



## Department of Health

# Grant Processing Audit

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**Audit Period: January through July 2013**

### Results Summary:

Objective	Conclusion
Grant Payments	Improvement Needed
Subrecipient Monitoring	Improvement Needed



## **Executive Summary**

### **Background**

The Office of Financial Affairs' Grants Services Unit (GSU) within the Ohio Department of Health (ODH) oversees the subgrantee process through the Grant Management Information System (GMIS). The GSU processes payments and conducts monitoring activities of more than 300 subrecipients that receive approximately \$17.9 million in state and federal funds for the Help Me Grow, Public Health Emergency Preparedness, and Ryan White Part B programs during the period January through July 2013.

During the engagement, OIA identified opportunities for ODH to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODH staff and management for their cooperation and time in support of this audit. This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform assurance work related to the Grant Processing and Monitoring. This work was completed between July and November 2013. The scope of this review included the key processes over grant payments and subrecipient monitoring for three grants: Help Me Grow (HMG), Public Health Emergency Preparedness (PHEP), and Ryan White Part B. The audit period is January through July 2013.

The objectives of the review included the following:

1. Evaluate the design and effectiveness of controls over grant payments.
2. Evaluate the design of subrecipient monitoring.

### **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



## Observation 1 – Risk Based Approach for Determining Extent of Fiscal Subgrantee Monitoring

OMB Circular A-133, Subpart §.400 (d) defines the responsibilities of pass-through entities for federal awards. The responsibilities include monitoring the activities of subrecipients to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and performance goals are achieved.

It is a best practice to conduct risk assessments of subrecipients prior to funding to determine the appropriate level of monitoring. However, the ODH has not consistently implemented a risk-based approach to determine the extent of fiscal monitoring for its more than 300 subgrantees.

For example:

- In the past, the GSU Compliance team had conducted a risk assessment of all grants to subgrantees in order to identify the post-award audits to be completed during the state fiscal year. However, for the past several years, the Compliance team has primarily focused on conducting audits of one grant (Ryan White Part B) and has; therefore, not applied the risk-based approach during this time.
- The GSU Processing team conducts during-the-award fiscal monitoring but has not implemented a risk-based approach to determine the extent of fiscal monitoring. Instead, the Processing team conducts an onsite fiscal review of each subgrantee every other year. While onsite, the Processing team's Grant Consultant haphazardly selects one of the subgrantee's ODH grants to review expenditures charged to the selected grant. Failure to consistently implement a risk-based approach to determine the extent of fiscal monitoring of subrecipients may result in high-risk subgrantees not being adequately monitored to provide reasonable assurance that subgrantees use awards for authorized purposes. It also may result in an inefficient use of resources used to conduct extensive fiscal monitoring of low-risk subgrantees.

### Recommendation

The GSU Compliance and Processing teams, in coordination, should develop and implement an annual risk-based approach to determine the extent of fiscal monitoring of subgrantees. Factors to consider that may affect the nature or extent of monitoring should include, but should not be limited to:

- Dollar amount of awards;
- Subgrantee's experience with the program;
- Subgrantee's control environment (i.e. new personnel, staffing levels, lack of corrective action on prior audit findings);
- Results of audits;



- Compliance with submitting required reports;
- Reimbursement versus advance funding;
- New federal requirements applicable to the grant; and
- The level and type of recent technical assistance provided to the subgrantee.

Results of the annual risk assessment should be used to develop an annual fiscal monitoring plan. This plan should outline the extent of fiscal monitoring procedures and the ODH department (GSU Compliance team, GSU Processing team, or Program) responsible for conducting those procedures for each type of subgrantee (high, moderate, or low risk) based on the results of the annual risk assessment.

Routine monitoring standards and procedures should be developed and implemented for each type of subgrant based on results of the annual risk assessment. An example to consider:

- Low risk monitoring should include monitoring for operational changes and may be completed through desk reviews, telephone interviews or analyzing results of assurance questionnaires. Results of low risk monitoring procedures should determine whether or not to revise the initial risk assessment and if additional monitoring is needed.
- Moderate risk monitoring should include monitoring for compliance issues such as allowable costs, matching requirements, or to verify program funds are not used when other funds are available. Monitoring procedures may or may not include an onsite visit.
- High risk monitoring should involve onsite procedures with an increased testing of financial data and reporting. Objectives may include testing the reliability of internal controls, testing the reliability of financial reports, and testing if costs are allowable.

## Management Response

The GSU is in the process of revamping its current monitoring and auditing practices. The GSU is working with ODH's Human Resources to develop the necessary table of organization needed to move toward a risk based life of the grant monitoring structure. A risk assessment will be completed every year using January – December subgrant data. The risk assessment will look at the number of years the agency has been an ODH subgrantee, monitoring findings, findings on the A-133 report, report submission dates, special conditions applied to the grant. ODH will continue to review the type of data needed to complete a thorough risk assessment.

The risk based monitoring structure will include 5 tiers based on the risk level of the subgrant agency. Tier 1 will be conducted by the External Audit Supervisor. This tier will consist of evaluating the sub-grantee Internal Control Questionnaire. Tier 2 and 3 will be conducted in-house by GSU Disbursement Team staff. These tiers will consist of reviewing general ledgers, payroll ledgers, invoices and contracts for the low to moderate risk subgrant agencies. It will consist of a mini desk review (Tier 2) or an expanded desk review (Tier 3) depending on the complexity of the agency. The mini desk review will be conducted by reviewing one quarter of



supporting documentation each year and the expanded desk review will be conducted by reviewing multiple quarters of supporting documentation each year. The determination to conduct an expanded desk review will be based on the number of discrepancies found during the mini desk review. Tiers 4 and 5 will be conducted at the subgrant agency by the GSU Monitoring Team. These tiers will consist of reviewing expense reports, general ledgers, payroll ledgers, time and activity reports, contracts, invoices, match or program income requirements, board minutes and testing internal controls for high risk subgrant agencies to determine the allowability of costs. It will consist of a mini on-site monitoring (Tier 4) or an expanded on-site monitoring (Tier 5). The mini on-site monitoring will consist of reviewing one quarters worth of supporting documentation for all ODH grants. An expanded on-site monitoring will be conducted if multiple discrepancies are found during the mini on-site visit. The expanded on-site monitoring visit will review all supporting documentation for the life of the grant. An expanded on-site visit may also be conducted if any ODH staff person has concerns with a subgrant agency.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	April 2014

## Observation 2 – Fiscal Monitoring Procedures

According to the OMB Circular A-133 Compliance Supplement, a pass-through entity is responsible for conducting during-the-award monitoring of subgrantees through reporting, site visits, regular contact, or other means to provide reasonable assurance that subgrantees administer Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the Health Resources and Services Administration (HRSA) have designed fiscal, programmatic and universal monitoring standards to specify grantees’ monitoring requirements over Ryan White Part B subgrants. To comply with fiscal HRSA Monitoring Standards, Ryan White Part B grantees must conduct annual comprehensive site visits to subgrantees. The site visits must be standardized through published fiscal monitoring policy and procedures and should include written tools and protocols for conducting monitoring visits. A random sampling methodology should be established as part of the monitoring protocols.

It is a best practice to have a subgrantee fiscal monitoring tool in place to determine that federal grant objectives are met, to identify and remedy problems, and to ensure subgrantees understand program requirements and have policies and procedures in place to meet them. Although monitoring is being performed by the ODH Grants Services Unit (GSU), the monitoring program does not include grant-specific fiscal monitoring procedures to comply with subgrantee monitoring requirements in accordance with the OMB Circular A-133 Compliance



Supplement and the HRSA Monitoring Standards. For example:

- The “site monitoring form” used by the GSU Processing team when conducting onsite fiscal monitoring visits, directs the grant consultant to verify the existence of the expenses and whether the expenses are in accordance with the grant budget. However, the site monitoring form is general in nature and may not guide the grant consultant to obtain the proper documentation in order to detect instances when grants are not being administered in accordance with state and federal rules and regulations whether expenses are allocated appropriately to the grant program.
- The “audit procedures” used by the GSU Compliance team to conduct fiscal site visits of Ryan White Part B subgrantees is the same procedures that is used to conduct fiscal site visits of all other ODH subgrantees and is not specifically designed to meet HRSA Monitoring Standards. The Compliance team conducts site visits after the award period is closed, instead of conducting during-the-award fiscal monitoring. Furthermore, the Compliance team does not utilize a standardized sampling methodology and may test all of a subgrantee’s quarterly expenditures.

Failure to implement written fiscal monitoring tools that apply to all grants increases the likelihood of grants not being properly administered without detection. Failure to implement specific fiscal monitoring tools and protocols for conducting fiscal site visits to Ryan White Part B subgrantees increases the likelihood of non-compliance with HRSA Monitoring Standards. Opportunities to provide timely technical assistance to subgrantees may be missed when fiscal site visits are conducted after the close of the grant instead of during-the-award. Additionally, the cost of testing all of a subgrantee’s expenditures may be unreasonable in relation to the benefits derived, without a standardized sampling methodology.

#### **Recommendation**

Develop and implement a during-the-award fiscal site visit monitoring tool applicable to every ODH grant to detect instances of noncompliance with applicable federal or state rules or regulations or grant agreements. Furthermore, develop and implement a standardized during-the-award fiscal monitoring process through policies and procedures and written tools and protocols for conducting site visits to Ryan White Part B subgrantees to comply with HRSA Monitoring Standards. Fiscal monitoring tools should include a standardized sampling methodology.

Management should also consider the following:

- Implementing coordination between GSU and Program sections to streamline fiscal and programmatic monitoring site visits and to reduce the burden to subgrantees. Coordination should also include developing and implementing processes to communicate potential monitoring findings among all sections charged with subgrantee monitoring. Standardized and coordinated processes should be in place to determine



the severity of findings and the effort and resources necessary to ensure subgrantees implement necessary corrective action to mitigate findings.

- Evaluating challenges imposed by the HRSA’s annual comprehensive site visit requirement to subgrantees and considering request of a waiver from HRSA for exemption to annual site visits if challenges are significant. Policies and procedures must be developed and implemented for effectively monitoring subgrantees if seeking exemption from HRSA’s monitoring expectations. At a minimum, GSU should conduct site visits at higher risk subgrantees.
- Attending relevant training on grant rules and regulations to assist GSU when conducting fiscal monitoring of subgrantees. Provide communication to all subgrantees of pertinent rules, regulations, or emerging issues received at training.

**Management Response**

The Office of Financial Affairs (OFA) will develop a new monitoring tool by reaching out to various State Health Departments to obtain a copy of their monitoring tools, reviewing federal guidelines, incorporating requirements from the ODH Request for Proposal and reviewing federal Notice of Awards. OFA will work with the Office of Internal Audit to finalize the new monitoring tool. GSU Monitoring Team staff will continue communicating the monitoring schedule with Division Operational Support staff and providing them with a copy of the completed report.

OFA will continue to look for new training opportunities, via webinar, to train as many ODH staff as possible on federal rules and regulations.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	April 2014

**Observation 3 – Cash Management**

The Cash Management Improvement Act (CMIA) agreement between Ohio and The United States Department of the Treasury for state fiscal year 2014 states that when funds are pre-issued, Ohio must request funds and deposit into a State account not more than three business days prior to disbursing funds. The Codes of Federal Regulation (CFR) that govern the administration of the HMG and PHEP grants states that grantees and subgrantees must follow procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to assure they conform substantially to the same standards of timing and amount as apply to advances to grantees [34 CFR 80.20(b)(7) and 45 CFR 92.20 (b)(7)].



ODH has procedures to monitor the cash balances and outstanding obligations of HMG and PHEP subgrantees to determine amounts of third and fourth grant payments. However, unless conditions exist to prevent subgrantees from receiving payments, ODH advances these subgrantees 25 percent of grant awards during the first quarter of the grant and another 25 percent of the award at the beginning of the second quarter of the grant. This payment methodology does not assure subgrantees do not deposit funds more than three business days prior to disbursement.

Failure to implement procedures to monitor cash drawdowns by subgrantees increases the likelihood of noncompliance with the CMIA and CFR requirements. For example, from a sample of 25 HMG and PHEP subgrantees that received grant payments during state fiscal year 2013, 15 (60%) subgrantees received half of the grant award by the beginning of the second quarter of the grant period; no conditions existed to prevent normal advance payments. However, these subgrantees expended an average of only 49 percent (range between 22% and 77%) of grant payments received during the same timeframe. Therefore, these subgrantees routinely disburse funds more than three days after funds are deposited. Furthermore, advancing funds to subgrantees in excess of immediate cash needs may pose challenges should ODH have to later collect funds from subgrantees that were never expended.

**Recommendation**

Develop and implement procedures to reasonably assure subgrantees disburse grant funds within three days of depositing funds. ODH may consider increasing the frequency of advance grant payments or applying the formula for determining the third and fourth payments to the first and second payments in order to comply with CMIA and CFR cash management requirements. Alternatively, ODH may consider reimbursing subgrantees on a monthly basis for actual grant program expenditures.

**Management Response**

The Ohio Department of Health established a committee several months ago to look into the current subgrantee payment method. It was determined that ODH needed to approach changing the payment method in a way that would have the least impact on Ohio citizens. The committee determined that the first step would be to remove the ability to list obligations on quarterly expense reports except for the 4<sup>th</sup> quarter report which is due 15 days after the grant ends. Removing the obligations from the expense reports will assist with reducing the amount of cash being disbursed to the sub-grantees. In addition, ODH will change the quarterly allotment from 25 percent to 20 percent in order to minimize the time elapsing between the time subgrantees receive and disburse grant funds. ODH will continue to evaluate and adjust the quarterly allotment percentage in the future in order to ensure compliance with the CMIA and CFR requirements.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	June 2014

## Observation 4 – System Calculations

According to section 301.2 of the ODH Grant Administration Policies and Procedures Manual (GAPP Manual), the standard formula to pay subgrantees is as follows:

- First payment is the amount of the approved first quarterly allotment.
- Second payment is dependent upon satisfaction of or response to special conditions (special conditions prevent payments to subgrantees) and amount of approved second quarterly allotment.
- Third payment is dependent upon receipt of first and second quarter expense reports, amount of approved third quarterly allotment, less any cash balance indicated on the second quarter expense report, plus outstanding obligations.
- Fourth payment is dependent upon receipt of third quarter expense report, amount of approved fourth quarterly allotment, less any cash balance indicated on the third quarter expense report, plus outstanding obligations.

ODH relies on the GMIS to apply the appropriate formulas to enable ODH to timely and accurately submit payments to subgrantees. However, from a sample of 25 payments to HMG and PHEP subgrantees paid during the period January through July, 2013, six (24%) payments were incorrectly calculated and paid. All six were the fourth payment.

OIA expanded testing in order to test the fourth payment calculation of all 25 HMG and PHEP subgrantees in the sample and determined that GMIS inconsistently applied the formula, as stated in the GAPP Manual, to calculate and pay the fourth payment to subgrantees. The following issues were noted:

- **HMG:** Six of 12 (50%) fourth payments to subgrantees tested were incorrectly calculated and paid.
- Four of the six subgrantees were overpaid a total of \$18,504 (range of \$14,255 to \$707).
- Two of the six subgrantees were underpaid a total of \$4,462 (\$2,436 and \$2,028).
- **PHEP:** Seven of 13 (54%) fourth payments to subgrantees tested were incorrectly calculated and paid.
- One of the seven subgrantees was overpaid a total \$5,799.
- Five of the seven subgrantees were underpaid a total of \$132,122 (range of \$57,611 to \$186).



- One of the seven subgrantees did not receive a fourth payment when a payment of \$24,550 was due.

Overall, five subgrantees were overpaid a total of **\$24,303** and eight subgrantees were underpaid a total of **\$161,134** for the fourth payment. It should be noted no subgrantees were paid more than the grant award amount and subgrantees repaid any grant funds not expended.

Finally, one of 25 payments (4%) tested was paid 59 days after the subgrantee’s expenditure report was approved by ODH personnel, even though no special conditions existed to prevent GMIS from making payment. ODH recently instituted a control to help prevent untimely payments by verifying the subgrantees with approved expenditure reports have associated payments.

OIA was unable to determine the cause of the inaccurate and untimely payments to subgrantees through interviews with ODH personnel.

Failure to remit grant payments to subgrantees accurately and timely increases the likelihood that subgrantees have insufficient funds to effectively administer programs or have funds in excess of cash needs. Remitting excess funds to subgrantees may result in ODH later having to collect funds not expended from subgrantees.

**Recommendation**

Identify the cause of inaccurate and untimely payments to subgrantees. Specifically, GMIS administrators and OMIS personnel should work to ensure GMIS accurately calculates the fourth payment to subgrantees. GMIS should be periodically tested to verify payments are accurate. Additionally, preventative or detective controls should be developed and implemented to timely identify instances when payments are inaccurately calculated, paid or when payments are not remitted timely to subgrantees.

**Management Response**

The ODH OMIS conducted research to determine the cause of the miscalculations. OMIS identified the cause and corrected the system so that all payments are accurately calculated. Testing was conducted to ensure the accuracy of the calculations. This was completed November 2013. The OFA Grants System Officer will routinely run reports to verify the accuracy and timeliness of payments.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	November 2013



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee