



**Auditor of State
Betty Montgomery**

TABLE OF CONTENTS

TITLE	PAGE
Schedule of Relevant Personnel	1
Independent Accountants' Report	3
Supplement to the Special Audit Report	
Background Information	7
Issue No. 1 Examination of Related Party Transactions	10
Issue No. 2 Summit County Community Based Correctional Facilities – Grant Compliance Testing	15
Appendix A	

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**ORIANA HOUSE, INC. / SUMMIT COUNTY COMMUNITY BASED CORRECTIONAL FACILITIES
SUMMIT COUNTY**

SCHEDULE OF RELEVANT PERSONNEL

As of December 31, 2002

Oriana House, Inc.

James Lawrence, President

Bernard Rochford, Vice President

George DeBord, Chief Financial Officer

Summit County Community Based Correctional Facilities

James Lawrence, Director

Summit County Judicial Corrections Board¹

The Honorable Judge Mary Spicer

The Honorable Judge Jane Bond

The Honorable Judge Patricia Cosgrove

The Honorable Judge Judith Hunter

The Honorable Judge James Murphy

The Honorable Judge Ted Schneiderman

The Honorable Judge Brenda Unruh

The Honorable Judge James Williams

¹ Am. Sub. H.B. 162, effective 10/12/06 eliminated Judicial Corrections Boards and gave the functions previously held by them to facility governing boards, advised by judicial advisory boards. Prior to Am. Sub. H.B. 162, Judicial Corrections Boards were the primary oversight body of Community Based Correctional Facilities.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Facility Governing Board Members

George Mosby, 1275 Andrus Street, Akron, Ohio 44301
Anthony O'Leary, 180 West Cedar Street, Akron, Ohio 44307
George Romanoski, 166 South High Street, Akron, Ohio 44308
Mary Ann Carlin, 2190 Pinebrook Trail, Cuyahoga Falls, Ohio 44223
Steve Libby, County Ex. Office, 175 South Main Street, Akron, Ohio 44308
Randy Zumbar, 100 West Cedar Street, Akron, Ohio 44307

Judicial Advisory Board - Court of Common Pleas, Summit County, Ohio 209 S. High Street, Akron, OH 44308

Honorable Patricia A. Cosgrove, Administrative Judge
Honorable John P. Quinn, Presiding Judge
Honorable Jane Bond, Judge
Honorable Marvin A. Shapiro, Judge
Honorable Judy Hunter, Judge
Honorable Mary F. Spicer, Judge
Honorable James E. Murphy, Judge
Honorable Elinore Marsh Stormer, Judge
Honorable Linda Tucci Teodosio, Judge
Honorable Brenda Burnham Unruh, Judge

The Honorable James McCarthy, County Executive
Summit County
175 S. Main St.
Akron, Ohio 44308

Mr. James J. Lawrence, President
Oriana House, Inc.
P.O. Box 1501
885 E. Buchtel Ave.
Akron, Ohio 44305

We have conducted a special audit of Oriana House, Inc. (OHI) and the Summit County Community Based Correctional Facilities (SCCBCF) grant by performing the procedures described in the attached Supplement to the Special Audit Report for the period July 1, 1999 through December 31, 2002. These procedures were performed solely to:

- Identify organizational and financial relationships and financial transactions between OHI, Correctional Health Services, Inc. (CHSI), Oriana Services, Inc. (OSI), and any other personal and/or business entities determined to be related to OHI during the period July 1, 1999 through December 31, 2002.
- Identify disbursements charged by OHI to the SCCBCF grants from the Ohio Department of Rehabilitation and Correction (ODRC) for the period July 1, 1999 through June 30, 2002, and determine whether the disbursements were allowable grant expenses.

- Determine whether OHI complied with significant SCCBCF grant provisions and OHI policies regarding disbursement of grant funds, grant budgets and budget revisions, revenues and other funding sources, and grant fiscal reporting.

This engagement was conducted in accordance with Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (March 1993). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We identified organizational and financial relationships and financial transactions between OHI, CHSI, OSI, and any other personal and/or business entities determined to be related to OHI during the period July 1, 1999 through December 31, 2002.

Significant Results: Our audit identified 138 related party transactions totaling \$3,566,433 involving OHI, its subsidiaries, and James Lawrence personally. Mr. Lawrence is the Director of the SCCBCF, a public office². Due to the related party nature of some of these transactions and the involvement Mr. Lawrence had with each of the related entities during the audit period, we will refer this matter to the Ohio Ethics Commission (OEC) for their consideration of whether any violations of Ohio's Ethics Laws occurred.

Additionally, we noted that many of the same individuals served in various capacities such as board members, statutory agents, incorporators, and executive management for the various related entities. Given the organizational structure of the various entities and nature of certain related party transactions, we will refer this matter to the Internal Revenue Service and Ohio Attorney General's Office for consideration of whether any federal or state laws regarding the operation of a charitable organization were violated.

During the audit period, OHI received significant funding from both public and private sources. Often, public funds received through grants or other arrangements contain certain restrictions on their use. We identified 116 related party transactions totaling \$3,347,813 to which OHI was one half of the transacting parties. Thirty-two transactions totaling \$68,006 related to State grant programs. Examination of documentation supporting the nature and purpose of the transactions noted no exceptions to applicable program restrictions. However, our testing noted 11 of 116 disbursements totaling \$16,820 were charged to both charges for services contracts and a public grant program. OHI recorded each of the transactions to one account code and by doing so was unable to identify amounts related to grants for the purpose of demonstrating compliance with any applicable requirements. For expenses chargeable to multiple funding sources, we recommend that OHI record transactions in such a manner as to clearly identify the amount charged to each funding source. The remaining 73 transactions total \$3,262,987. These transactions were charged to and paid under contracts for services provided by OHI.

2. We identified disbursements charged by OHI to the SCCBCF grants from the ODRC for the period July 1, 1999 through June 30, 2002, to determine whether the disbursements were allowable expenses of the grants.

² During the course of a performance audit AOS referred certain potential conflict of interest issues concerning James Lawrence as Director of the SCCBCF and his role as President of OHI and other related relationships to the Ohio Ethics Commission (OEC). When the OEC determined that it would consider this matter, OHI and James Lawrence initiated a lawsuit, challenging the jurisdiction of the OEC to receive, initiate or investigate any complaint against them or render an advisory opinion as to their activities under Revised Code, Chapter 102. *Oriana House, Inc. v. Ohio Ethics Commission* (Franklin County Court of Common Pleas, Case No. 04CVH06-5821). On April 5, 2005, the court issued a decision granting summary judgment to the OEC, holding that OHI and James Lawrence are subject to the OEC's jurisdiction under Chapter 102 of the Revised Code as public officials, and R.C. 2921.42 and R.C. 2921.43, as public servants. OHI and Mr. Lawrence appealed the decision. On December 6, 2005, the Tenth District Court of Appeals reversed and remanded the case because the lower court had failed to properly apply the proper legal standard for granting summary judgment. *Oriana House, Inc. v. Ohio Ethics Commission* (10th District, Case No. 05AP-427) To date, this case is pending before the Franklin County Court of Common Pleas.

In addition, we reviewed supporting documentation to determine whether OHI complied with significant grant provisions and OHI policies regarding disbursement of grant funds, grant budgets and budget revisions, revenues and other funding sources, and grant fiscal reporting.

Significant Results: We noted that none of the 90 transactions we tested were unallowable according to the SCCBCF grant provisions.

The general ledger maintained by OHI on an accrual basis could not readily incorporate SCCBCF financial activity into the cash format the ODRC required for reporting purposes. As a result, OHI made various adjustments and reclassifications to the recorded general ledger amounts to arrive at the amounts reported on the quarterly reports. OHI was unable to provide documentation for the adjustments and reclassifications when requested. At the Auditor of State's (AOS) request OHI manually created a "crosswalk" using MS Excel® spreadsheets to demonstrate how the amounts on the quarterly reports for the audit period reconciled to OHI's general ledger. Examination of the "crosswalk" spreadsheets noted various inconsistencies and inaccuracies which caused minor variances between the information recorded by OHI and the information reported to the ODRC on the quarterly reports.

This condition was also reported in the financial audit of the SCCBCF issued by the AOS on August 9, 2005, for the years ended June 30, 2004, 2003, and 2002.

To improve accuracy and reliability of grant financial activity reported to the ODRC, OHI should record grant financial activity in a manner that permits accumulation of the activity into grant reporting categories and demonstrates that the information included on grant fiscal reports can be readily reconciled to OHI's accounting records. If a "crosswalk" is needed to reconcile amounts in OHI's accounting records to those reported to the ODRC, the "crosswalk" should be prepared contemporaneously with the preparation of grant fiscal reports. Additionally, documentation supporting adjustments and reclassifications to general ledger amounts to arrive at the amounts reported should be maintained for audit purposes.

The performance audit of the SCCBCF raised a number of concerns about the oversight and administration of privately run CBCFs that led to action by the Ohio General Assembly. The legislature responded to recommendations in the performance audit as well as management issues proposed by ODRC in the wake of the performance audit, and to concerns regarding conflicts of interest and appropriate oversight of CBCFs. Specifically, on May 23, 2006, the Ohio General Assembly passed Am. Sub. H.B. 162 refining certain aspects of community based correctional facilities (CBCF). The provisions of H.B. 162 became effective October 12, 2006.

Among the notable provisions of the legislation was a response to the Supreme Court of Ohio Board of Commissioners on Grievances and Discipline Opinion 2003-9. This opinion advised that common pleas court judges should not serve on the judicial corrections boards that provided primary oversight of CBCF operations. As a result of this opinion, H.B. 162 eliminated judicial corrections boards and replaced them with facility governing boards, to be advised by judicial advisory boards. The judicial advisory boards, along with the county commissioners, are also responsible for appointing the members of the facility governing boards.

Other provisions of H.B. 162 wherein the legislature responded to concerns that were raised in the SCCBCF performance audit, and that were the subject of examination during the special audit, include the following:

- Directors or individuals in a substantially similar position under a contract between a nonprofit or private entity and a facility governing board to operate a CBCF, and each officer or board member of the nonprofit or private entity are subject to provisions of the Ohio Ethics Law and conflict of interest statutes.

- Purchases made with state financial assistance awarded to CBCFs are required to comply with current state competitive bidding laws as well as the ODRC Division of Payroll and Community Services' fiscal guidelines.

A draft report was provided to counsel for OHI on December 27, 2006 for review and response. A response was received on December 28, 2006. The response was evaluated and modifications were made to the report as we deemed appropriate.



Betty Montgomery
Auditor of State

November 30, 2006

Supplement to the Special Audit Report

Background Information

OHI receives all of the public grant funds provided by the ODRC to the SCCBCF to operate alternative sentencing programs for nonviolent offenders, approximately \$5 million per year. In June 2002, the AOS considered a request from certain members of the Summit County Judicial Corrections Board (JCB) for a special and/or compliance audit of the SCCBCF and its operating entity, OHI. During the audit period OHI, a private nonprofit organization, contracted with Summit County to implement and operate the County's community based correctional facilities. In response to the request, the AOS initiated a performance audit of the SCCBCF.

The JCB engaged the AOS in December 2002 to conduct a performance audit of the SCCBCF. The JCB sought the audit, in part, to address ongoing questions raised about the financial management of SCCBCF and to ensure the efficient and effective delivery of community correctional services. The performance audit's overall objectives were to assess selected areas of the SCCBCF and to develop findings and recommendations to improve operations based on comparisons with peer CBCFs. Based on discussions with the JCB and OHI management, the areas of compliance; governance; financial systems; and programs and staffing were selected for assessment. The performance audit examined the activity of the SCCBCF generally for the FY 2002 and FY 2003 grant periods. In November of 2003, AOS released the performance audit, urging stronger oversight practices and regular competitive bidding. The performance audit identified potential conflicts of interest involving SCCBCF Director and President of OHI, James Lawrence, and his related companies, including a for-profit corporation, CHSI, at which Lawrence was the CEO. The performance audit also included recommendations to ensure compliance with all pertinent State and Program requirements, enhance the overall governing structure, improve programmatic assessment and outcomes, improve financial management and internal controls over financial processes, and examine strategies to enhance revenues beyond the CBCF grant.

On-site interviews for the performance audit began in early January, 2003. Preliminary results of the performance audit and information obtained from other sources noted that there were transactions between OHI and people and business entities that were related to OHI. The scope of the performance audit did not include determining the appropriateness of disbursements of SCCBCF grant proceeds or other public funds to any of the identified related parties. Based on the work performed to that point, it was unclear whether public monies received by OHI via the SCCBCF grant, or other public sources, were used to unjustly enrich or compensate any of the related parties. This information was discussed with the AOS who on January 27, 2003 initiated a special audit of the SCCBCF grants and transactions using public funds involving OHI and people and entities known to be related to OHI.

Concurrent with the AOS's performance audit and subsequently initiated special audit, the ODRC conducted an internal audit of the SCCBCF for the audit periods July 1, 1999 through June 30, 2000 and July 1, 2000 through June 30, 2001. The ODRC issued an internal audit report dated March 18, 2004 containing their audit scope, objectives, and results. According to the report the ODRC's overall objective was to audit selected transactions and compliance of SCCBCF with ODRC financial grant guidelines. The ODRC included more specific objectives related to recording and reporting grant revenues and disbursements, personnel costs, and grant equipment management in its report. The ODRC's results included comments and observations regarding compliance related matters of financial reporting, grant program disbursements, personnel costs, and equipment and inventory management. The report also requested OHI repay the ODRC unspent grant funds totaling \$206,022. The ODRC also made numerous recommendations in its report directed to OHI to enhance SCCBCF grant management and compliance with ODRC financial grant guidelines.

In December 2002, at the approximate same time the JCB engaged the AOS to conduct a performance audit of the SCCBCF, the General Assembly enacted Sub. H.B. 510. A number of provisions related to CBCFs were included in this legislation as a direct response to concerns over the operation of the SCCBCF. Specifically, H.B. 510 expressed the legislature's concern about the lack of oversight of CBCFs in the state of Ohio and sought to utilize the AOS to increase oversight of these programs. The provisions of H.B. 510 became effective March 31, 2003. The bill specified that:

Supplement to the Special Audit Report

- CBCFs are “public offices” under Revised Code section 117.10 and, therefore, are subject to financial audits by the AOS at least once every two years.
- Any private or nonprofit entity that performs the day-to-day operations of a CBCF is also subject to financial audits by the AOS at least once every two years.
- The AOS, either on her own initiative or at the request of ODRC or a judicial corrections board, was authorized to conduct a performance audit of a CBCF or of the entity that performs the operations of the CBCF.

Pursuant to H.B. 510, the AOS performed an initial financial audit of the SCCBCF for the years ended June 30, 2004, 2003 and 2002. The financial audit report was dated May 16, 2005, and was released by the AOS on August 9, 2005. The financial report included a qualified opinion on the SCCBCF's cash basis financial statements. The report also included material noncompliance and material internal control weaknesses. The material noncompliance related to disbursements which did not comply with CBCF grant provisions. The internal control weaknesses related to accounting for Offender Fund transactions and accounting practices which did not facilitate the production of SCCBCF financial statements. Also, less significant noncompliance and internal control recommendations were reported in a management letter provided to OHI.

Beginning in September 2003, OHI and James Lawrence filed four lawsuits against the AOS, challenging the AOS's authority and actions taken to complete this special audit. These lawsuits resulted in a delay in obtaining, and hindered our ability to obtain, certain information throughout the course of this audit. It should also be noted that OHI has controlled all access to records, has not provided any original records for review, and has restricted access to personnel in a manner that has hindered independent verification of documents and information that adversely affects the reliability of both.

OHI and Lawrence first challenged the AOS's authority to conduct the audit and the scope of our subpoena powers. *Oriana House, Inc. v. Montgomery* (Franklin County, Case No. 03CVH 09-10052) The trial court's ruling in favor of the AOS was appealed by OHI and Lawrence. In September of 2004, the Tenth District Court of Appeals upheld the authority and subpoena powers of the AOS, and spoke directly to the conflict of interest issue, noting: “[I]t is difficult to understand how the governing boards of Oriana, CHS and the Summit County CBCF missed the apparent conflict of interest arising from ... transactions occurring while Lawrence concurrently served as President of both companies and Director of the CBCF.” *Oriana House v. Montgomery* (Tenth District, Case No. 03-AP-1178; 2004 Ohio 4788; 2004 Ohio App. LEXIS 4317). OHI and Lawrence again appealed the decision. In April 2006, the Ohio Supreme Court upheld the AOS's authority and subpoena powers, but did not find a relevant link between the special audit and the personal financial records of Jim Lawrence. *Oriana House v. Montgomery*, 108 Ohio St.3d 419.

In May 2004, OHI, Lawrence, and CHSI initiated another action claiming that the AOS had wrongfully disclosed confidential and protected information and audit work papers. *Oriana House, Inc. et al. v. Montgomery* (Franklin County Court of Common Pleas, Case No. 04CVH 05-5002) This case was dismissed by OHI and Lawrence in June 2006.

Also in May of 2004, OHI and Lawrence filed two separate mandamus actions against the AOS claiming that the AOS failed to produce records under their public records requests. These cases were consolidated. *State ex rel. Oriana House v. Montgomery* (Tenth District Court of Appeals, Case No. 04AP-492 and 04AP-504) The AOS counterclaimed seeking records from OHI as a public office or institution subject to public records law. The appellate court found in the AOS's favor. *Id.* (2005 Ohio 3377; 2005 Ohio App. LEXIS 3115, June 30, 2005). However, OHI and Lawrence appealed. On October 4, 2006, in a 4/3 decision, the Ohio Supreme Court reversed the Tenth District and held that OHI is not a public institution subject to public records law. *State ex rel. Oriana House v. Montgomery*, 110 Ohio St. 3d. 456.

In 2006, the General Assembly demonstrated its continued concern about the operation of CBCFs by enacting H.B. 162. This follow up legislation addressed a number of issues that were identified in the performance audit of SCCBCF and in the litigation surrounding this special audit. The key provisions of H.B. 162 included replacing the judicial corrections boards with facility governing boards, to be advised by judicial advisory boards. This provision addressed the opinion of the Supreme Court of Ohio Board of Commissioners

Supplement to the Special Audit Report

on Grievances and Discipline Opinion 2003-9, which resulted from questions in the performance audit about the applicability of Ohio Ethics Laws. H.B. 162 also addressed competitive bidding requirements and several other management issues that resulted from the performance audit. The legislature specifically clarified a question of the applicability of Ethics Laws. The law requires that CBCF Directors or individuals operating a CBCF through a nonprofit or private entity, and that each officer or board member of the nonprofit or private entity, are subject to provisions of the Ohio Ethics Law and conflict of interest statutes.

Supplement to the Special Audit Report

Issue No. 1 – Examination of Related Party Transactions

We identified organizational and financial relationships and financial transactions between OHI, CHSI, OSI, and any other personal and/or business entities determined to be related to OHI during the period July 1, 1999 through December 31, 2002.

Procedures

1. We identified personal and/or business entities related to OHI and determined whether OHI and any identified related business entities were formed under ORC Sections 1701 or 1702.
2. If formed under Ohio Rev. Code Sections 1701 or 1702, we obtained the following documents or information, including but not limited to, the filed articles of incorporation; regulations for the government of the corporation; the membership book of the corporation; the trustees of the corporation; the officers of the corporation; the complete books and records of account; the minutes of the proceedings of its incorporators, members, trustees, and committees of the trustees or members.
3. We identified financial transactions involving any of the personal and/or business entities identified in Procedure No. 1.
4. We examined supporting documentation for transactions identified in Procedure No. 3 to determine the nature and funding source of each transaction, whether they constituted an “arm’s length” transaction, and whether they were in compliance with the Ohio Revised Code and any other applicable authority.
5. We identified properties acquired and/or owned by OHI and the other personal or business entities identified in Procedure No. 1 during July 1, 1999 to December 31, 2002. We examined supporting documentation to determine the use of those properties, how the properties were acquired, the rental of any properties, and disposal of any properties.

Results

1. Using sources such as OHI 2001 Annual Report, Ohio Secretary of State (SOS) internet website, and available IRS forms 990 we noted the following regarding OHI and its related entities.

Oriana House, Inc.

Information obtained from the SOS internet website indicated OHI was incorporated February 11, 1981, as a not-for-profit corporation. OHI’s original Articles of Incorporation were reviewed and according to a 1982 amendment, OHI’s stated purpose was to be “operated exclusively for one or more purposes set forth in section 501(c)(3) of IRS and activities limited to those permitted by 501(c)(3) of IRS.” During the audit period, OHI was the parent company of OSI and owned 100% of the stock of the for-profit subsidiary, CHSI.

According to OHI’s 2001 Annual Report, the Board of Trustees and significant executive staff were comprised of the following people:

Board of Trustees

Chairperson - Della Koester
Treasurer - William Kea
Secretary - Timothy Ochsenhirt
Member - Kenneth McCormick
Member - Barbara Young
Member - Frederic L. Zuch

Significant Executive Staff

President and CEO – James J. Lawrence
Executive Vice President – Bernard Rochford
Vice President, Programs – Anne Connell-Freund
Vice President, Administration – Mary H. Jones
Vice President, Services – Christine Savage
Vice President, Finance – Thomas Stecz
Executive Assistant – Lori Lawrence
Bookkeeper – Patricia Flanigan

Supplement to the Special Audit Report

Oriana Services, Inc.

Information obtained from the SOS internet website indicated OSI was incorporated September 27, 1996, as a not-for-profit corporation under Section 1702 of the Ohio Revised Code. Its incorporator was Bernard Rochford who was also the Executive Vice President of OHI. Among its stated purposes, OSI was organized to “support, counsel, and empower low-income citizens to cope with housing and employment problems in Summit County. Assist in making available additional permanent low- and moderate-income housing in Summit County. Assist in making job training and economic development programs and projects available to low-income residents. Acquire, hold, sell properties to advance other listed not-for-profit purposes of the organization. Borrow money or other indebtedness to advance other listed not-for-profit purposes of the organization.” During the audit period, OSI was a subsidiary of OHI.

According to IRS Form 990's filed by OSI during the audit period the Board of Trustees and significant staff were as follows:

President - Bernard Rochford
Secretary/Treasurer - Anne Connell-Freund
Member - Mary H. Jones
Bookkeeper - Patricia Flanigan

Each of the above individuals was also identified as a significant member of OHI's executive staff during the audit period.

Correctional Health Services, Inc.

Information obtained from the SOS internet website indicated CHSI was incorporated May 16, 1985, as a for-profit entity under Section 1701 of the Ohio Revised Code. The listed purpose of the organization was “to engage in any lawful act or activities for which corporations may be formed under Section 1701.01 to Section 1701.98, inclusive of the Ohio Revised Code.” The listed president and incorporator was James J. Lawrence. During the audit period, CHSI was a wholly-owned subsidiary of OHI.

Oriana House Rehabilitation, Treatment & Community Corrections Foundation, Inc.

Information obtained from the SOS internet website indicated Oriana House Rehabilitation, Treatment & Community Corrections Foundation, Inc. (OHRTCCF) was incorporated December 4, 2002, as a not-for-profit corporation under Section 1702 of the Ohio Revised Code. Among its stated purposes was “To support, assist and promote Oriana House, Inc.; to support and assist in providing of quality & humane chemical dependency treatment & community correction services.” According to information maintained on the SOS website, OHRTCCF's incorporator and statutory agent was William W. Scheub. The listed Directors included Bernard Rochford, Anne Connell-Freund, and Mary H. Jones, who were all also significant members of OHI's executive staff.

Community Corrections Real Estate, Inc.

Information obtained from the SOS internet website indicated Community Corrections Real Estate, Inc. was incorporated December 13, 1993, as a not-for-profit corporation under Section 1702 of the Ohio Revised Code. Its stated purpose was “To conduct any lawful business for which natural persons may lawfully associate themselves and particularly, but not limited to, purchase, acquire, hold, lease, encumber, sell, exchange, transfer and to make contracts and other documents necessary to carry out such purposes.” Its stated purpose was also “To accept and expend funds to promote and enhance general charitable purposes, including educational, artistic or scientific purposes.” James J. Lawrence, Della Koester, and Barbara Young were listed as incorporators. James Lawrence was listed as the corporation's statutory agent. The corporation dissolved May 30, 2002.

According to the Certificate of Dissolution filed with the SOS, the officers were as follows: President, James J. Lawrence; Treasurer, Della Koester; and Secretary, Barbara Young.

Supplement to the Special Audit Report

procedure was accomplished through the review of SOS business filing information, the 2001 OHI annual report, available IRS Form 990's, and review of business and personal bank account activity. Please see the results of Procedures No. 1 and No. 3.

3. Based on review of subpoenaed bank account information we identified 143 transactions between the related parties identified in Procedure No. 1. They were as follows:

<u>Initiator</u>	<u>Recipient</u>	<u>No. of Transactions</u>	<u>Total Amount</u>
CHSI	James Lawrence	16	\$119,570
CHSI	OHI	29	727,417
CHSI	OSI	3	5,987
OHI	OSI	32	611,566
OHI	CHSI	44	1,980,078
OSI	CHSI	2	8,007
OSI	OHI	1	24,537
James Lawrence	CHSI	6	87,163
James Lawrence	OHI	5	2,107
		<u>138</u>	<u>\$3,566,433</u>

We identified four deposits totaling \$1,055 into CHSI's account from an unknown source. Upon further inquiry OHI's legal counsel asserted that based on discussions with OHI's accounting staff, two of the transactions totaling \$576 were deposits of coins collected from pay phones. OHI's legal counsel provided only bank statements to substantiate the transactions. One deposit of \$219 was the remainder of a check issued for payment of various property transaction fees. OHI was unable to provide any documentation related to one deposit of \$260.

We identified five deposits totaling \$83,759 into OSI's account from an unknown source. Upon further inquiry, OHI's legal counsel asserted that three of the deposits totaling \$79,246 were the payment of rents by OHI to OSI for various facilities. Property lease agreements and check copies were provided to support these transactions. We examined OHI's ledger postings to determine the funding source for these three transactions and determined that they did not involve public funds. Documentation for one deposit totaling \$1,225 consisted of a check copy from an external party payable to OSI. The remaining deposit totaling \$3,288 was supported by only a bank statement.

4. We provided 116 related party transactions totaling \$3,347,813 that originated at OHI or for which OHI was the recipient to OHI's legal counsel and requested that OHI provide documentation to support the nature and funding source of the transactions. OHI provided documentation such as invoices, lease agreements, contracts for services, amortization schedules, receipts, cancelled checks, and ledger postings to support those transactions to which OHI was a party. In instances where OHI comprised only half of the transacting parties, OHI provided only documents from OHI and not the other related party. Relying on the recent Ohio Supreme Court decision finding that it is not a public institution subject to public records law, *State ex rel. Oriana House v. Montgomery*, 110 Ohio St. 3d. 456, OHI has declined to provide any business records of parties that comprised half of a transaction with OHI or to which OHI was not a party. However, no public money appears to have been directly paid to any entity other than OHI.

We noted the following types of expenses for those instances that OHI did provide documentation to support the nature and funding source of transactions:

- Travel costs related to training and conferences for Mr. Lawrence.
- Travel and pay advances for Mr. Lawrence.
- Meals and entertainment costs for Mr. Lawrence.
- Maintenance fees for properties (i.e. Aruba).
- Rental/lease payments for certain properties.
- Mortgage payments related to properties.
- Travel expenses for Anne Connell-Freund.

Supplement to the Special Audit Report

Transactions for which OHI ledger postings were available noted that 17 disbursements totaling \$33,986 were charged to the SCCBCF. We tested those transactions for compliance with SCCBCF grant requirements and noted no exceptions. There were 15 disbursements totaling \$34,020 charged to other State grant programs. We tested those transactions for compliance with allowable costs grant requirements and noted no exceptions. There were 11 disbursements totaling \$16,820 which were funded by both a charge for service contract and a public grant program. However, OHI records recorded the transaction to one account code. By doing so, OHI was unable to identify amounts related to grants for the purpose of demonstrating compliance with any applicable requirements. For expenses chargeable to multiple funding sources, we recommend that OHI record transactions in such a manner as to clearly identify the amount charged to each funding source.

The remaining 73 transactions totaling \$3,262,987 were recorded in OHI's ledger under charges for services contracts OHI maintains with various local government subdivisions. For these transactions, we examined the contract between OHI and the local government subdivisions to ensure that contracts existed. We noted no exceptions related to the 73 remaining transactions.

5. Research of property held, purchased, transferred, or sold was accomplished primarily through information reported on the Summit County Auditor's and Recorder's internet websites. The bulk of our research using the Summit County Auditor's and Recorder's internet websites was conducted in 2003 with subsequent research conducted in 2004, 2005 and 2006 to include any updated information reflected on the sites. Based on the information on the websites, we were unable to determine with any certainty information related to, or the existence of, any mortgages that may have been recorded related to the initial/original purchase of properties during the period 1993-2002.

We determined that on occasion property ownership and related debt was transferred between related entities. In response to our inquiries, Bernie Rochford, OHI Executive Vice President, asserted that this was done to take advantage of certain legal provisions related to liability issues and risk management principles. The most notable transfer of properties occurred on December 8, 2003 whereby 44 properties (53 parcels) were transferred by way of a quit-claim deed from CHSI to OHI for the sum of one dollar. According to Jim Lawrence, the transfer was made to relieve part of the debt owed by CHSI to OHI. A review of public records and interviews with OHI employees confirm that properties were purchased by OHI or a related entity and sold for a variety of reasons. In some instances, properties were acquired that were necessary for the operation or support of CBCF programs. In other instances, purchases of vacant land and properties, both within and outside of the State of Ohio, were made for investment purposes unrelated to any CBCF function. Based on our research and the disbursement testing conducted we noted no instances where public funds were used to purchase properties during the audit period. Review of selected SCCBCF expenditures (Issue No. 2, Procedure No. 1) did not note that SCCBCF grant monies were used to purchase real estate or make real estate loan repayments. Appendix A to this report contains a more detailed and demonstrative overview of several of the properties and associated transactions made by OHI or owned by a related entity.

We noted several properties that were once owned by OHI and then transferred to one of the other related entities. We noted that related to these properties OHI then entered into a lease contract to rent the facilities or properties it once owned/purchased. Over the course of some of these leases, OHI paid more in lease payments to the lessor entity than OHI's original purchase price. During interviews OHI asserted that market rent appraisals were conducted for properties that OHI paid rent to a related entity. OHI provided a sample of those market appraisals as evidence of their existence; however, AOS drew no conclusions on the reasonableness of those appraisals.

Supplement to the Special Audit Report

Result No. 3 of this Issue identified 138 related party transactions totaling \$3,566,433 involving OHI, its subsidiaries, and James Lawrence personally. Mr. Lawrence is the Director of the SCCBCF, a public office³. As such, we will refer this matter to the Ohio Ethics Commission for their consideration of whether any violations of Ohio's Ethics Laws occurred. Additionally, Result No. 1 of this issue noted that many of the same individuals served in various capacities such as board members, statutory agents, incorporators, and executive management for the various related entities. Given the organizational structure of the various entities and nature of certain related party transactions, we will refer this matter to the Internal Revenue Service and Ohio Attorney General's Office for consideration of whether any federal or state laws regarding the operation of a charitable organization were violated.

³ Please see footnote No. 2.

Supplement to the Special Audit Report

Issue No. 2 – Grant Compliance Testing – SCCBCF

We identified disbursements charged by OHI to the SCCBCF grants for the period July 1, 1999 through June 30, 2002, to determine whether the disbursements were allowable expenses of the grants. In addition, we reviewed supporting documentation to determine whether OHI complied with significant grant provisions and OHI policies regarding disbursement of grant funds, grant budgets and budget revisions, revenues and other funding sources, and grant fiscal reporting.

Procedures

1. We examined OHI internal accounting records to identify expenses charged to the SCCBCF grant. We examined supporting documentation for the expenses charged to the grant to determine whether the expenses were allowable costs of the grant and whether OHI complied with significant grant provisions and OHI policies regarding disbursement of grant funds.
2. We examined grant agreements and OHI policies to identify significant compliance requirements related to grant budgets and budget revisions. We examined supporting documentation to determine whether OHI complied with those requirements.
3. We examined grant agreements and OHI policies to identify significant compliance requirements related to grant revenues and other funding sources. We examined supporting documentation to determine whether OHI complied with those requirements.
4. We examined grant agreements and OHI policies to identify significant compliance requirements related to grant fiscal reports. We examined supporting documentation to determine whether OHI complied with those requirements.

Results

1. Allowable costs per the SCCBCF grant agreement were as follows: personnel, operating supplies, contractual services, communication, transportation, advertising and printing, utilities, repairs and maintenance, rents, offender expenses, insurance, staff training and development, and equipment purchases.

Due to the volume of grant transactions for the audit period, OHI provided the grant expenses in electronic format. Prior to selecting SCCBCF transactions for testing, we tested completeness of the transactional information provided by OHI. We organized the electronic information into apparent expense categories and attempted to trace the information to the grant financial reports OHI submitted to ODRC. Although we were not able to trace the amounts to the reports by expense category, we gained assurance that, in total, OHI provided AOS with a complete list of the grant expenses.

We selected 90 transactions throughout the audit period that were charged to the SCCBCF grant. Our examination of supporting documentation obtained from OHI for the 90 transactions noted no exceptions with significant grant provisions and OHI policies regarding disbursement of grant funds. We noted the 90 transactions were for items such as:

- Salaries, wages, and benefits for personnel.
 - Office supplies, cleaning and maintenance costs.
 - Pro-forma forms and stationary.
 - Office furniture, telecommunication equipment, and safety equipment.
 - Training and seminars costs.
 - Repairs and maintenance costs.
 - Contractual services for doctors and consultants related to the program.
 - Vehicle purchase.
 - Landscaping and asphalt for a parking lot.
2. No exceptions were noted regarding compliance with grant budget and budget revision requirements.

Supplement to the Special Audit Report

During the audit period SCCBCF submitted seven budget revision requests to the ODRC. Each of the budget revision requests was submitted timely and included detailed explanations and justifications for the proposed revisions as required by the SCCBCF grant requirements. The ODRC approved each of the budget revision requests.

- Grant provisions required that revenues received from other sources not be commingled with grant funds and that grant funds be readily identifiable for audit purposes. During the audit period, SCCBCF grant proceeds were awarded to Summit County and recorded by Summit County in the Summit County CBCF Fund. Once received, the County passed the entire grant proceeds to OHI for administration of the SCCBCF program. Through specific accounting codes within its general ledger system OHI recorded the financial activity of the SCCBCF program.

It was noted in a performance audit of the SCCBCF conducted by the AOS and released November 23, 2003 that OHI did not account for program revenue such as vending machine commissions, telephone vendor commissions/pay phone revenues, and per diem offender fees in accordance with grant requirements. According to grant provisions, fees collected for specific grant related activities must be collected at actual costs and reimbursed to the same cost category as the expenditure. Because these types of fees were deposited into OHI's (vending machine commissions and per diem fees) and CHSI's and OSI's general funds (telephone commissions/revenue) losing their identity as program funds, these program revenues could not be further tested for compliance during the special audit.

OHI has asserted that beginning in June 2004 the commissions and revenues were segregated and accounted for in the Resident Account Fund of the SCCBCF with the monies being used for program expenditures and services for SCCBCF clients.

- SCCBCF's financial accounting records are maintained by OHI. During testing of the SCCBCF's quarterly grant reports submitted to the ODRC, we noted the general ledger maintained by OHI could not readily incorporate SCCBCF financial activity into the format the ODRC required. As a result, OHI indicated they made various adjustments and reclassifications to the general ledger amounts to arrive at the amounts reported on the quarterly reports. OHI was unable to provide documentation for the adjustments/reclassifications when requested. OHI stated it needed to manually create a "crosswalk" using an MS Excel® spreadsheet to demonstrate how the amounts on the quarterly reports were reconciled to OHI's general ledger.

During our examination of the "crosswalk" constructed by OHI, we noted inconsistent use of line items from the general ledger as they relate to the quarterly reports. For example, a line item from the general ledger was identified in the "crosswalk" during one quarter but was not used in a subsequent quarter. Some numbers on the "crosswalk" were incorrect when the identified line items were added from the general ledger. We noted variances between the amounts included on the "crosswalk" and those reported to the ODRC. The variances appear to be the result of the undocumented adjustments and reclassifications made by OHI, inaccurate accumulation of information in the construction of the "crosswalk" and inconsistent use of certain line items in the general ledger to arrive at the amount on the "crosswalk."

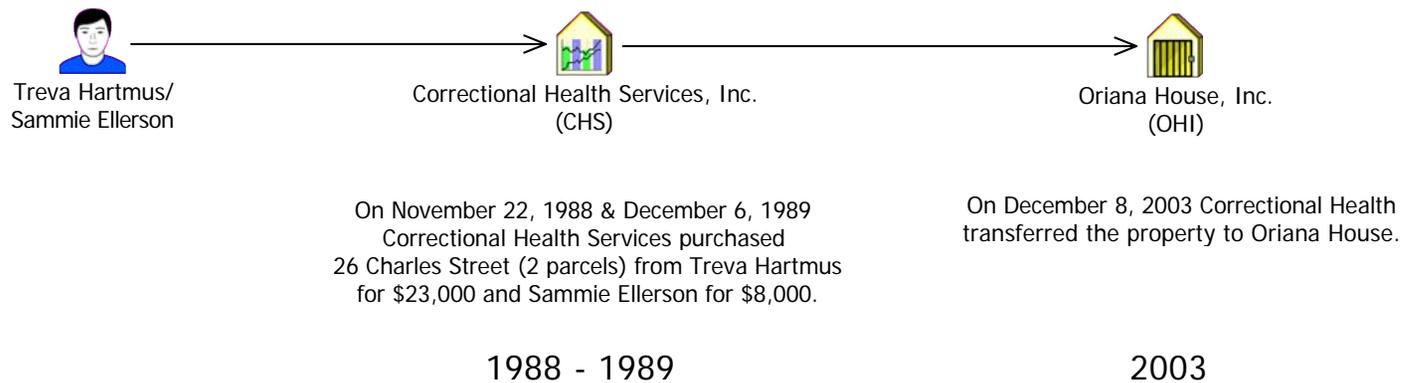
Similar conditions were noted and reported in the AOS's financial audit of the SCCBCF in accordance with House Bill 510 for the years ended June 30, 2004, 2003, and 2002. That report was issued by the AOS on August 9, 2005. Finding 2004-003 of that report noted that OHI could not readily support that the information presented on its quarterly grant reports agreed to its general ledger.

To improve accuracy and reliability of grant financial activity reported to the ODRC, OHI should record grant financial activity in a manner that permits accumulation of the activity into grant reporting categories and demonstrates that the information included on grant fiscal reports can be readily reconciled to OHI's accounting records. If a "crosswalk" is needed to reconcile amounts in OHI's accounting records to those reported to the ODRC, the "crosswalk" should be prepared contemporaneously with the preparation of grant fiscal reports. Additionally, documentation supporting adjustments and reclassifications to general ledger amounts to arrive at the amounts reported should be maintained for audit purposes.

Appendix A

**26 Charles Street
Akron, Ohio**

Current Owner: Oriana House, Inc.

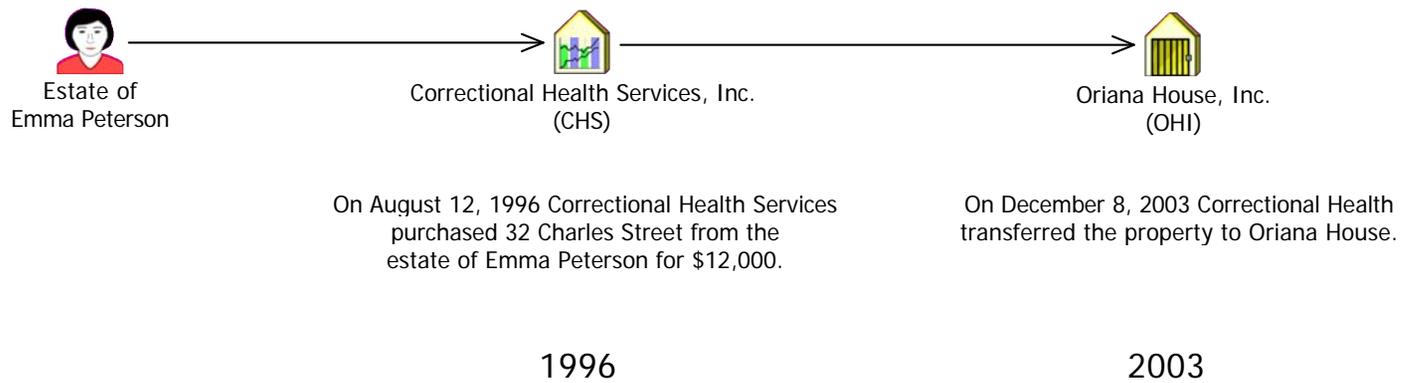


NOTES

- 2001 Tax Valuation was \$42,040.
- 2002 - 2005 Tax Valuation was \$44,350.
- Property use not identified.
- Per Frank Reed, subsequent to the special audit period this property was appraised for \$50,000 and was transferred to OHI to partially reduce a debt owed by CHS to OHI.

**32 Charles Street
Akron, Ohio**

Current Owner: Oriana House, Inc.

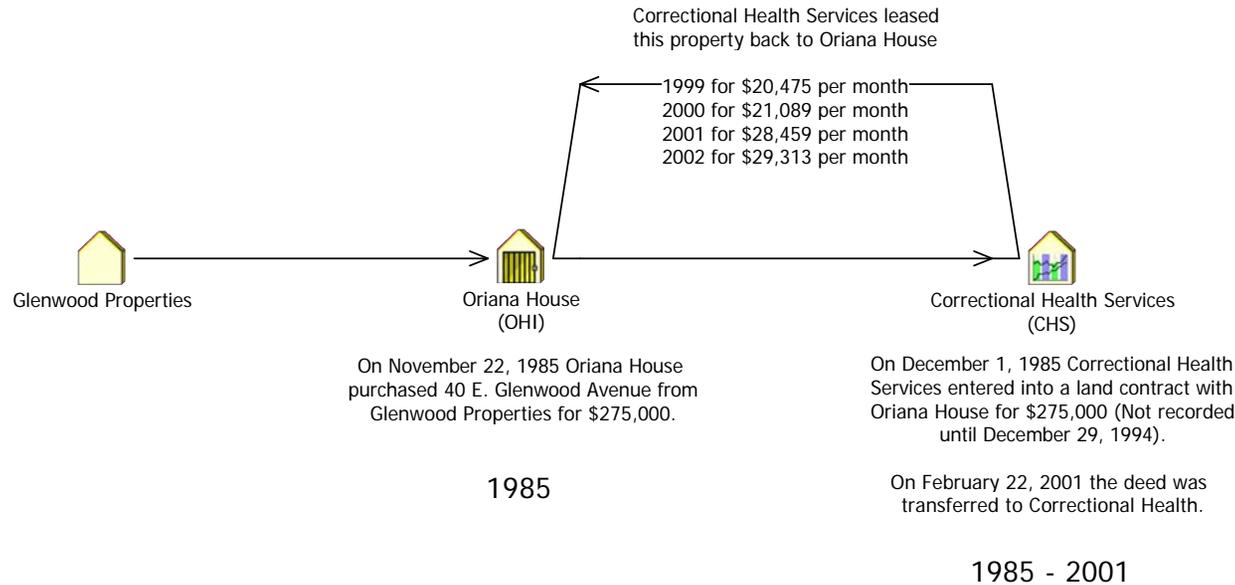


NOTES

- 2001 Tax Valuation was \$16,740.
- 2002 - 2005 Tax Valuation \$39,350.
- Identified in OHI's 'Annual Report' as "Hand's" project in 1996 & 1997.
- Property use not identified.
- OHI board minutes from 2/20/97 approved CHS's purchase of 32 Charles St. and improvements up to \$40,000.
- Per Frank Reed, subsequent to the special audit period this property was appraised for \$42,000 and was transferred to OHI to partially reduce a debt owed by CHS to OHI.

40 E. Glenwood Avenue
Akron, Ohio

Current Owner: Correctional Health Services, Inc.

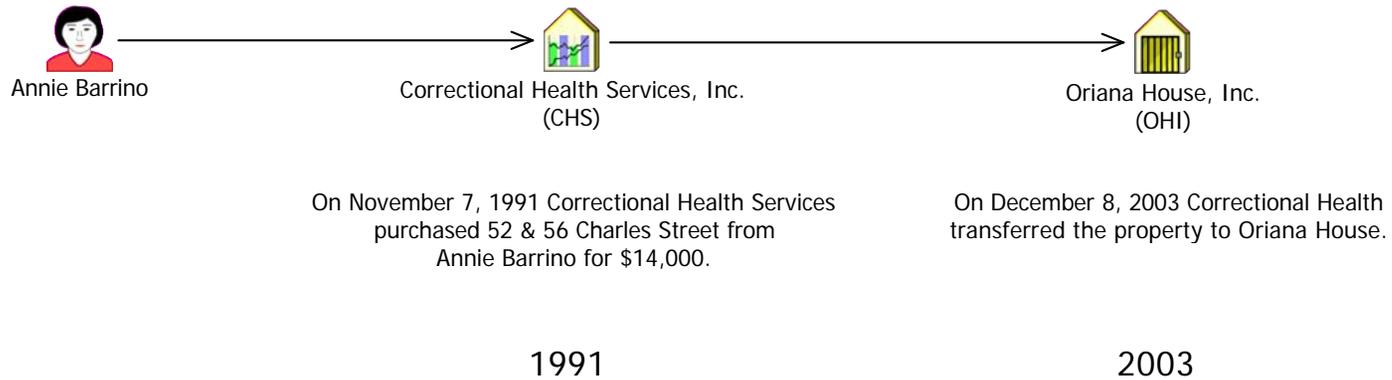


NOTES

- 2001 Tax Valuation was \$446,470.
- 2002 - 2004 Tax Valuation was \$607,120.
- 2005 Tax Valuation was \$635,090.
- OHI's IRS form 990 reflects \$321,764 in improvements between 1995 and 2000.
- Property was used by OHI as Glenwood Jail, Men's Halfway House, Residential Institutional Probation (RIP).
- This property (along with others) is listed on a Mortgage Deed to Key Bank in the amount of \$12,489,859.
- On May 23, 2003 a mortgage was entered into between CHS and OHI for \$500,000 with the Glenwood property used as collateral.
- On November 11, 2004 a mortgage was entered into between CHS and OHI for \$895,180.96 with the Glenwood property used as collateral.
- OHI board minutes from 1/14/98 authorized Lawrence to negotiate a one year lease of property at 40 E. Glenwood from CHS for 1/1/98 - 12/31/98.
- OHI board minutes from 12/3/98 approved lease from CHS for Bryan School for \$275,000 per year.
- OHI board minutes from 3/3/1999 authorized Lawrence to negotiate a one year lease of property at 40 E. Glenwood from CHS for 1/1/99 - 12/31/99.
- OHI board minutes from 1/26/00 authorized Lawrence to negotiate a one year lease of property at 40 E. Glenwood from CHS for 1/1/00 - 12/31/00 for \$253,068 per year, effective 1/1/00.
- OHI board minutes from 8/7/00 authorized Lawrence to negotiate and execute a lease agreement from CHS to OHI for property at 40 E. Glenwood for a one year lease term on an annual basis. The lease amount for 2001 shall be based on the previous year's lease rate or as determined by an independent market rental appraisal.
- According to a fair market rental analysis performed by U.S. Realty Consultants on 2/26/01 40 E. Glenwood was determined to have a rental value of \$6.50 per square foot, or \$341,510 annually.

**52 & 56 Charles Street
Akron, Ohio**

Current Owner: Oriana House, Inc.

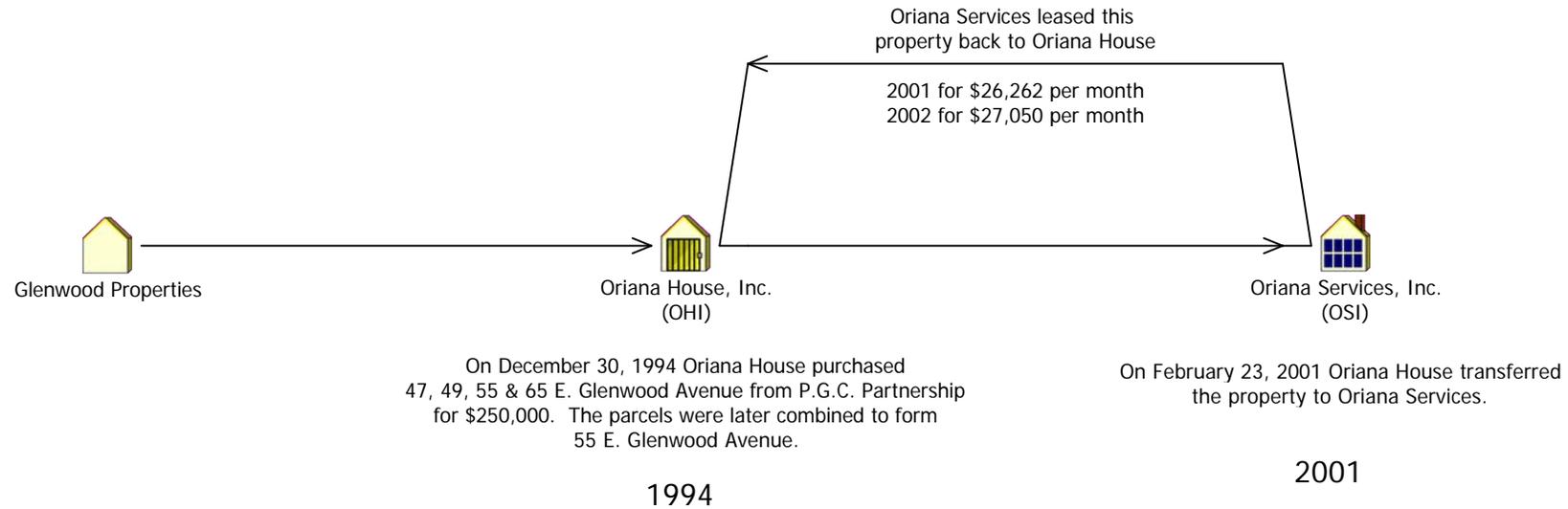


NOTES

- 2001 Tax Valuation was \$16,990.
- 2002 - 2005 Tax Valuation was \$46,450.
- Property use not identified.
- Per Frank Reed, subsequent to the special audit period 52 Charles St. was appraised for \$3,000 and 56 Charles St. was appraised for \$32,000 and both were transferred to OHI to partially reduce a debt owed by CHS to OHI.

**55 E Glenwood Avenue
Akron, Ohio**

Current Owner: Oriana Services, Inc.

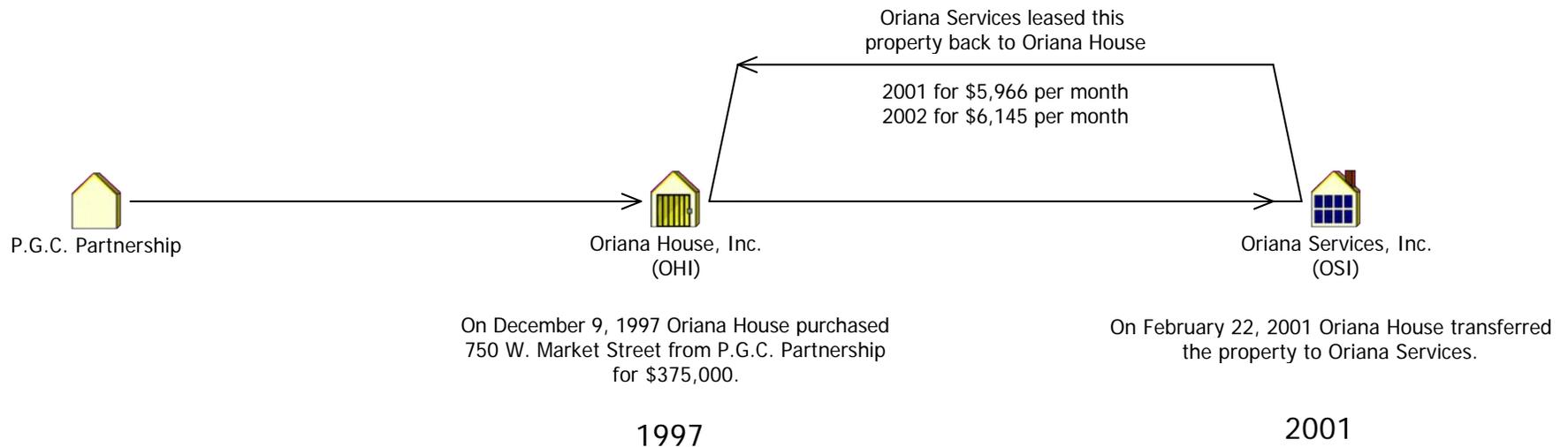


NOTES

- 2001 Tax Valuation was \$565,740 (two buildings).
- 2002 Tax Valuation was \$1,772,950 (two buildings).
- 2002 Tax Valuation for new building \$1,739,590.
- Total 2002 revised Tax Valuation was \$3,512,540 (three buildings).
- 2003 Tax Valuation was \$3,511,280.
- 2004 Tax Valuation was \$3,584,860.
- 2005 Tax Valuation was \$3,598,260.
- OHI's IRS form 990 reflects \$70,684 in improvements for 47/49 E. Glenwood between 1994 and 1999.
- OHI's IRS form 990 reflects \$2,408,283 in building and improvements for 55 E. Glenwood between 1995 and 2000.
- OHI's IRS form 990 does not reflect the cost of building at 65 E. Glenwood.
- 47/49 E. Glenwood is used by OHI as Chemical Dependency Treatment Center (TMRC).
- 55 E. Glenwood is used by OHI as the Terrence Mann Residential Center, Men's Work Release/Halfway House, SHARP.
- 65 E. Glenwood is used by OHI as the Kitchen/Lab/Driver Intervention.
- This property (along with others) is listed on a Mortgage Deed to Key Bank in the amount of \$12,489,859.
- OHI board minutes from 2/20/97, 1/14/98 and 3/3/99 approved the sale of 49 E. Glenwood to CHS or another legal entity - Price: \$2,686,424; Interest: 9.64%; Payments: \$22,863.82 for 30 years.
- According to a fair market rental analysis performed by Johnson & Sherman on 2/11/1997 55 E. Glenwood was determined to have a rental value of \$280,000 annually (assumes a 10 to 25 year lease, fixed rent, with the tenant responsible for all operating expenses except structural, and roof reserves and management expenses).
- OHI board minutes from 8/7/00 authorized Lawrence to negotiate and execute the sale and/or lease back of all facilities used by OHI programs to OHI or some other legal entity for all current or future facilities used by OHI programs. These are to be one year lease terms or initial lease terms that result in one year leases on an annual basis.

**750 W. Market Street
Akron, Ohio**

Current Owner: Oriana Services, Inc.

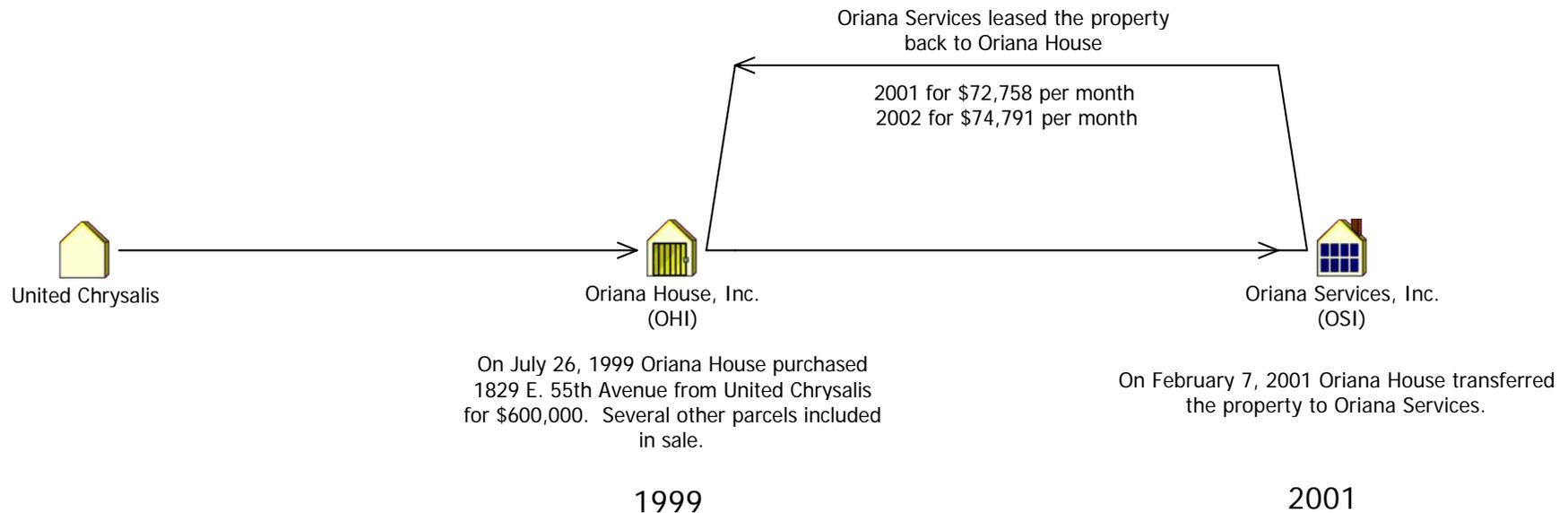


NOTES

- 2001 Tax Valuation was \$352,110.
- 2002 Tax Valuation was \$421,630.
- 2003 - 2004 Tax Valuation was \$421,270.
- 2005 Tax Valuation was \$437,900.
- OHI's IRS form 990 reflects \$163,422 in improvements.
- This Property (along with others) is listed on a Mortgage Deed to Key Bank in the amount of \$12,489,859.
- Property is used by OHI as Day Reporting, Bail Supervision, Drug Court Home Incarceration, Ignition Interlock, and Family Violence Court.
- OHI board minutes from 12/1/97 state that OHI exercised its option to purchase property (office building) at 750 W. Market for \$375,000 on 11/7/97.
- OHI board minutes from 8/7/00 authorized Lawrence to negotiate and execute the sale and/or lease back of all facilities used by OHI programs to OHI or some other legal entity for all current or future facilities used by OHI programs. These are to be one year lease terms or initial lease terms that result in one year leases on an annual basis.

**1829 E. 55th Avenue
Cleveland, Ohio**

Current Owner: Oriana Services, Inc.

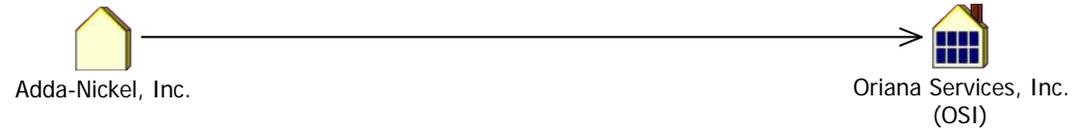


NOTES

- 2002 Tax Valuation was \$1,462,400.
- No description of building was provided in tax information.
- OHI's IRS form 990 reflects \$741,512 for building 1829 E. 55th and \$6,327,729 in improvements for E. 55th from 1999 thru 2001 (see 1837 E. 55th).
- Property is used by OHI as Community Corrections & Treatment Center (FED).
- This property (along with others) is also listed on a Mortgage Deed to Key Bank in the amount of \$12,489,859.
- Property was also listed on a Mortgage Deed to the City of Akron for \$250,000.
- OHI board minutes from 10/21/98 authorized OHI to purchase property at 1829 E. 55th for \$600,000 for FBOP Community Center.
- According to a limited appraisal performed by Kocinski, Smith and Nejedlik on 8/7/1998 1829 E. 55th appraised for \$300,000.
- According to a fair market rental analysis performed by U.S. Realty Consultants on 11/20/00 1829 E. 55th was determined to have a rental value of \$20.00 per square foot, or \$873,100 annually.

**1837 E. 55th Avenue
Cleveland, Ohio**

Current Owner: Oriana Services, Inc.



In January of 2001 Oriana Services purchased
1837 E. 55th Avenue from Adda-Nickel, Inc.
for \$225,000.

2001

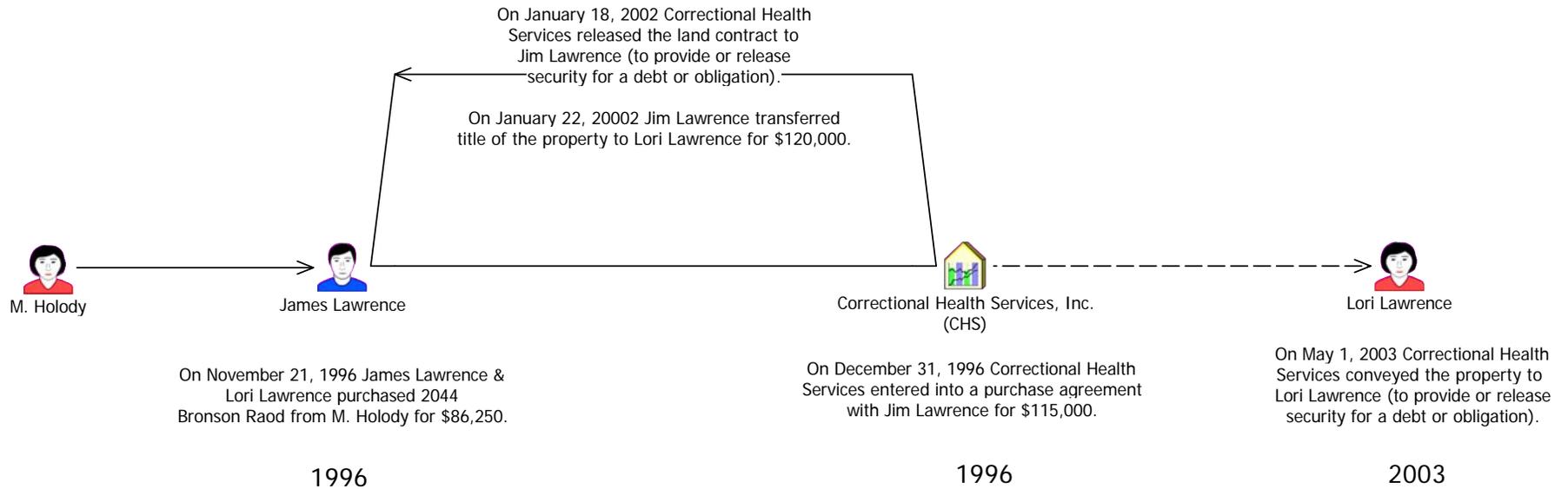
NOTES

- 2002 Tax Valuation was \$99,900.
- No description of the building was provided in the tax information.
- OHI's IRS form 990 does not reflect this property, however, it is unknown if any of the improvements listed in 1829 E. 55th are related to this property.
- Property use is unknown.

2044 Bronson Road
Peninsula, Ohio

Current Owner: Lori Lawrence

2002

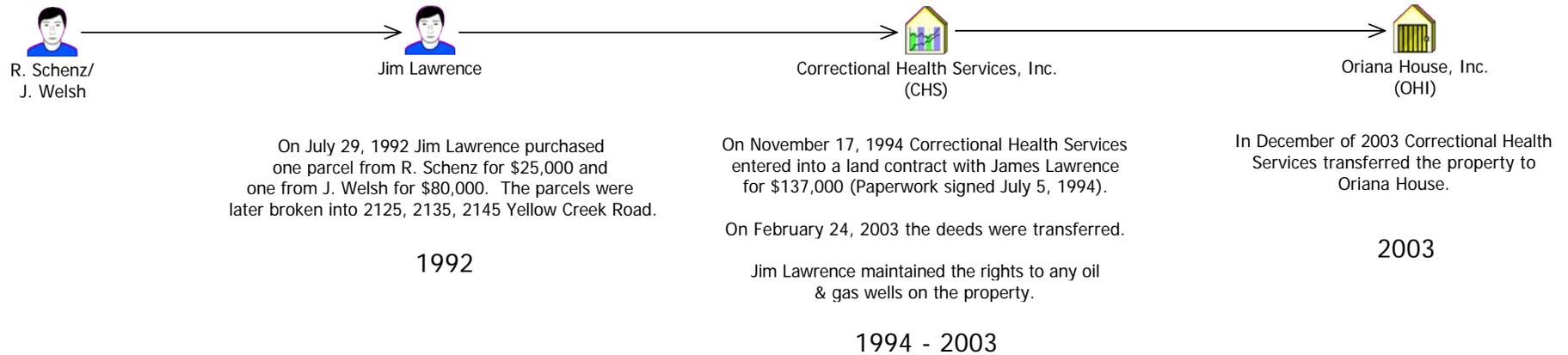


NOTES

- 2001 Tax Valuation was \$24,610.
- 2002 - 2004 Tax Valuation was \$32,660.
- 2005 Tax Valuation was \$37,560.
- OHI board minutes from 2/20/97 approved CHS to accept Bronson property transfer effective 12/26/96 at a value of \$115,000 with a mortgage of \$86,250 to partially satisfy loan by CHS to Lawrence. Also approved CHS to provide an irrevocable option to Lawrence to purchase Bronson property from CHS for \$120,000 until 12/31/2002 and \$125,000 until 12/31/2008 for an option price of \$1,000.

**2125-2145 Yellow Creek Road
Cuyahoga Falls, Ohio**

Current Owner: Oriana House, Inc.

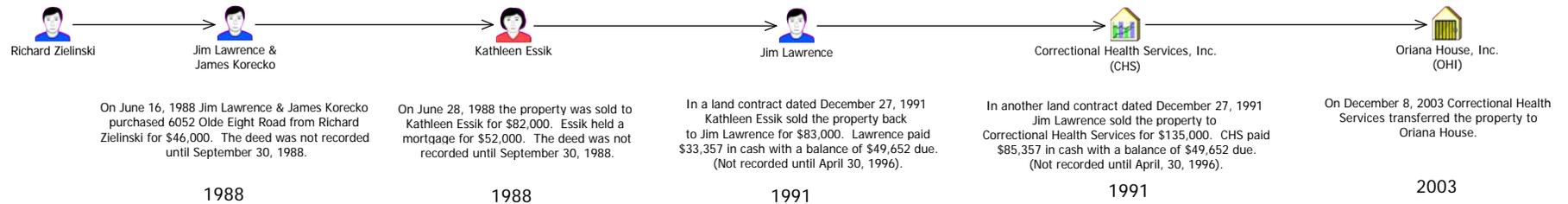


NOTES

- 2001 Tax Valuation was \$93,290.
- 2002 Tax Valuation was \$125,030.
- 2003 - 2005 Tax Valuation was \$191,720.
- Per Frank Reed, subsequent to the special audit period this property was appraised for \$200,000 and was transferred to OHI to partially reduce debt owed by CHS to OHI.

6052 Olde Eight Road
Akron, Ohio

Current Owner: Oriana House, Inc.



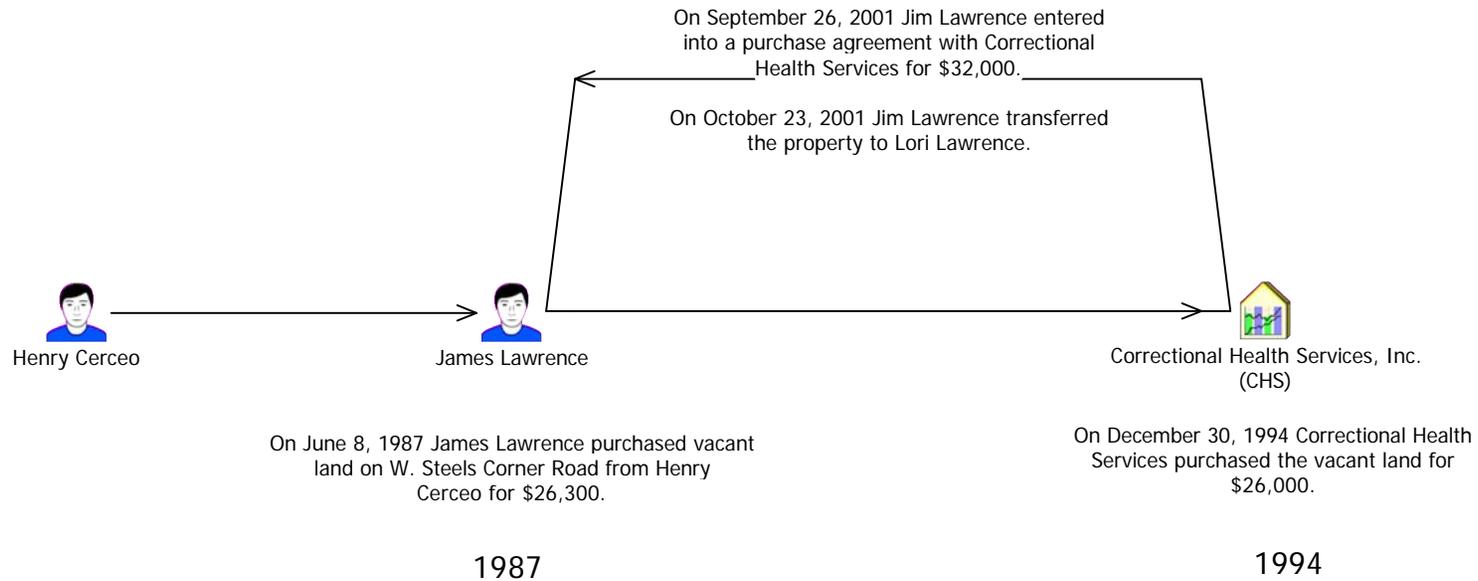
NOTES

- 2001 Tax Valuation was \$113,250.
- 2002 - 2004 Tax Valuation was \$111,350.
- 2005 Tax Valuation was \$119,850.
- On April 25, 2003 the deed was transferred from Kathleen Essik to James Lawrence (in regards to the \$83,000 land contract).
- On April 25, 2003 the deed was transferred from James Lawrence to CHS (in regards to the \$135,000 land contract).
- Per Frank Reed, subsequent to the special audit period this property was appraised for \$143,500 and was transferred to OHI to partially reduce a debt owed by CHS to OHI.

**W. Steels Corner Road
Cuyahoga Falls, Ohio**

Current Owner: Lori Lawrence

2001



NOTES

- 2001 Tax Valuation was \$30,140.
- 2002 - 2005 Tax Valuation was \$41,100.



**Auditor of State
Betty Montgomery**

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**ORIANA HOUSE INC.
SUMMIT COUNTY COMMUNITY BASED CORRECTIONAL FACILITIES**

SUMMIT 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
JANUARY 2, 2007**