



Department of Health

Creating Healthy Communities Audit

Audit Period: June 2014 through September 2016

Results Summary:

Objective	Conclusion*
Healthy Eating	Improvement Needed
Active Living	Improvement Needed
Grant Payments	Major Improvement Needed

* Please refer to Appendix A for classification of audit objective conclusions.

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Executive Summary

Background

The Ohio Department of Health (ODH) is responsible for, among other things, providing preventive medical services and other healthcare services, public health education, and performing various regulatory duties. Within the Division of the Medical Director, Bureau of Health Promotion, the Creating Healthy Communities (CHC) program has a goal to prevent and reduce chronic disease statewide through cross-sector collaboration. Through the collaboration, the program works to activate communities to improve access to and affordability of healthy food, increase opportunities for physical activity, and assure tobacco-free living where Ohioans live, work and play. By implementing sustainable evidence-based strategies, CHC is creating a culture of health.

The CHC program is primarily funded by the federal Preventive Health and Health Services Block Grant (PHHSBG) fund. For the two-year spending period ending September 2017, the CHC program is allocated \$3.65 million in PHHSBG funds annually. CHC is also funded by two State and Local Public Health Actions grants from the Centers for Disease Control and Prevention. Activities include state and local initiatives, within 23 counties, that support and progress active living, healthy eating, and early childhood obesity prevention in Ohio.

During the audit, OIA identified opportunities for ODH to strengthen internal controls and improve business operations. A summary, along with detailed observations, has been provided below. 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 an assurance audit related to the controls over the agency's Creating Healthy Communities program. This work was completed September 2016 through January 2017. The scope of this audit included the CHC program's state-wide efforts, local subgrantee monitoring, and grant payments.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the administration of the Healthy Eating program.
- Evaluate the design and effectiveness of controls over the administration of the Active Living program.
- Evaluate the design and effectiveness of controls over grant payments.



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 – Payments to Subgrantees

According to section D2.0 of the ODH Grant Administration Policies and Procedures Manual (OGAPP), grant payments will be made in a timely manner to support project operations and to minimize cash flow problems of subrecipient agencies. During the 2016 grant cycle, CHC began issuing payments to subgrantees on a reimbursement basis. ODH relies on the Grants Management Information System (GMIS) to timely and accurately remit payments to subgrantees after submission of expenditure reports. ODH sets special conditions in GMIS to restrict payments. If no special conditions exist; GMIS should automatically remit payments based on approved expenditure reports.

During testing of a sample of 23 CHC payments to subgrantees, OIA found four (17%) instances where the payment remitted from the Ohio Administrative Knowledge System (OAKS) did not match the expenditure report in GMIS. The errors all occurred during the period July through September, 2016 (third quarter of the grant period). Because of this, OIA expanded testing in order to test the third quarter payments to all 23 CHC subgrantees and noted the following:

- Six of 23 (26%) payments to subgrantees tested were not paid timely.
 - All six of these subgrantees were not paid timely for their July 2016 payment, even though no special conditions existed to prevent GMIS from making payment. These payments ranged from 41 to 121 days after the submission date, with an average of 76 days.
- 12 of 23 (52%) payments to subgrantees tested were incorrect.
 - One subgrantee was underpaid **\$17,699.88**.
 - 11 subgrantees were overpaid a total of **\$214,560.23**.
 - Eight of the overpayments (\$200,762.03) were due to double payments.
 - Two of the overpayments (\$1,919.96) were due to inclusion of disallowed costs.
 - OIA was unable to determine the cause of one overpayment (\$11,878.24).



- Five (22%) of the 23 payments to subgrantees tested were correct and timely.

It should be noted no subgrantees were paid more than the grant award amount, as of the time of the review. OIA was unable to determine the root 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. Additionally, payment errors may have an impact on ODH's overall cash management and federal reporting requirements, which may ultimately result in return of federal funds. Failure to accurately remit grant payments to subgrantees also results in additional time spent completing reconciliations, increases the likelihood for additional errors, and reduces operational efficiencies.

Recommendation

Identify the root causes of inaccurate and untimely payments to subgrantees. Specifically, GMIS administrators and ODH Office of Management Information Systems personnel should work to ensure GMIS accurately pays subgrantees. Periodically test GMIS to verify payments are accurate and timely. Develop and implement preventative and detective controls to timely identify instances when payments are inaccurate or are not remitted timely to subgrantees. For example, determine if exception reports may be developed to automatically identify inaccurate payments. Continue to perform monthly and quarterly reconciliations promptly after expenditure report submission and GMIS payment in order to timely identify and correct errors. In the short-term, consider the costs and benefits of suspending GMIS automated payment capabilities and implementing manual processes to ensure payment accuracy and timeliness, to prevent cash management issues and to assist in ensuring accuracy of federal reports.

Management Response

The Office of Financial Affairs (OFA) has worked with Office of Management Information Systems (OMIS) personnel to identify all system issues associated with GMIS resulting in incorrect payments. OMIS has scheduled an IT project and dedicated staff to correct all issues. The work will occur in collaboration with OFA and will be completed in 3 months or less. In addition, until all GMIS system payment issues are resolved, OFA's Grants System Officer will review on a weekly basis with OMIS staff all current issues and to determine the status of each issue. Grants Services Unit staff will continue to forward all payment issues discovered to the Grants System Officer.

Risk	Remediation Owner	Estimated Completion Date
High	Grants Administrator	May 1, 2017



Observation 2 – Insufficient Contract Deliverables

Agencies often utilize contracts with external vendors to provide work that helps meet their goals and objectives. Contracts should specify the deliverables needed from the vendor and dates the deliverables are due. An effective system of internal controls should ensure contractors submit deliverables in a timely manner and satisfactorily, without requiring additional work from the agency. Uniform Administrative Requirements, Cost Principles, and Audit Requirements For Federal Awards (Uniform Guidance) considers a contract payment to be improper if the good or service is not received, is considered ineligible, or an insufficient or lack of documentation prevents a reviewer from discerning whether the payment was proper (2 CFR 200.53). The Uniform Guidance also allows for the temporary withholding of payments pending correction of the deficiency; disallowing all or part of the activity not in compliance; or suspension or termination of the contract (2 CFR 200.338 (a)-(c)) for instances of noncompliance.

During the period June 2014 through September 2016, ODH's CHC program utilized two contractors, Better World Advertising (BWA) for retail marketing services and the Ohio State University (OSU) to provide evaluation services. OIA performed testing to determine if the CHC program received deliverables as required by the contracts. There were no issues noted related to the BWA contract deliverables. However, the following issues were noted for the OSU contract (total of \$61,599, funded by Preventative Health and Health Services Block Grant):

- The OSU contract contained 12 deliverables with assigned due dates and costs. Nine (75%) of the 12 deliverables did not meet the terms of the contract.
 - For eight deliverables, CHC program staff members spent substantial numbers of hours reviewing, researching, and editing in order for the deliverables submitted by OSU to meet the terms of the contract.
 - For one deliverable, ODH never received the deliverable as specified in the terms of the contract.
- Of the 11 deliverables received, four (36%) were not received by the amended contract deadlines. The CHC program received late deliverables between 52 and 170 (average of 98) days after the amended due dates.
- Despite issues with the quality and timing of the deliverables received from OSU, ODH only reduced the payment to OSU for the deliverable that was not received. This payment was reduced by 75% to \$1,467.

CHC program management met with ODH fiscal and legal personnel, as well as with the Department of Administrative Services contract liaison, to discuss the continued issues with the OSU contract. Ultimately, the CHC program = approved the invoices for payment.



Use of federal funds to pay for deliverables that are not satisfactory and do not meet contract terms is considered improper payments under the Uniform Guidance and reduces the likelihood that program objectives are met and that processes are operationally efficient.

Recommendation

Develop and implement controls to ensure contract deliverables are met and delivered timely. Ensure payments to contractors are reflective of deliverables received. Internal controls should include the following:

- Policy stating that contractors will not receive payments when deliverables do not meet contract terms and timeframes. The policy should outline a decision-making framework to ensure compliance with federal requirements to withhold or suspend payments or terminate contracts if terms are not met. The policy should outline a timeframe for decisions, documentation requirements, as well as roles and responsibilities.
- Reviews to determine if deliverables meet contract requirements. Documentation of such reviews should be comprehensive for every contract and should include sufficient details to document the review process and issues noted. Reviews should include verification that every deliverable is received by deadlines specified in contracts. Document communications with contractors of issues noted and resolutions.
- Methodology for calculating and documenting Agency time and resources spent when deliverables received do not meet contract terms, methods for adjusting payments for work not adequately performed by contractors, and procedures for determining when contract invoices should not be paid.

To ensure goals and objectives are met and to demonstrate fiscal responsibility, document rationale for use of contractors and in what ways each contract deliverable helps achievement of program objectives.

Management Response

The Ohio Department of Health, Creating Healthy Communities, Early Childhood Obesity Prevention Program, Violence and Injury Prevention Program and Project DAWN contracted with the Ohio State University, Center for HOPES to provide evaluation services. Significant time spent on this contract was onboarding the evaluation team to the work of CHC, including data collection processes, current research practices, and policies, systems, and environmental changes occurring across the state. Deliverables were submitted with the CHC Program providing feedback and corrections to the contractor to ensure a high-quality product was completed. The CHC Program worked with ODH’s Office of Financial Affairs and Department of Administrative Services to overcome barriers experienced through this contract. CHC maintains the integrity of its contract process for fiscal responsibility and high quality program delivery.



ODH currently has a contract manual in place that dictates when and how a contract should be put in place, as well as how the contract should be administered from a financial perspective and the guidelines for making payments. ODH's existing policy requires ODH staff to only approve and pay for deliverables that have been received and are in good order. This expectation is also communicated through training conducted throughout the year. Approving of deliverables and authorizing payment in a case where deliverables were not received and are not in good order may result in disciplinary action.

Based on ODH's current procurement policy, the contract manager has the responsibility to review, accept, deny, correct, and to approve payment for only services that have been rendered. Program staff must indicate their acceptance and approval of an invoice by indicating their approval through email or signature on the invoice. This is validated by OFA's Accounting Unit. Hence, Accounting will only approve for payment, if authorized by the contract or program manager.

If a program determines that a deliverable does not meet the requirements in the contract, it is to notify OFA and Legal to help with resolution. If vendor performance is subpar and ODH may be required to provide additional guidance to the vendor. If agreement cannot be reached to have the vendor correct their work to align with the deliverable specification listed within the contract, termination of the contract and the start of legal proceedings will occur as a last resort. Before this step, ODH will determine (with program, OFA, and Legal input) whether it should negotiate the reduction of price for a deliverable due to the vendor not being able to deliver the full scope. ODH will consider its legal obligation under a court of law. Determining compensation after contract suspension or termination (Section 2.11.02) is used as a guide when determining a fair and reasonable value. In general, the court will want to know what efforts ODH made to resolve any contractor performance issues (i.e., did the agency provide them a reasonable opportunity to cure). After we exhaust all efforts of resolution, that is when fines, termination, and suspensions are implemented.

In addition, if a particular contract was bid and managed by DAS (as the above OSU contract was), then any administrative actions would need DAS approval. Per DAS Policy (Section 10.0 of the State Procurement Handbook), ODH is obligated work with the contractor to resolve any performance issues. DAS will be involved in the decision making process in determining how to resolve any issues.

In the case of the OSU contract, after meeting and negotiating with all parties, DAS modified contract deliverables and due dates so the vendor could provide a finished product that was eventually approved for payment. In working with DAS, the contractor, and the program we were able to resolve the matter by getting acceptable deliverables as required by the contract.

To further strengthen ODH work surrounding deliverables, a draft policy has been proposed by OFA that will require program staff to validate that a deliverable has been received in good order. This validation process will include the requirement that the program identify documentation



supporting the approval of the deliverable. Invoices and deliverable documentation will be uploaded into WISE Contract Management system to ensure vendor monitoring. ODH will also conduct random and/or high risk review of contracts deliverables to ensure policy is followed.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Chief Procurement Officer CHC Program Manager	May 1, 2017

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.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	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.
Major Improvement Needed	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
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	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
High	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