



**Auditor of State
Betty Montgomery**

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**ALCOHOL, DRUG ADDICITON AND MENTAL HEALTH SERVICES BOARD
ERIE AND OTTAWA COUNTIES**

SCHEDULE OF RELEVANT PERSONNEL
As of October 30, 2002

ADAMHS Board of Erie and Ottawa Counties:

Kirk Halliday	Executive Director
Beth Williams	Deputy Director of Finance and Operations

Erie County Family and Children First Council:

Francine Bergmoser	HMG Program Director
Kimberlee Reiderman *	HMG Program Service Coordinator

Ottawa County Family and Children First Council:

Lori Clune	HMG Program Director
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ADAMHS Board of Erie and Ottawa Counties – Fiscal Agent:

Jude Hammond	Erie County Auditor
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* Resigned Effective 10/08/02

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Kirk Halliday, Executive Director
Alcohol, Drug Addiction and Mental Health Services Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, Ohio 44870

Based upon the request of Erie County Auditor Jude Hammond, we have conducted a special audit of the Alcohol, Drug Addiction and Mental Health Services Board of Erie and Ottawa Counties ("the ADAMHS Board") by performing the procedures described in the attached Supplement to the Special Audit Report for the period July 1, 2001 through October 30, 2002 (the Period), solely to determine whether operational improvements could be made to increase the effectiveness and efficiency of purchasing procedures and to determine whether certain expenditures were authorized and for a purpose related to the operation of the ADAMHS Board.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. 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 obtained an understanding of the expenditure process for Help Me Grow program funds to determine whether operational improvements could be made to increase the effectiveness and efficiency of purchasing procedures.

Significant Results: We issued 2 Management Comments related to the use of ADAMHS Board credit cards and for not obtaining evidence from clients that purchased goods were received.

2. We reviewed certain expenditures to determine whether Help Me Grow program funds were expended in accordance with grant agreements.

Significant Results: Kimberlee Reiderman, Erie County Help Me Grow Program Service Coordinator, admitted to using the ADAMHS Board credit cards and corporate accounts for personal expenses. During the course of our audit fieldwork, Ms. Reiderman paid ADAMHS Board vendors \$3,538 for improper purchases which were outstanding on the ADAMHS Board accounts. Additionally, Ms. Reiderman reimbursed the ADAMHS Board \$941 for improper purchases for which the ADAMHS Board previously paid its vendors. We proposed a Finding for Recovery against Ms. Reiderman and in favor of the ADAMHS Board for an additional \$342 of personal purchases identified as a result of our audit; however, on August 25, 2003, Ms. Reiderman repaid the ADAMHS Board, in the amount of \$342.

We issued 1 Noncompliance Citation for failing to maintain public records and 5 Management Comments related to various internal control weaknesses.

3. In addition to the noncompliance and internal control weaknesses noted in Issues No. 1 and 2, we issued 2 Management Comments. The ADAMHS Board should seriously consider these matters to reduce the risk of fraud and theft, and to ensure that transactions are completely and accurately recorded and monitored.
4. On August 26, 2003, we held an Exit Conference with the following individuals:

Kirk Halliday, Executive Director, ADAMHS
Beth Williams, Deputy Director of Finance and Operations, ADAMHS
Robert Kasayka, Chairman, ADAMHS
Francine Bergmoser, Help Me Grow Program Director, ADAMHS
Jude Hammond, Auditor, Erie County
Terry Griffith, Assistant Prosecutor, Erie County

The attendees were informed that they had five business days to respond to this Special Audit Report. A response was received on August 29, 2003, evaluated, and modifications were made to the attached Supplement to the Special Audit Report as we deemed appropriate.

This report is intended solely for the information and use of the ADAMHS Board and is not intended to be and should not be used by anyone other than these specified parties. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.



Betty Montgomery
Auditor of State

August 4, 2003

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND INFORMATION

We were contacted by the Erie County Auditor regarding allegations that state Help Me Grow grant funds provided to the ADAMHS Board of Erie and Ottawa Counties on behalf of the Erie and Ottawa Counties' Family and Children First Councils ("FCFC") had been misspent, perhaps for personal purchases. The ADAMHS Board acts as administrative agent for the FCFC. The Erie County Auditor is the fiscal officer for the ADAMHS Board.

The County questioned certain expenditures to Wal-Mart, Meijer, and Toys R Us, when reimbursement requests for those expenditures were submitted without detailed cash register receipts. When the County Auditor informed the Program Director the County would no longer reimburse without the detailed receipts, the Director began questioning the employees about the charges. Four employees were authorized to make purchases at these stores and during the Director's interviews, 1 employee confessed to using Help Me Grow (HMG) program funds for personal purchases. This employee agreed to pay restitution, and to resign from the program in exchange for the ADAMHS Board not filing formal criminal charges.

The above information was presented to the Auditor of State's Special Audit Committee, and on December 4, 2002, the Committee voted to initiate a Special Audit of the ADAMHS Board.

The goal of HMG is to enable families to create an environment conducive to the growth and development of young children. HMG provides prenatal services and newborn home visits, information about child development, and helps families with young children connect with needed resources. The target population for HMG includes pregnant women and families with children under age 3. Many counties also use HMG funds to purchase items or incentives for families to help them meet one of the HMG expected results or performance measures, or to meet a goal the family identified on the Individualized Family Service Plan.

The Ohio Department of Jobs and Family Services (ODJFS) sponsors the HMG Program with financial support and technical assistance. The program operation is supervised by the Ohio Department of Health (ODH). County Family & Children First Councils (CFCFC) are responsible for county implementation of the HMG Program requirements. Sources of funds for the HMG program provided by ODJFS include Temporary Assistance for Needy Families (TANF) which is passed through the County Department of Jobs and Family Services to the CFCFC. ODH provides General Revenue Funds and Federal Part C funds (through the Special Education Grants for Infants and Families with Disabilities), which support services for children with diagnosed delays and disabilities. In addition, other local and state funding (i.e., United Way, local tax levies, Foundation grants, etc.) may be used to support the HMG program.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 - Operational Policies and Procedures

Having obtained an understanding of the expenditure process for Help Me Grow program funds, we identified whether control weaknesses existed and offered recommendations for improvement where necessary.

PROCEDURES

We interviewed the Program Director and the Service Coordinators, and reviewed operational policies and procedures exercised by the ADAMHS Board.

RESULTS

Purchases under the HMG grant are initiated through either an "Account Start-Up Sheet" or "Request for Purchase" form. An Account Start-Up Sheet is required any time goods or services are purchased for a specific HMG client. The form must be filled out by the Service Coordinator requesting the goods or services, reviewed and signed by 2 other Service Coordinators agreeing to the need for such purchase, and authorized by the Program Director. A Request for Purchase form is required to be completed for general purchases which are not specifically related to a client. The Request for Purchase form is approved by the Program Director.

Purchases were primarily made by 1 Service Coordinator in Erie County and 1 Service Coordinator in Ottawa County. After receiving the Program Director's approval, the Service Coordinator would sign out the ADAMHS Board credit card or simply charge the transaction to an existing corporate account maintained at the store.

Stores which issued the ADAMHS Board more than one credit card assigned each card an identifying number (e.g., "001" through "004," if 4 cards were issued). The credit card statement provided by the store identified which card was used for each purchase; however, ADAMHS Board credit card sign out sheets did not indicate which employee was using the assigned number of the card for that day. We will issue a recommendation for the ADAMHS Board to document which employee has signed out each specific card, especially when a store has provided multiple cards.

After purchases were made, the Service Coordinator returned the credit card and submitted all receipts and related documentation including the signed Account Start-Up Sheet or Request for Purchase form, to the ADAMHS Board office. Each invoice or supporting document was date-stamped upon receipt and reviewed for accuracy and authorization by the Accounts Payable clerk. Invoices were matched to the corresponding purchase order and forwarded to the Deputy Director of Finance and Operations of the ADAMHS Board, who initialed the invoice to indicate her review and approval.

After review and approval of the expenditures, copies of the voucher packets with supporting documentation were made and retained at the ADAMHS Board office and the original was forwarded to the County Auditor for payment. The voucher packet forwarded to the County Auditor did not contain a copy of the corresponding Account Start-Up Sheets or Request for Purchase forms.

There was no documentation signed by clients indicating that they received the goods or services purchased with HMG program funds. We will issue a Management Comment regarding this issue.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Credit Cards

For those stores where multiple credit cards existed, credit card sign out sheets did not indicate which card was being signed out for use by the Service Coordinators. Additionally, individual store receipts were not signed by the purchaser. Failure to clearly identify this information can lead to a lack of accountability for questionable transactions.

We recommend that the card number be identified on the sign out sheets in order to more accurately determine the purchaser of the transaction. Additionally, the ADAMHS Board should consider reducing the number of credit cards which exist for each store. Finally, each purchaser should be required to sign the individual store receipt, acknowledging his or her use of the credit cards for business-related purchases.

Client Certification

Clients did not provide written acknowledgement that they received goods or services from their Help Me Grow Service Coordinators. Failure to require clients to certify they received the goods or services purchased with Help Me Grow funds may result in the misappropriation of assets or improper use of program funds.

We recommend that any time goods or services are purchased for a client, he or she should sign a certification indicating the goods or services were received. The receipt should be attached to the certification and submitted with related documentation for payment. As a compensating control, we also recommend the Program Director occasionally inquire with clients to determine if they received goods as documented in the client case files.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Expenditure of Program Funds

PROCEDURES

1. Using available bank records, expenditure ledgers, vendor history reports, and check registers, we prepared a schedule of all expenditures during the Period to Wal-Mart, Meijer, Toys R Us, Kroger, Rex Television and BP Gasoline.
2. We reviewed the supporting documentation provided for each canceled check, noting the purpose of the expenditure. We interviewed the Deputy Director of Finance and Operations to discuss the validity of certain expenditures. We determined whether expenditures were authorized and were made for a purpose related to the Help Me Grow program.
3. We attempted to trace significant purchases to a supply inventory.

RESULTS

1. During the Period, 101 transactions totaling \$14,812 were charged to the ADAMHS Board credit cards or corporate accounts at Meijer, Wal-Mart and Toys R Us. Of this amount, the ADAMHS Board paid \$10,288, while the remaining expenditures were not paid, pending the results of our investigation.

Also during the Period, \$3,170 was charged to accounts at Kroger, Rex Television and BP Gasoline. Of that amount, \$2,871 was paid by the ADAMHS Board and \$299 was unpaid.

2. Kimberlee Reiderman, Erie County HMG Program Service Coordinator, used the ADAMHS Board credit cards and corporate accounts to make personal purchases totaling \$4,821 from Meijer, Wal-Mart, Toys R Us, and Kroger. These purchases were not approved or authorized nor was documentation provided to indicate the disposition of the items purchased. Of the \$4,821 which Ms. Reiderman charged, the ADAMHS Board paid \$1,313 from HMG funds and the remaining \$3,508 was unpaid, resulting in an outstanding expense on the credit cards.

Ms. Reiderman admitted using ADAMHS Board credit cards and corporate accounts for personal purchases and on January 30, 2003, she personally paid \$3,538 to the respective vendors for outstanding credit card expenses¹ and \$941 to the ADAMHS Board. On August 22, 2003, we proposed a Finding for Recovery against Ms. Reiderman and in favor of the ADAMHS Board for the remaining \$342. Ms. Reiderman repaid the ADAMHS Board on August 25, 2003, in the amount of \$342.

¹Ms. Reiderman's reimbursements to the credit card companies resulted in an overpayment of \$30, which has been credited to the Wal-Mart account of the ADAMHS Board.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We also noted:

- 43 Account Start-Up Sheets and/or Requests for Purchase forms were not attached to the voucher packets. Additionally, credit card sign-out sheets prior to October 2001 were not available for our review. We will issue a Noncompliance Citation for failing to retain public records.
 - Of 105 gift cards purchased using the ADAMHS Board's credit cards and corporate accounts, 24 cards were purchased for incentives to clients. The remaining 81 gift cards are included in the amount which Ms. Reiderman admitted to spending on personal items. We will issue a Management Comment related to the purchase of gift cards as client incentives.
 - Invoices were approved for payment and paid without detailed purchase information included. Additionally, purchases of gift cards were not consistently approved for payment. 32 of the 81 gift cards improperly purchased by Ms. Reiderman were approved for payment by the Deputy Director of Finance and Operations of the ADAMHS Board; however, the 49 remaining gift cards had not been approved, even though they had already been charged to an ADAMHS Board corporate account. We will issue a Management Comment related to purchasing procedures.
 - The ADAMHS Board paid the same Toys R Us invoice in both April and May 2002, resulting in a double payment of \$233. This duplicate payment was originally processed by Toys R Us as a credit to the ADAMHS Board account; however, on March 14, 2003, during the course of our audit fieldwork, the ADAMHS Board received a refund check from Toys R Us to remove the \$233 account credit. We will issue a Management Comment to improve controls over purchasing, which may prevent duplicate payments from occurring.
 - Finance charges were repeatedly incurred on the Wal-Mart account for paying monthly invoices late on at least 8 occasions. The sum of finance charges during the Period was \$86. We will issue a recommendation that expenditures be paid promptly, as finance charges are not an appropriate expenditure of public funds.
3. An inventory of baby equipment was kept during the Period. However, we were unable to trace all items purchased for inventory (as indicated on the receipt) to the inventory listing maintained. The inventory listing also noted discrepancies between book counts and a physical count performed on May 15, 2002, by the Inventory Custodian.

Our review of the additions on the inventory listing indicated large variances. For example, on February 20, 2002, the inventory listing indicated additions of 29 items; however, available documentation indicated there were 51 pieces of new equipment purchased for stock on that date. We also identified 3 additional days in which purchase documentation indicated stock additions; however, there were no additions shown on the inventory listing. We will issue a Management Comment related to inventory weaknesses.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FINDING FOR RECOVERY REPAID UNDER AUDIT

The Erie County HMG Service Coordinator, Kimberlee Reiderman, used the ADAMHS Board credit cards and corporate accounts to make purchases for her own use totaling \$4,821. During the course of this audit, Ms. Reiderman repaid the ADAMHS Board \$941, and paid the individual vendors \$3,538. The remaining balance of Ms. Reiderman's personal purchases which had not been reimbursed to the ADAMHS Board or the vendors was \$342.

We proposed a Finding for Recovery against Kimberlee Reiderman in the amount of \$342. On August 25, 2003, Ms. Reiderman remitted \$342 to the ADAMHS Board. Accordingly, we considered this a finding repaid under audit.

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 149.351 requires that public records not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under rules adopted by the records commissions provided for under Ohio Rev. Code Sections 149.38 to 149.42. Further, the ADAMHS Board's Schedule of Records Retention and Destruction states that documents supporting voucher transactions must be retained for a period of 3 years.

Account Start-Up Sheets and Request for Purchase forms were not located for 43 transactions, and credit card sign-out sheets were not available prior to October 2001. Missing documents may raise suspicion of wrongdoing and make it difficult for management to support that their actions complied with applicable laws, regulations, policies and procedures.

We recommend the Board review its policies and procedures to determine whether they adequately address record retention and storage, and monitor compliance with existing or newly developed policies and procedures in this area.

MANAGEMENT COMMENTS

Gift Cards

During the Period, Service Coordinators purchased store gift cards to use as incentives for clients. Once delivered to a client, there was no oversight or documentation of what the client purchased. Consequently, it would be possible for a client to use the gift card for purchases which may not be in the best interest of the program goals. Additionally, because the distribution and redemption of gift cards was not monitored by ADAMHS Board officials, at least one employee, Kimberlee Reiderman, was able to repeatedly purchase and redeem such cards for her own personal benefit.

If the ADAMHS Board wishes to continue offering client incentives, we recommend that a specific incentive be established and the use of client gift cards be discontinued. This will ensure that ADAMHS Board funds are used in accordance with program guidelines, rather than randomly providing gift cards to clients with no oversight.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Purchasing Procedures

Invoices were paid without detailed purchase information, and Account Start-Up Sheets and Request for Purchase forms were not always attached to the voucher packet. Expenditures exceeded authorized amounts and unapproved purchases were processed for payment. Failure to establish and consistently follow internal control procedures to prevent these weaknesses may result in the misappropriation of assets, unallowable purchases, and overall operational deficiencies.

We recommend the ADAMHS Board ensure all required documentation and approvals have been received prior to submitting invoices to the County Auditor for payment. At a minimum, the voucher packet should include the invoice, the Account Start-Up Sheet or Request for Purchase approved by the Director, certification from the client receiving goods, and documentation of who made the purchase. The Deputy Director of Finance and Operations of the ADAMHS Board should not approve for payment any voucher lacking this information. Any deviation from these procedures should immediately be identified and appropriate action taken with all individuals involved.

Duplicate Payments

On at least 1 occasion, the ADAMHS Board paid the same invoice twice, resulting in a duplicate payment and a credit to the store corporate account. Fortunately, the vendor identified the duplicate payment and initially provided a credit to the ADAMHS Board's account; however, this duplicate payment may have been misappropriated had the vendor not processed the transaction in the appropriate manner. Further, during the course of our fieldwork, the ADAMHS Board requested and received a refund of the duplicate payment, removing the account's credit balance.

We recommend the ADAMHS Board strengthen its controls over the payment of invoices to prevent another duplicate payment from being processed.

Finance Charges

Finance charges were repeatedly incurred for paying monthly invoices late on at least 8 occasions. The ADAMHS Board's failure to pay obligations when due resulted in finance charges of \$86 during the Period. Although this amount is not excessive, program funds are provided to enhance the lives of needy families. The payment of finance charges is not an intended expenditure.

We recommend the ADAMHS Board establish better controls over the payment process to ensure that invoices are paid promptly; thereby, not incurring unnecessary finance charges.

Inventory

An inventory of baby equipment was kept during the Period. However, we were unable to trace all items purchased for inventory (as indicated on the store receipt) to the inventory listing maintained. The inventory listing also contained discrepancies between book counts and physical counts performed. There were no formal inventory policies or procedures adopted by the Board. Failure to establish and maintain such policies and procedures could result in the misappropriation of assets.

It is our understanding that the ADAMHS Board is considering abolishing the current inventory of goods. We recommend that if an inventory is deemed necessary by program officials, a formal written policy should be adopted by the Board. The policy should establish procedures regarding the addition and removal of items from inventory, identify one person responsible for maintaining the inventory, determine how often physical counts should be performed, and state the documentation required to be maintained (i.e., Account Start-Up Sheets for the removal of items and Request for Purchase forms for additions). Inventory records should be signed, dated, and reviewed by a member of management.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Additional Internal Control Weaknesses

Although not directly the result of the issues and procedures of the Special Audit, we noted the following additional internal control weaknesses that we wanted to bring to the ADAMHS Board's attention:

Petty Cash

There are no formal written policies or procedures regarding petty cash accounts. The ADAMHS Board maintains 5 petty cash funds ranging in amounts from \$50 to \$200, and only 1 had a log indicating individual receipts, expenditures, and current balances. Account Start-Up Sheets and/or Request for Purchase forms were not completed for petty cash items purchased, nor do the items appear to be of an "emergency" nature. Failure to maintain policies and procedures regarding the use and maintenance of petty cash could result in the misappropriation of assets or failure to timely detect inappropriate purchases.

We recommend that the Board adopt a formal written policy regarding petty cash. This policy should establish the number of petty cash accounts, the dollar amount of each account, who is responsible for each account, how often it will be replenished, what it can be used for, and the documentation required to be kept for each account (i.e., duplicate receipt books, ongoing ledger showing receipts, payouts, and balances, Account Start-Up Sheets, Request for Purchase forms, and client certification of receipt of goods).

Board Oversight

We reviewed 12 Monthly Expenditure Reports (for expenditures related to Help Me Grow, Care-A-Van, and other programs) included in the ADAMHS Board minutes. Of those 12, none agreed with the Expenditure Reports submitted to the County Auditor with the vouchers for payment. This was because the ADAMHS Board delegated to the Executive Director, the authority to submit invoices to the County Auditor after the ADAMHS Board's approval of the original Expenditure Reports. There was no documentation indicating the ADAMHS Board's subsequent approval of these additions. Failure by the ADAMHS Board to clearly document its knowledge and approval of additional expenditures can lead to payment of unapproved expenditures and, possibly, the misappropriation of funds.

Although the ADAMHS Board must rely on its employees, it is ultimately responsible for the efficient operation of the agency. We recommend the ADAMHS Board clearly document its knowledge and approval of any additions or deletions on the Monthly Expenditure Report and that this acknowledgement be forwarded to the County Auditor's office with the vouchers for payment.



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ADAMHS BOARD OF ERIE AND OTTAWA COUNTIES

ERIE 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
OCTOBER 9, 2003**