SEPTA CORRECTIONAL FACILITY
ATHENS COUNTY

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2012-2011

Dave Yost • Auditor of State

SEPTA CORRECTIONAL FACILITY
ATHENS COUNTY

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INDEPENDENT AUDITOR'S REPORT

SEPTA Correctional Facility
Athens County
7 West Twenty-Nine Drive
Nelsonville, Ohio 45764

To the Members of the Judicial Advisory Board and Facility Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the SEPTA Correctional Facility, Athens County, Ohio (the Facility), as of and for the years ended June 30, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Facility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Facility's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Facility prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Facility as of June 30, 2012 and 2011, or changes in financial position thereof, for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the SEPTA Correctional Facility, Athens County, Ohio, as of June 30, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, on our consideration of the Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Facility's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

April 10, 2014

OHIO DEPARTMENT OF REHABILITATION AND CORRECTION
COMMUNITY BASED CORRECTIONAL FACILITY
SEPTA CORRECTIONAL FACILITY

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS (ALL FUNDS)
FOR THE PERIOD ENDED JUNE 30, 2012

	State Appropriations and Grants		Offender Funds			
	ODRC 501-501	Federal	Resident Program Funds	Resident Trust Funds	Section 125 Benefit Plan	Totals
Cash Receipts:						
Intergovernmental	$ 2,699,248	$ 51,172	$	$	$	$ 2,750,420
Receipts for offenders				322,944		322,944
Collections from offenders						
for Transportation			12,477			12,477
for Commissary			86,188			86,188
for Per Diem			42,600			
Commissions			22,407			22,407
Reimbursement	9,601					9,601
Miscellaneous Revenue	22,958		2,424			25,382
Payroll Deductions					3,947	3,947
Total Cash Receipts	2,731,807	51,172	166,096	322,944	3,947	3,275,966
Cash Disbursements:						
Personnel	1,595,799	15,955				1,611,754
Operating costs	595,164	7,369	91,594			694,127
Program costs	403,437		15,376			418,813
Equipment	9,567	980	1,043			11,590
Reimbursements to employees					4,084	4,084
Bank Charges					31	31
Offender Disbursements:						-
Offender legal obligations				81,422		81,422
Offender payments to ODRC						
for gasoline				2,496		2,496
for nurse				1,295		1,295
for physician				5,075		5,075
Offender payments to ODRC						
for Transportation				12,479		12,479
for Per Diem				42,600		42,600
For Commissary/Personal Care				86,188		86,188
Offender Miscellaneous Payments				68,919		68,919
Offender savings paid at exit				74,461		74,461
Total Cash Disbursements	2,603,967	24,304	108,013	374,935	4,115	3,115,334
Non-Operating Receipts/Disbursements Indigent Support			(55,197)	55,197		0
Disbursements from prior FY (Including refund to ODRC)	139,598					139,598
Total Receipts Over/(Under) Disbursements	(11,758)	26,868	2,886	3,206	(168)	21,034
Fund Cash Balances, July 1, 2011	297,073	(54,380)	151,843	11,112	3,459	409,107
Fund Cash Balances, June 30, 2012	$ 285,315	$ (27,512)	$ 154,729	$ 14,318	$ 3,291	$ 430,141
Reserved for Encumbrances	$ 91,732					

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

OHIO DEPARTMENT OF REHABILITATION AND CORRECTION
COMMUNITY BASED CORRECTIONAL FACILITY
SEPTA CORRECTIONAL FACILITY

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCES - CASH BASIS (ALL FUNDS)
FOR THE PERIOD ENDED JUNE 30, 2011

	State Appropriations and Grants			Offender Funds			
	ODRC 501-501	Capital Renovation	Federal	Resident Program Funds	Resident Trust Funds	Section 125 Benefit Plan	Totals
Cash Receipts:							
Intergovernmental	$ 2,605,928	$ 197,258	$ 39,886	$	$	$	$ 2,843,072
Receipts for offenders					249,553		249,553
Collections from offenders							-
for Transportation				11,191			11,191
for Commissary				60,397			60,397
for Per Diem				40,800			40,800
Commissions				18,560			18,560
Reimbursement	20,087						20,087
Miscellaneous Revenue				6,657			6,657
Payroll Deductions						7,410	7,410
Total Cash Receipts	2,626,015	197,258	39,886	137,605	249,553	7,410	3,257,727
Cash Disbursements:							
Personnel	1,572,289		37,328				1,609,617
Operating costs	562,370		11,745	57,878			631,993
Program costs	439,340			14,552			453,892
Equipment	47,930		24,743	19,947			92,620
Reimbursements to employees						7,735	7,735
Offender Disbursements:							
Offender legal obligations					63,470		63,470
Offender payments to ODRC							
for gasoline					2,030		2,030
for Nurse					790		790
for Physician					3,725		3,725
Offender payments to Resident Program							
for Transportation					10,150		10,150
for Per Diem					38,550		38,550
for Commissary/Personal Care					55,152		55,152
Offender Miscellaneous Payments					52,557		52,557
Offender savings paid at exit					62,422		62,422
Renovation Expenditure		173,559					173,559
Total Cash Disbursements	2,621,929	173,559	73,816	92,377	288,846	7,735	3,258,262
Non-Operating Receipts/Disbursements							
Indigent Support				(47,762)	47,762		0
Disbursements from prior FY (Including refund to ODRC)	285,043						285,043
Total Receipts Over/(Under) Disbursements	(280,957)	23,699	(33,930)	(2,534)	8,469	(325)	(285,578)
Fund Cash Balances, July 1, 2010, as restated	578,030	(23,699)	(20,450)	154,377	2,643	3,784	694,685
Fund Cash Balances, June 30, 2011	$ 297,073	$ 0	$ (54,380)	$ 151,843	$ 11,112	$ 3,459	$ 409,107
Reserved for Encumbrances	$ 57,986						

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The SEPTA Correctional Facility, Athens County (the Facility), provides an alternative to prison incarceration for felony offenders. The Facility is the last step in the continuum of increasing punishment before prison incarceration. The Facility is a minimum security operation housing approximately 289 offenders as of June 30, 2012. A Facilities Governing Board oversees the Facility's operations. Common pleas judges from the Counties the Facility serves comprise a Judicial Advisory Board. The Judicial Advisory Board appoints two-thirds of the members of the Facility Governing Board and advises the Facilities Governing Board regarding Facility matters. The Board includes at least one common pleas court judge from each county the Facility serves. The Facility serves the following counties:

Athens	Hocking	Meigs
Morgan	Perry	Vinton
Washington	Jackson	Gallia
Fairfield	Licking	Muskingum

For the years ended June 30, 2012 and 2011, the financial statements present all funds related to the Facility.

B. Accounting Basis

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

These statements adequately disclose material matters the Ohio Department of Rehabilitation and Corrections requires.

C. Deposits and Investments

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

D. Fund Accounting

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

State Appropriations and Grants

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

Federal: Reports amounts received from the Federal government, including amounts passed through ODRC. The Facility receives ABLE and Title 1 funding for contracting instructors and specialists to aid in the rehabilitation of others.

Capital Renovation: Reports amounts received from the ODRC to finance all or part of the cost of the renovating or building facilities.

Offender Funds

Resident Program Fund: These funds reported receipts from commissions on telephone systems, transportation costs, reimbursable costs such as per diem and medical services, and similar services.

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

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

Other Funds

Section 125 Benefit Plan Fund: Reports receipts and disbursements related to employee withholdings and submittals for reimbursement for a Section 125 health care program. Pre-tax dollars are withheld and deposited in the fund. Eligible health care expenses are approved by AFLAC and authorized for disbursement. The Facility issues payment for approved expenses.

E. Budgetary Process

1. Appropriations

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

2. Encumbrances

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Restatement of Beginning Balances

The Commissary Fund was combined with the Resident Program fund, per Ohio Revised Code Section 2301.58. The remaining corrections to the June 30, 2010 balance were made to accurately reflect actual resident balances based on the reconciled book balance rather than the bank balance.

Fund	6/30/2010 Balance	Amount	Restated 7/1/2010 Balance
Resident Program Fund	$ 34,054	$ 120,323	$ 154,377
Resident Trust Fund	127,148	(124,504)	2,644
Commissary Fund	9,541	(9,541)	0

3. Budgetary Activity

Budgetary activity for ODRC 501-501 funding for the years ending June 30, 2012 and 2011 follows:

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Budget	Budgetary Expenditures	Variance
$2,655,928	$2,686,098	($30,170)

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Budget	Budgetary Expenditures	Variance
$2,605,928	$2,669,780	($63,852)

Contrary to the Community-Based Correctional Facility Grant Manual and Application, total budgetary expenditures exceeded the grant award for fiscal years 2012 and 2011.

3. Collateral on Deposits and Investments

Grants and State Appropriations

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

OFFENDER FUNDS

Deposits

The Facility has Federal Deposit Insurance Corporation coverage of $250,000 for Offender Funds. Amounts in excess of that are collateralized by the financial institution's public entity deposit pool.

4. Refund To ODRC

The agreement between the County and ODRC permits the Facility to retain a maximum of one-twelfth of the grant award after liquidating encumbrances outstanding at June 30. The Facility must refund any excess over this amount to ODRC. The schedule below computes the refund to ODRC for the years ending June 30. Disbursements below include cash paid to liquidate encumbrances outstanding at June 30 and exclude disbursements made during the fiscal year against amounts encumbered the prior June 30. The Facility refunds amounts computed below in the fiscal year following the computation below.

Refund to ODRC

	2012	2011
Cash, July 1	$157,475	$221,327
Disbursements Against Prior Year Budget	($139,598)	($260,395)
Payable to ODRC, July 1		($24,698)
Sub-Total	$17,877	($63,766)
501 Cash Receipts	2,699,247	2,605,928
Budgetary Basis Disbursements	(2,686,098)	(2,669,780)
Amount Subject to Refund, June 30	$31,026	(127,618)
One-Twelfth of 501 Award	(221,327)	(217,161)
Refundable to ODRC	($190,301)	($344,779)

5. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10 percent of their gross salaries and the Facility contributed an amount equaling 14, respectively, of participants' gross salaries. The Facility has paid all contributions required through June 30, 2012.

6. Risk Management

Commercial Insurance

The Facility has obtained commercial insurance for the following risks:

- Comprehensive property and general liability.
- Vehicles.
- Errors and omissions.

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

SEPTA Correctional Facility
Athens County
7 West Twenty-Nine Drive
Nelsonville, Ohio 45764

To the Members of the Judicial Advisory Board and Facility Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the SEPTA Correctional Facility, Athens County, Ohio (the Facility), as of and for the years ended June 30, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Facility's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Facility's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies, resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Facility's financial statements. We consider findings 2012-002, 2012-004 and 2012-008 through 2012-010 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-005 described in the accompanying Schedule of Findings to be a significant deficiency.

As part of reasonably assuring whether the Facility's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards,* which are described in the accompanying Schedule of Findings as items 2012-001 through 2012-007.

Entity's Response to Findings

The Facility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Facility's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Facility's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Facility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

April 10, 2014

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

FINDING NUMBER 2012-001

Finding for Recovery

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The Personnel Policy Manual, Sections 20 F and J, provide that the maximum vacation time an employee may accrue is 160 hours and, upon resignation or dismissal, an employee will receive payment for the available vacation balance at the next scheduled pay day.

Jessica Schwerin resigned at the end of fiscal year 2011 and received the appropriate payout in the pay period ending July 9, 2011. However, the payout was duplicated for the pay period ending July 23, 2011 resulting in an overpayment of $1,341.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Jessica Schwerin in the amount of $1,341 and in favor of the ODRC fund.

Official's Response: A letter has been sent by Board Counsel to Ms. Schwerin notifying her of the overpayment and requesting immediate repayment. As of this date, payment has not yet been received. SEPTA has also implemented internal controls which require that all payments made pursuant to Sections 20(F) and (J) of The Personnel Policy Manual must be authorized and endorsed by both the Operations Manager and the Executive Director.

FINDING NUMBER 2012-002

Noncompliance and Material Weakness

Ohio Rev. Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

We noted a lack of supporting documentation as follows:

- Credit card expenditures of $354 and $145 in fiscal years 2011 and 2012, respectively, had no supporting detail other than the credit card statements.
- Transportation and Commissary reports were not maintained to support amounts paid from the Resident Trust Fund for the audit period.
- QuickBooks reports were not maintained from May 2011 through June 2012 to evidence review of transactions.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-002 (Continued)

Noncompliance and Material Weakness - Ohio Rev. Code Section 149.351(A) (Continued)

- For fiscal year 2012, telephone commission reports were not maintained for four out of twelve months and vending documentation was not maintained for two out of four quarters.
- For fiscal year 2011, miscellaneous receipts with no support totaled $1,498.

While the Business Manager was able to request and obtain the Telephone and Vending Commission Reports from the vendor, lack of adequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and/or irregularities to occur and remain undetected for an extended period.

We recommend the Facility maintain support for all transactions and evidence review of transactions.

Official's Response: SEPTA has implemented a process which requires the Operations Department to obtain and review supporting documentation on a monthly basis. All supporting documentation will be maintained in a single, designated location. Additional updated policies and procedures will be presented to the Facility Governing Board Executive Committee during FY14.

FINDING NUMBER 2012-003

Noncompliance

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialize by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

During our test of credit card expenditures, we noted interest and fees of $458 in fiscal year 2011 and $336 in fiscal year 2012. Late fees and penalties are not considered to be for a proper public purpose in the operations of the Facility.

We recommend the Facility remit payments in a timely manner to avoid using public funds for late fees.

Official's Response: Due to staff transitions in the Operations Department during the audit period, cross agency coordination issues, as well as fiscal officer capacity limitations, processing of invoices was delayed. The department has increased capacity by adding an additional dedicated fiscal position. Requests for payment will be sent to the fiscal agent within a week of receipt of the invoice and payment will be verified by staff prior to the invoice due date or within thirty (30) days of receipt of the invoice.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-004

Noncompliance and Material Weakness

The Community-Based Correctional Facility Grant Manual and Application for FY12, Section II F.1, states CBCF's must maintain accurate and legible accounting records to prepare financial reports.

Ohio Admin. Code Section 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of payer, purpose, receipt number, and other information required for such transactions to be recorded on this ledger.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

Using these accounting records will provide the Facility with information required to monitor compliance with the budget and prepare annual reports in the format required by the Auditor of State.

The Facility did not properly maintain the accounting records for offender funds or Section 125 Benefit Fund during fiscal years 2011 and 2012. The Resident Trust Fund was maintained in the Resident Database but was not reconciled monthly. Ledgers were not maintained for the program fund or Section 125 Benefit Fund after April 2011.

As a result, the Facility had to contract with an independent accounting firm to reconstruct and reconcile the offender funds, which led to a cumbersome reconciliation process. The Section 125 Benefit fund had to be reconstructed from the Bank Statements.

We recommend the Operations Manager properly prepare accounting ledgers to monitor compliance and prepare the annual reports.

Official's Response: Maintenance of the accounting ledgers and annual reports during FY11 & FY12 was hindered by staff transitions in the Operations Department, cross agency coordination issues, as well as fiscal officer capacity limitations. During FY13, SEPTA contracted with Swanson Services Corporation to provide an enhanced accounting system for the resident trust fund. Ledgers are now present for the program fund, the section 125 benefit fund and grant funds. These ledgers shall be maintained and reviewed for proper reconciliation by staff on a monthly basis.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-005

Noncompliance and Significant Deficiency

The Community-Based Correctional Facility Grant Manual and Application for FY12, Section II D.1.d, provides that expenditures not encumbered with a purchase order prior to close of the grant period will not be recognized as being expended during that grant award period.

There were $33,647 in fiscal year 2011 purchase orders and $75,137 in fiscal year 2012 purchase orders that were encumbered after the close of the grant period. However, these expenditures were obligations for the respective grant periods and will therefore, be included as outstanding encumbrances for those years. This resulted due to a high turnover in the fiscal position during the audit period. The Facility could be required to remove expenditures not encumbered with a purchase order prior to the close of the grant period in future periods if not corrected.

We recommend the facility issue purchase orders prior to entering obligations.

Official's Response: The procedures that were followed during FY11 and FY12 in regards to encumbrances did not support the guidelines provided in the Grant Manual. This was a result of staff turnover and misinterpretation of the grant guidelines. Beginning in FY15 SEPTA will begin to utilize blanket purchase orders prior to entering into obligations including but not limited to common purchases, such as utilities, office supplies, etc., to avoid purchase orders being created after expenditures have occurred and assuring expenses incurred are encumbered in the correct fiscal year.

FINDING NUMBER 2012-006

Noncompliance

Community-Based Correctional Facility Grant Manual and Application for FY 12, Section II.A, states the Quarterly Financial Reports must be filed with the Bureau of Community Sanctions and the Auditor of State to account for grant expenditures. Section II.F.3.b. requires the CBCF to submit quarterly financial reports within 15 days following the end of the quarter. The Ohio Department of Rehabilitation and Correction (ODRC) has deemed this deadline unrealistic and allows the Correctional Facility up to 30 days to submit the report. A final year-end financial report must be submitted by September 30th following the fiscal year using the Year-End Reconciliation column in the Cash Flow Section of the Final Report. These reports are due no later than October 10 of the following fiscal year and must be submitted to the Bureau of Community Sanctions Business Office.

The Facility received a waiver for submitting the fourth quarter of fiscal year 2011 and all four Quarterly Financial Reports of fiscal year 2012, as well as the final fiscal year 2011 and fiscal year 2012 year-end Financial Reports. The waiver contained a deadline of December 31, 2012. This deadline was not met and the reports have not yet been filed resulting in noncompliance.

We recommend the Facility submit all reports by the required date.

Official's Response: During staff transitions, timeliness issues with quarterly report submission were identified. Staff will prepare and submit quarterly reports to the Executive Director within ten (10) days from the end of the quarter for review. Upon approval by the Executive Director, but no more than twenty (20) days after the end of the quarter, the quarterly reports will be submitted to the Bureau of Community Sanctions and the Auditor of State. All final year-end financial reports will be filed with the Executive Director's approval prior to the September 30 and October 10 deadlines. Waivers shall not be requested without submitting to the Executive Director a schedule of dates (within the extension of time) by which each required task will be completed.

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

FINDING NUMBER 2012-007

Noncompliance

The Community-Based Correctional Facility Grant Manual and Application for FY 12, Section II D.1.b, states that total expenditures (including encumbrances) must not exceed the grant award for the fiscal year.

In fiscal year 2011, total expenditures exceeded the grant award by $63,852, and in fiscal year 2012, total expenditures exceeded the grant award by $30,170. This results in noncompliance with the grant agreement and in expenditures not authorized by the Bureau of Community Sanctions.

We recommend the Facility monitor expenditures to assure they do not exceed the grant award, and to submit a revised budget as necessary.

Official's Response: SEPTA has implemented an internal budget monitoring system that tracks expenditures by expense type, thereby allowing greater control of specific types of and overall spending. Beginning with FY15, SEPTA will develop and adopt annual budget projections entered at the beginning of the fiscal year, and update it as budget revisions are approved by the grantor.

FINDING NUMBER 2012-008

Material Weakness

All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

"Internal control" means a process affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Safeguarding of assets.

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that management properly authorizes all transactions in accordance with their policies.
- Ensure that management has properly designed accounting records.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-008 (Continued)

Material Weakness (Continued)

The Business Manager did not reconcile the Resident Program, Resident Trust, or Commissary accounts to the bank statements from May 2011 through June 2012. Additionally, the Business Manager did not reconcile the Section 125 Benefit Fund to the bank statements from September 2011 through June 2012. This resulted in additional time to audit the financial records and transactions due to the accounting system not agreeing to the bank statements. In addition, the Facility had to contract with an outside accounting firm to assist with the reconstruction, reconciliation, and preparation of financial statements for the offender funds.

Reconciling the accounting system to the bank records is a key feature of a sound internal control system, helping to ensure the accuracy of the financial statements.

We recommend the Business Manager reconcile the system to the bank statements monthly. The Treasurer should investigate any variances between the system and the bank statements promptly.

Official's Response: In order to strengthen internal control, reconciliation will occur monthly to maintain accurate records. Any variances between the system and the bank statements shall be submitted to the Operations Manager within seven (7) days of discovery. The Operations Manager shall complete an investigation and make recommendations to staff and the Executive Director prior to the reconciliation date for the following month.

FINDING NUMBER 2012-009

Material Weakness

All local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The following posting errors were noted in the ODRC Fund:

For fiscal year ended June 30, 2011:

- Encumbrances were not properly recorded and were increased $39,632.
- Fiscal year 2012 expenditures were posted in fiscal year 2011. We decreased operating costs $4,541 and decreased equipment costs $20,000.
- A gasoline reimbursement was posted to the program fund rather than the DRC fund resulting in a $72 increase to reimbursements.
- Kitchen reimbursements were not posted resulting in a $531 increase to reimbursements.
- Program Fees were misposted to ODRC resulting in a $7,950 decrease to miscellaneous revenue.

For fiscal year ended June 30, 2011:

- A fiscal year 2013 intergovernmental receipt was posted in fiscal year 2012. We decreased receipts $11,121.
- Encumbrances were not properly recorded and were decreased $134,629.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-009 (Continued)

Material Weakness (Continued)

- Fiscal year 2013 expenses were posted in fiscal year 2012. We decreased personnel costs $9,554, decreased operating costs $45,690, decreased program costs $11,098, and decreased equipment $72,450.
- Disbursements from prior year in the amount of $15,091 were misclassified as operating costs.
- Fiscal year 2012 expenses were posted in fiscal year 2011. Disbursements from prior year were increased $24,541.
- A gasoline reimbursement was posted to the program fund resulting in a $244 increase in reimbursements.
- Transportation was misposted to ODRC resulting in a $10,610 decrease to reimbursements.
- Kitchen reimbursements were not posted resulting in a $1,157 increase to reimbursements.

These misstatements were caused by a lack of management oversight. As a result, significant adjustments and reclassifications, with which the Facility's management agrees, were made to the financial statements and ledgers and are reflected in the accompanying financial statements.

We recommend the Operations Manager properly classify and take additional care in posting transactions to the Facility's ledgers in order to ensure the financial statements reflect the appropriate sources of the receipts and expenditures

Official's Response: During FY13 SEPTA contracted with a Swanson Services Corporation to provide an enhanced accounting system for the resident trust fund. The Operations Department now has the ability to review and monitor the balance of ODRC funds with detailed transaction reports which allows SEPTA to complete monthly reviews. With the addition of the Accounts Manager position, the Operation Manager is now a second line of management review for every transaction and the Executive Director provides routine and periodic checks.

FINDING NUMBER 2012-010

Material Weakness

The Facility issued checks between funds for various items such as per diem costs, transportation, commissary, staff lunches, gasoline, nurse visits and physician visits. These payments should be made timely so that the management can accurately track activity and reconcile balances regularly throughout the year and at year end.

During the audit, we noted the following:

- In fiscal year 2011, per diem costs were only paid from the Resident Trust fund to the Program Fund for July and August 2010. The remaining per diem costs, totaling $32,850, were charged to the residents but not paid to the Program Fund. In fiscal year 2012, $42,600 in per diem costs charged to the residents were not paid to the Program Fund.
- Fiscal year 2011 and 2012 transportation costs of $250 and $1,164, respectively, were not paid from the Resident Trust Fund to the Program Fund.
- Fiscal year 2011 and 2012 commissary costs of $3,014 and $139, respectively, were not paid from the Resident Trust fund to the Program Fund.
- Fiscal year 2011 and 2012 staff lunch reimbursements of $531 and $1,157, respectively, were not paid from the Program Fund to the ODRC Fund.
- Fiscal year 2011 and 2012 gasoline reimbursements of $122 and $175, respectively, were not paid from the Resident Trust Fund to the ODRC Fund.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-010

Material Weakness (Continued)

Additionally, we noted the following expenses recorded on the books but, as of June 30, 2012, the checks not yet been issued:

- Fiscal year 2011 and 2012 nurse visit reimbursements of $10 and $90, respectively, were not paid from the Resident Trust Fund to the ODRC Fund.
- Fiscal year 2011 and 2012 doctor visit reimbursements of $250 and $400, respectively, were not paid from the Resident Trust Fund to the ODRC Fund.
- For fiscal year 2011, per diem amounts were paid into the ODRC Fund rather than the Program Fund in the amount of $7,950 and the ODRC Fund has not yet issued a check to the Program Fund for this amount.
- Items were charged to the residents which were not supposed to be nonchargeable. The Program Fund should have covered these expenses, therefore, the Program Fund needs to issue a check to the Trust Fund so the Trust Fund can issue checks to the residents. For fiscal year 2011 total nonchargeable items amounted to $3,685 and for fiscal year 2012 $5,909.
- For fiscal year 2012, Program Fund deposits were deposited into the Trust Fund bank account and a check has not been issued to pay the amount back to the Program Fund bank account. The amount improperly deposited was $1,706 for Commissary and $658 for miscellaneous.
- For fiscal year 2012, court costs were recorded but were not paid to the appropriate clerk of courts as follows: $38 to Muskingum County Clerk of Courts, $201 to Fairfield County Clerk of Courts, $459 to Licking County Clerk of Courts, $682 to Gallia County Clerk of Courts, $130 to Hocking County Clerk of Courts, and $198 to Vinton County Clerk of Courts.
- For fiscal year 2012, prescription costs were not paid to Shriver's Pharmacy in the amount of $1,065.
- For fiscal year 2012, balances remaining in resident accounts for various residents were not paid at exit in the amount of $2,067.
- Commissary and Personal Care for July and August 2011 were paid twice from the Trust Fund to the Program Fund in an amount totaling $13,535. The Program Fund has not yet paid the Trust Fund back for this overpayment.

The Facility did not make payments between funds, or outside payments, in a timely manner which resulted in the financial statement activity not being properly reflected and a cumbersome reconciliation process to correct the statements.

The Facility did not make payments between funds in a timely manner which resulted in the financial statement activity not being properly reflected and a cumbersome reconciliation process to correct the statements.

We recommend the Facility make all payments between funds in a timely manner.

Official's Response: During FY13, SEPTA contracted with Swanson Services Corporation to provide an enhanced accounting system for the resident trust fund. Transfers between accounts now occur multiple times per month. Transfers between accounts and refunds to past residents have been issued based on the recommendations of the Auditor of State.

Dave Yost • Auditor of State

SEPTA CORRECTIONAL FACILITY

ATHENS 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
MAY 8, 2014