section II D.1(d),** requires that the Facility must refund any amount over the lesser of June 30 cash or 1/12 of the current year's budget. As a result of encumbering improperly, the Facility reported incorrect budgetary expenditures to the State. Also, the Facility had not properly computed the amount to be returned to the State on the year-end reports.

Failure to follow all grant requirements could result in liabilities against the Facility and result in reduced state funding. The accompanying financial statements have been adjusted to reflect only actual expenditures against June 30 encumbrances as budgetary basis expenditures during the 90-day lapse period. These adjustments caused over expenditures of $57,924 and $25,702 against the respective 2004 and 2003 fiscal year end budgets.

The Facility should follow all grant requirements, and encumber obligations by specific purchase order, that pertain to the grant period that will be paid after June 30, and prior to September 30. In addition, the Financial Grant Guidelines should be reviewed and the instructions followed regarding the computation of carryover funds and the funds to be returned to the State.

FINDING NUMBER 2004-002

Prior Certification of Expenditures

Ohio Rev. Code Section 5705.41(D) and CBCF FY 2004-05 Grant Manual and Application, Section II D.2, stipulates that "the grantee will follow established county guidelines regarding the purchase and acquisition of supplies, services, and equipment." Because the County requires the Facility to obtain certification for commitments, purchase orders must be signed by the fiscal agent and encumbered prior to or at the time of commitment.

Prior certification was not obtained for the expenditure of Facility funds for 33 percent of the transactions tested for the audit period. The lack of proper certifications could result in the obligation of funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations.

Purchase orders, as a certifying medium, should be obtained before vendor invoice dates (unless there is then and now certification), printed off of the system, and signed by the County Auditor for all disbursements of 501-501 funds. The Facility should adopt standard procedures for obtaining certification prior to incurring an obligation, and/or for subsequent certification and approval as provided by the exception noted.

Also, as described in Finding Number 2004-001, the Facility charged costs to blanket purchase orders with a December 31 expiration date. Since the lapse period ends 90 days after June 30, the County should close all blanket purchase orders for the Facility each September 28.

FINDING NUMBER 2004-003

Destruction of Records

Ohio Rev. Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

The Facility did not retain all the duplicate receipt books for the resident funds for revenue received, nor were copies, or a list of the month-end individual resident account balance sheets retained to reconcile with the bank account.

The failure to retain the required records could result in unexpected liabilities if evidence of receipts cannot be presented, possible opinion qualification on the financial statements if sufficient supporting records are not available, and increased audit costs. Missing receipt books can also lead to disputes as to actual amounts received or owed by the Facility.

Important records and supporting documentation should be retained and maintained in a logical manner. A policy should be adopted establishing procedures on the retention of records generated and the manner in which they should be maintained. A request for destruction of records should be submitted to the Records Commission to address the appropriate procedures for destruction.

FINDING NUMBER 2004-004

Accounting System and Policies and Procedures for the Offenders (Resident) Accounts

A cash ledger was not generated that provided receipt and disbursement transactions or a current available cash balance. Upon request, transaction lists for receipts and disbursements were generated for each year under audit along with computer generated monthly bank reconciliations. However, the receipt listing did not include the duplicate receipt numbers for the source of the revenue and the disbursement listing was not generated in check number order. There was no support for the monthly bank reconciliations or an aggregate total of the individual resident accounts to verify that they were accurate.

Problems encountered in attempting audit procedures for the resident accounts were as follows:

1. Revenues could not be tested due to the lack of receipt numbers in the receipt transaction listing. In addition, there is very little control over the duplicate receipt books used to account for the resident pay-ins, and some were missing. There are several receipt books in use that are passed among the different locations that collect money for the residents, and no accountability is required; In addition, the receipt books used are not reviewed by anyone to determine if all the numerical controlled receipts have been accounted for and entered into the accounting system.

2. Expenditures could not be tested due to the lack of accurate check numbers, supporting documentation, and adequate support for charges to residents' accounts;

3. Individual resident accounts could not be tested because copies of the individual statements provided to the residents on a bi-weekly basis were not retained. There was no evidence that each resident received the bi-weekly statement showing all of their financial transactions and the balance remaining on their account;

4. A bi-weekly manual financial statement is compiled to determine the ending balance for the resident account. Expenditure line items on the statement include haircut, commissary, other deductions, petty cash requested, third party payments, close outs and final close outs; however, sufficient support is not attached to the summary for these expenditures, nor can they be readily confirmed to a source or to the charge to a resident account. In addition, a monthly transaction history with an ending balance is not produced and reconciled with the total of the manual statements.

5. Although some of the resident account bank statements were marked “Balanced”, adequate support was not provided, nor was there evidence of support for the monthly bank reconciliations generated by the system. In addition, an aggregate summary balance of all of the individual resident accounts was not maintained and reconciled with the bank.

A lack of control over the number of receipt books in use and the failure to document the basic control of receipt numbers in the accounting system leads to the inability to determine the accuracy of reported revenues.

The failure to implement internal controls over expenses charged to resident accounts could result in improper amounts being charged to residents, and the failure to enter the duplicate receipt and accurate check numbers when processing receipts and expenditures leads to difficulties in confirming receipt and expenditure transactions to the underlying source documentation and to the individual resident accounts.

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(Continued)

By not retaining the bi-weekly individual financial statements with supporting totals from the accounting system results in questions regarding the accuracy of the financial statements ending balances and the accuracy of the reports from the accounting system. In addition, failure to require the residents' approval of the bi-weekly balance sheet could lead to disagreements between the Facility and a resident regarding their balance at any given time.

Failure to reconcile the total individual resident accounts with the accounting system balance could result in discrepancies in regards to the amount of money actually available. Also, by not reconciling the total system activity with the bank statements, the possibility of errors or omissions made in postings to the resident accounts may not be detected.

To establish and improve controls over the accounting for resident revenues and expenditures, the following should be considered:

1. The number of receipt books in use should be limited and if possible only one receipt book should be in use. If more than one receipt book must be used, each book should remain in the same location until all receipts are used. The cover of the book should state the location in which the book was used and the dates of the receipts. A new receipt book should not be issued until the prior receipt book has been returned. All completed receipt books should be filed for safekeeping. When the receipt is entered into the accounting system, the duplicate receipt number should be included with each entry. In addition, a review of the receipt books should be performed to determine that all receipt numbers have been accounted for and entered into the accounting system.

2. Due care should be used in generating checks from the system so that accurate check numbers are recorded. Supporting documentation (invoices, etc) for expenditures should be retained in check number order, or attached to a copy of the check. Supporting documentation for the charges to the resident accounts should be placed with each monthly summary of the charges. In addition, all amounts on the manual financial statement should be supported by an expenditure report/transaction list from the Facility's accounting system.

3. As a control performed by an independent source, each resident should be required to sign a copy of their bi-weekly statement to verify the accuracy of the sheet. The statements should be retained as evidence of verification and for audit purposes.

4. The bi-weekly manual financial statement that is compiled should include supporting documentation for the expenditures recorded on the statement for the haircut, commissary, other deductions, petty cash requested, third party payments, close outs and final close outs that have been charged against the account and information to verify the charges to the individual accounts. The statement should be reconciled with monthly transaction history and the bank reconciliation.

5. The month-end balance of the resident account, per the accounting system, should be reconciled with the bank, and the aggregate of all individual resident account balances. All documentation used in the reconciliation should be retained for audit including the outstanding checklists and the individual account balances.

FINDING NUMBER 2004-004
(Continued)

The accounting system should be reviewed to determine its capabilities and the software provider should be contacted to ensure that the Facility is using the system correctly. It should be determined that the system can provide the transaction activity, a current balance, allow the insertion of a receipt number for all revenue collected, and generate individual resident account statements that reconcile with the system balance. Additional training on the system for the staff should be obtained, if necessary.

The cash ledger, if available, and the receipt and disbursement transaction listings should be printed and maintained on a monthly basis, and also final year-end reports generated. A monthly set of hard copies of the ledger, receipt and disbursement transaction reports, bank statements, the reconciliations and outstanding checklists should be bound together, tabbed and placed in a resident account notebook for reference purposes and audit procedures.

Written policies and procedures should be adopted regarding the operation and accounting procedures for the resident account. These policies and procedures should include, but not be limited to the suggestions above and the processes to be followed in the collection of revenues, the expenditure of funds, how the requests for cash by a resident should be handled, and a requirement that the monthly bank reconciliations be verified and approved by the Executive Director and reviewed by the Board.

In summary, the issues described above regarding a lack of evidence and lack of consistently-applied controls resulted in the qualification of opinion on the Offender Accounts. While Offender Accounts process relatively low dollar transactions, accountability is important since the Facility has a stewardship responsibility for this cash on behalf of the offenders. In particular, periodically obtaining the offender's signature agreeing to his or her transaction summary provides the Facility with strong evidence it is fulfilling its stewardship responsibilities.

FINDING NUMBER 2004-005

Accounting Policies and Procedures for Accounting for Commissary, Vending, Industrial and Entertainment and Nutrition Accounts

There are no policies and procedures established regarding the accounting practices for the operation of the commissary, vending, industrial and entertainment, and nutrition accounts. In addition, there was no evidence that the Facility was performing monthly bank reconciliations for these accounts.

The lack of policies and procedures results in inadequate records being maintained, records that are not in balance with the banks, and increases in audit costs. Problems encountered included difficulty in obtaining accurate ledgers, beginning balances of one year that did not agree to the ledger ending balances of the prior year; the lack of receipt numbers, and incorrect check numbers in the ledgers that impeded audit procedures.

The cash ledger and the receipt and disbursement transaction listings should be printed and maintained for these accounts on a monthly basis, and also final year-end reports generated. The transaction listings should contain the receipt and correct check numbers so that the information can be readily compared and verified. In addition, the bank accounts should be reconciled to the cash ledger on a monthly basis and proof of the reconciliations should be maintained, including the outstanding checklist. The monthly set of hard copies of the ledgers, receipt and disbursement transaction reports, bank statements, the reconciliations and outstanding checklists for each account should be bound together, tabbed and each placed in their own notebook for reference purposes and audit procedures.

FINDING NUMBER 2004-005
(Continued)

Written policies should be adopted regarding the operation and accounting procedures for the commissary, vending, industrial and entertainment, and nutrition accounts. The policy should include, but not be limited to: processes to be followed in the collection of revenues; the expenditure of funds; the purposes for which the funds may be used; and the requirement that monthly bank reconciliations on each account be approved and verified by the Director.

FINDING NUMBER 2004-006

Monitoring of Financial Activity

The Judicial Corrections Board, Executive Director, and Fiscal Coordinator do not receive detailed reports of the financial activity of the Facility's accounts. Currently, a very limited review is performed by the Fiscal Coordinator.

Failure to monitor all the activity of these funds could result in errors or irregularities remaining undetected by management.

The Executive Director and Fiscal Coordinator should receive detailed expenditure and receipt information for all accounts for review. By reviewing and approving this data, the stated individuals can better monitor the financial activity of the Facility's funds. In addition, in order to monitor the financial activity of the Facility, the Board should receive a report on the financial activity for all accounts at each meeting which should be reviewed and approved.

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WESTERN OHIO TREATMENT AND HABILITATION CENTER

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 9, 2005