

Auditor of State Bulletin

Date Issued: June 15, 2004

**TO: Community Based Correctional Facilities
Governing Boards of Community Based Correctional Facilities
County Commissioners
County Auditors
Independent Public Accountants**

**FROM: Betty Montgomery
Ohio Auditor of State**

SUBJECT: Auditing and Reporting for Community Based Correctional Facilities

Synopsis

1. House Bill 510, which the Legislature passed on December 6, 2002 and which took effect on March 31, 2003, requires the Auditor of State (or contracting Independent Public Accountants (IPAs)) ¹ to audit Community Based Correctional Facilities (CBCFs).
2. Pursuant to HB 510, the Auditor of State's Office (AOS) will audit and issue cash-basis reports for each of the 18 CBCFs on a biennial basis.
3. AOS's initial audit will cover fiscal years ended June 30, 2002, 2003, and 2004. For fiscal year 2002, the Auditor of State will only audit the Ohio Department of Rehabilitation and Corrections' (ODRC) funding (called "501-501" funding). For fiscal years 2003 and 2004, however, AOS will audit all CBCF cash activity, including 501-501 funding, grants, and amounts the CBCFs hold for offenders (offender funds).
4. If a CBCF disburses more than ~~\$300,000~~ of direct or pass-through Federal assistance in a fiscal year, Federal regulations require an annual audit, including an audit of Federal programs, rather than a biennial audit. (This threshold increases to ~~\$500,000~~ effective for CBCF fiscal years ending ~~June 30, 2004~~ and thereafter.)
5. Under Ohio Rev. Code § 117.13(C), the Auditor of State will bill CBCFs for the cost of these audits.

Refer to Bulletin
2020-005

\$750,000

See audit requirements now in Title 2: Grants and Agreements
[PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS,
COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR
FEDERAL AWARDS](#)

¹ With permission from the Auditor of State, CBCFs may contract with an IPA to audit their financial statements pursuant to HB 510. Therefore, auditing requirements set fourth in this Bulletin apply to both AOS and contracting IPAs (both of which are referred to as "auditors" herein).

The accounting and auditing guidance in this Bulletin still apply. However, changes to RC 2301.51 -- 2301.58 have amended CBCF governance and certain other requirements. See the most recent ORC for current guidance.

Description of CBCFs

CBCFs originally developed in response to prison over-crowding and currently function as minimum-security alternatives to State prison for non-violent felony offenders. Ohio law governing CBCFs is enumerated in Ohio Rev. Code sections 2301.51 through 2301.58. HB 510 partially amends these code sections and this Bulletin addresses those changes.

With the approval of the director of ODRC, a county with a population of over 200,000 can create a single-county CBCF. With similar approval, two or more adjoining counties with an aggregate population of over 200,000 may create a multi-county CBCF.

~~For single-county CBCFs, the presiding judge of a county's court of common pleas chairs the judicial corrections board (i.e., governing body). This judge also designates up to 11 common pleas judges from that county to serve on the board. For multi-county CBCFs, the presiding common pleas judge from the largest county chairs the judicial corrections board. Each participating county has at least one judge² on the board.~~

A judicial corrections board may hire a for-profit or nonprofit entity to operate a CBCF. While CBCFs receive significant non Federal 501-501 funding from ODRC, they may also receive funding from other sources to operate other programs.

Auditing

2301.56(D)

HB 510 amends Ohio Rev. Code § 2301.56(E) by requiring the Auditor of State (or contracting IPAs) to audit each CBCF within two years after March 31, 2003. In the past, ODRC audited 501-501 funding for each CBCF. This funding has been audited through fiscal year³ 2001. Furthermore, ODRC required CBCFs' offender funds to be audited separately by IPAs. Counties do not hold offender funds for CBCFs; rather, each CBCF holds separate checking accounts (and occasionally investments) for offender funds. Audits of offender funds have been completed through June 30, 2002. Therefore, to prevent any duplication, AOS (or contracting IPAs) will audit and report only 501-501 money for fiscal year 2002, yet AOS (or contracting IPAs) will audit all CBCF cash activity thereafter.

The initial audit period will include fiscal years 2002, 2003, and 2004. After the initial three-year audit, they will occur on a biennial basis. Also, audits of CBCFs will follow *Government Auditing Standards*.

~~² In Opinion 2003-09, the Ohio Supreme Court Board of Commissioners on Grievances and Discipline concluded it is not proper for common pleas judges to serve on judicial corrections boards. However, the Board advised judges should continue to serve, pending review of this Opinion by the Ohio Attorney General and possible statutory changes.~~

³ CBCFs have adopted fiscal years ending June 30.

OAG Opinion 2004-03 suggested legislation to address this. Legislation such as HB 162 from the 126th G.A. amended RC 2301.51 -- .58.

Most CBCFs use a county auditor to receive, disburse, and hold 501-501 and grant funds. Auditors (AOS or IPA) should read the county's most recent financial audit and consider whether scope restrictions or reportable conditions affect the timing, nature, or extent of CBCF audit procedures. Since all CBCF transactions that a county auditor records are subject to the county's financial statement audit, auditors (AOS or IPA) need not obtain a service organization⁴ report for those counties.

The Auditor of State has developed an audit program and an example audit report format for CBCFs. Contracting IPAs may obtain this material by contacting AOS's central office at (800) 282-0370 or their Auditor of State regional office.

Where a for-profit or nonprofit entity operates a CBCF, the audit approach will be the same: AOS (or contracting IPAs) will audit the CBCF's financial statements and the underlying receipts, disbursements and cash/investment balances of all public money, including 501-501 funding, other grants, and offender funds as described above.

HB 510 also permits the Auditor of State to initiate performance audits, which are designed to improve program operations and to facilitate decision making by parties responsible for oversight or corrective action. HB 510 enables ODRC or a judicial corrections board to request these types of audits as well. Performance audits may address a variety of objectives, including assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and providing prospective analyses, guidance, or summary information.

Accounting Records

AOS has provided the CBCFs with a worksheet listing the records typically required for an audit. A copy of that worksheet may be obtained by contacting AOS's central office at (800) 282-0370 or from AOS's various regional offices.

Many of the accounting records necessary for the audit (vouchers, payroll records, offender account records, etc.) may be located at the CBCF. Even CBCFs using counties for fiscal agents maintain their own accounting systems and checking accounts for offender funds. Where a county auditor is the fiscal agent, however, auditors (AOS or IPA) may need accounting information from the county auditor, such as the county's CBCF fund accounting information.

Accounting records for the four CBCFs that do not use a county auditor as their fiscal agent may be found at each of the respective agencies, which are as follows:

- CROSSWAEH CBCF, Seneca County
- Summit County CBCF
- Mahoning County CBCF
- Community Correctional Center, Butler County

⁴ Service organizations process accounting transactions on behalf of another entity. In this instance, a county is processing certain receipt and disbursement transactions on behalf of a CBCF.

Technically referred to as "an other comprehensive accounting basis prescribed by DRC."

Basis of Accounting

CBCFs follow **cash** basis accounting. Under this basis, the CBCF should record a cash receipt when cash is received, and a disbursement when a check or cash is released.

The fund cash balances as of each June 30 must agree to the sum of cash held by the county auditor (if applicable) plus the reconciled balances of cash accounts each CBCF maintains.

The last line of the financial statements should also list the total of outstanding encumbrances/purchase orders for the 501-501 fund. Under the cash-basis of accounting, CBCFs should not report these encumbrances as current period disbursements in the audited statements.

CBCF Financial Statements

ODRC, with assistance from the Auditor of State, recently revised the financial statement format CBCFs should use for their audits and for annual reporting. An example of that report is included in the aforementioned audit program and example audit report. Previously, CBCFs reported only 501-501 funding to ODRC. The unaudited annual report and the audited statements now include additional columns to report receipts and disbursements from all sources, including offender funds. Since this is a new reporting requirement, auditors (AOS or IPA) should consider the completeness of non-ODRC receipts and disbursements and their proper classification as a source of inherent risk when planning these audits.

HB 510 also requires CBCFs to submit unaudited financial information to the Auditor of State on a quarterly basis. CBCFs can satisfy this requirement by submitting the CBCF 501-501 Program Quarterly Financial Report to ODRC's Bureau of Community Sanctions. The Bureau will then forward these reports to the Auditor of State.

Audit Costs

HB 510 defines CBCFs as public offices under Ohio Rev. Code § 117.01. Ohio Rev. Code § 117.13(C) permits AOS to charge audit costs, including direct wages and an overhead charge, to public offices. Therefore, the Auditor of State will bill CBCFs for audit costs incurred. It is the Auditor of State's policy to provide an estimated fee to our clients prior to commencing audit services. AOS will notify a CBCF if it becomes apparent that the actual cost will exceed the estimate and will explain why the increase is needed. Several factors influence audit costs, including some within the control of the CBCF. For example, the condition and accessibility of financial records is a controllable factor that can impact audit costs.

Revised: See link to Uniform Guidance on first page of this bulletin.

Federal Single Audits

Federal ~~Office of Management and Budget (OMB) Circular A-133~~ requires annual audits for any government spending more than ~~\$300,000~~⁵ in Federal assistance in a fiscal year. Note that Federal assistance maintains its identity as Federal money regardless of whether the money passed through an intermediate government or nonprofit organization. CBCFs should therefore assure they understand whether any grants they receive represent Federal or Federal pass-through dollars. If the total Federal funding a CBCF disbursed during its fiscal year exceeds \$300,000, then the Auditor of State must follow Federal audit guidelines set forth in Circular A-133. This Circular requires auditors (AOS or IPA) to focus additional audit effort on larger Federal assistance programs, and importantly, requires an annual audit rather than the biennial audit H.B. 510 prescribes. In other words, the Federal annual audit requirement supersedes the State requirement. It is a CBCF's responsibility to summarize the Federal assistance it disburses each fiscal year, and to contact its Auditor of State regional office if it requires an A-133 audit. Note that State appropriation (501-501 funding) is not Federal pass-through assistance.

Using IPAs

Under Ohio law, CBCFs cannot hire IPAs for their audit without permission of the Auditor of State. For fiscal years 2001 and 2002, ODRC required CBCFs to hire IPAs to audit their offender funds. HB 510 implies that CBCFs must cancel these audit contracts for periods the Auditor of State will audit. CBCFs that want to contract with an IPA to audit their financial statements must first seek permission from the Auditor of State and then follow the audit contracting procedures prescribed by Ohio Rev. Code sections 115.56 and 117.11(C) and Ohio Administrative Code Section 117-03. To audit under these laws, IPAs must register with the Auditor of State by filing an *Audit Firm Data Sheet*. These forms are available from any Auditor of State regional office, or from our website, www.auditor.state.oh.us.

Questions Regarding this Bulletin

If you have any questions, or if we can help in any way, please contact our Accounting & Auditing Support Section, at (800) 282-0370.

\$750,000

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⁵ ~~This threshold will increase to \$500,000 for fiscal years ending June 30, 2004 and thereafter.~~