
Harris County Auditor's Office



Memorandum

To: Lina Hidalgo, County Judge
Rodney Ellis, Commissioner Precinct 1
Adrian Garcia, Commissioner Precinct 2
Steve Radack, Commissioner Precinct 3

R. Jack Cagle, Commissioner Precinct 4
Josh Stuckey, Interim Exec. Director - CSD
Dr. Umair A. Shah, Exec. Director - Public Health
DeWight Dopslauf, Purchasing Agent

From: Mike Post, Harris County Auditor
Errika Perkins, Chief Assistant County Auditor - Audit Division

CC: Joe Madden, County Judge's Office
Brandon Dudley, Precinct 1
Mike Lykes, Precinct 2
Conrad Joe, Precinct 3
Cheryl Guenther, Precinct 4

Leslie Wilks Garcia, Auditor's Office
Vince Ryan, County Attorney's Office
Daphne Lemelle, Community Service Dept.
Gwen Sims, Public Health Dept.
Damon Harris, Purchasing

RE: Vendor Federal Procurement Review of Health Planning Studies Project

Date: May 18, 2020

At the request of Commissioners Court on March 10, 2020, the Grants Audit Team performed a review of the Community Development Block Grant - Disaster Recovery (CDBG-DR) federal funds passed through from Harris County Community Services Department (Community Services) to the Harris County Public Health Department (Public Health) for the Health Planning Studies Project (Project). The objectives of the engagement were to perform procedures to evaluate the design and effectiveness of controls surrounding the following:

- Community Services' and Public Health's compliance with federal procurement requirements related to the CDBG-DR funded Project.
- Harris County Purchasing Department's (Purchasing) compliance with established procedures for federal procurements.
- Public Health's procurement of vendors using other CDBG federal grant funds.
- Community Services' governance over sub-recipient's procurements involving federal grant funds are adequate.

Overview

On March 26, 2019, Commissioners Court approved the Project to address the County's recovery, resiliency, and mitigation needs. Specific activities to be accomplished in the Project were the evaluation of safe places or lack thereof for Harris County residents during disasters and the study of flood-impacted areas of the County to determine public health and healthcare access needs. On April 30, 2019, a Commissioners Court Order (Order) authorized the Project to be funded by federal CDBG-DR funds that had previously been awarded to Community Services. The Order defined the Grantee Sponsor as Public Health and the Grantee Department as Community Services. This Order stated that "The Grantee Sponsor shall comply with all procurement activities carried out under this Order, which shall be selected and executed pursuant to federal procurement regulations set out in 2 C.F.R. §200.318 and to Harris County policy and procurement guidelines. The Grantee Sponsor shall be responsible for incorporating into the RFQ Packet any and all HUD, any and all GLO, and any and all CSD requirements, and incorporated herein for all purposes." In addition, the Order stated "The Grantee Sponsor shall prepare and file such reports as the Grantee Department may reasonably require to facilitate monitoring of the Project to ensure compliance with CDBG-DR regulations."

During the Project, Community Services and Public Health had numerous written and verbal communications regarding the procurement of vendors that would be used to complete the Project. On May 7, 2019, Community Services emailed the previous Public Health Deputy Director to provide an update "on status of documentation from Purchasing Department regarding the procurement of the Public Health/Healthcare Access study. Per, our telephone conversation, Public Health cannot begin the study, until we clear up the procurement issue." The Deputy Director responded the same day with, "We are currently identifying the contracts we want to use for these funds. Once I have a list we will verify they meet the requirements with purchasing. Just to be clear we have and are still moving forward with the studies by Courts direction and these funds will be essential but not exclusive to getting that work done." As of May 2019, the project had not expended any funds on the disallowed vendors. Community Services performed a technical review of the Project in September 2019. The technical review of Public Health's Project resulted in Community Services issuing a finding on November 27, 2019 for disallowed costs related to the federal vendor procurement. The finding stated, "It is our understanding that five (5) vendors are currently being utilized to implement this project. Based on our review, none of the procurements for these vendors followed 2 CFR 200.318 and CDBG-DR regulations and requirements. As such, all costs associated with services that are non-compliant with the required federal procurement regulations are deemed ineligible costs and are subject to recapture. Please be advised that such non-compliance has jeopardized the allocated 2017 CDBG-DR funding for these studies. Our review has concluded that HCPHED has expended a total of \$503,058.08 in 2017 CDBG-DR funds for non-compliant procured services."

After Community Services issued the finding for \$503,058 in disallowed costs, Public Health continued with the Project, spending a total of \$780,966. At the March 10, 2020, Commissioners Court meeting, Public Health requested an allocation of general fund budget "not to exceed \$800,000" to cover the disallowed costs.

Observations

Objective: Community Services' and Public Health's compliance with federal procurement requirements related to the CDBG-DR funded Health Planning Studies Project.

1. The Grants Audit Team concurs with the finding that Community Services issued to Public Health as stated in the overview above. Additionally, Public Health continued to use the five disallowed vendors to complete the Project after Community Services sent written notification of findings. Three of the 5 vendors were procured using a sole source justification that did not meet federal

procurement guidelines. The remaining 2 vendors were used via an existing Master Service Agreement (MSA) that was not procured in accordance to the federal guidelines that require contracting with small and minority businesses, women's business enterprises, and labor surplus area firms, as well as Section 3 guidelines for participation of low to moderate income individuals. See *Appendix A* for a breakdown of the related vendors with an explanation of why each procurement was disallowed.

Objective: Purchasing's compliance with established procedures for federal procurements.

1. In the Purchasing Manual located on Purchasing's intranet, a procedure is listed in section 5.6 stating, "Purchasing should be notified on the purchase requisition or as soon as possible concerning a request using grant funds." The Purchasing Manual does not specify what form of communication is required by departments to notify Purchasing of federal grant projects. Also, since Purchasing does not have a process to use the IFAS requisition coding, they did not initiate federal procurement procedures from Public Health's federal coding of the Project's requisition.

It was noted that the new Harris County Federal Procurement Manual includes a requisition form that requires departments to identify the funding source. However, at the time of fieldwork, the Harris County Federal Procurement Manual was still in draft form and was intended for internal use only.

Objective: Public Health's procurement of vendors using other CDBG federal grant funds.

1. Public Health does not have documented policies and procedures governing the administration of federal grants, specifically, procedures to procure vendor goods and services. As a result, Public Health is at risk for further non-compliance with 2 CFR 200.317-326.
2. No evidence was provided that Public Health informed Purchasing that federal funds were being used to procure the five vendors used for the Project. As a result, the five vendors were not procured in compliance with 2 CFR 200.318. However, as mentioned above, Public Health did properly code their Project's requisitions to a federal grant code.
3. Additional vendor procurements of federal grant funds were reviewed to determine whether compliance with 2 CFR 200.318 occurred. The vendor procurements reviewed were related to additional funds passed through from Community Services to Public Health for various programs. There were no issues noted with these vendor federal procurements.

Objective: Community Services' governance over subrecipient's procurements involving federal grant funds are adequate.

1. Community Services currently has a subrecipient monitoring plan. This plan is used by Community Services to conduct monitoring of external subrecipients and administrative functions. Community Services does not have monitoring procedures within the current subrecipient monitoring plan to govern other County departments receiving budgeted federal fund transfers. As a result, County departments receiving budget transfers of federal grant funds are not subjected to Community Services' subrecipient monitoring plan. The lack of formal department monitoring may contribute to non-compliance with federal guidelines and financial losses to the County.

Recommendations

1. Public Health should develop and follow formal internal policies and procedures for the administration of federal grants.
2. In the PeopleSoft system, the fund structure has been set up to identify federal grants using a unique fund code. Purchasing should include in their Procurement Manual, Federal Procurement Policy, and Federal Procurement Manual, a control requiring Purchasing's buyers to review the funding source codes on all requisitions and utilize the information to identify federal funding sources. When the control is implemented, buyers should be informed and trained to use this control.
3. Purchasing should place the Purchasing Manual, Federal Procurement Policy, and Federal Procurement Manual, on the Harris County intranet in a central location. The location should be communicated to all County departments to promote compliance with the updated procedures. Additionally, Purchasing should obtain written acknowledgment annually from all County departments administering and procuring with federal grant funds, their receipt and understanding of the Purchasing Manual, Federal Procurement Policy, and the Federal Procurement Manual.
4. Although it may not have prevented the disallowed costs, we believe Community Services should update its subrecipient monitoring plan to provide guidance to County Departments administering budget transferred federal grant funds. The monitoring plan should also be updated to require periodic monitoring of County Departments when budgeted federal grant funds have been transferred to County departments.

Appendix A

Vendors	Federal Compliance Requirement	Reason for Non-compliance
A-1 Personnel	2 CFR 200.320(c.) 2 CFR 200.321	An existing Master Service Agreement (MSA) from 2016 was used. The MSA did not include federal procurement requirements for 2 CFR 200.320 & 321 which require contracting with small and minority businesses, women's business enterprises, and labor surplus area firms. There was also no Section 3 provisions as required by HUD.
Genuent LLC.	2 CFR 200.320(c.) 2 CFR 200.321	An existing Master Service Agreement (MSA) from 2016 was used. The MSA did not include federal procurement requirements for 2 CFR 200.320 & 321 which require contracting with small and minority businesses, women's business enterprises, and labor surplus area firms. There was also no Section 3 provisions as required by HUD.
ESRI	2 CFR 200.320(f.)	A sole source exemption was used, but there was a lack of documentation to justify the sole source procurement method. There was no documentation to show that the item was available from a single source or that an attempt was made to solicit from a number of sources as required by federal requirements.
January Advisors	2 CFR 200.320(f.)	A 'sole source' letter dated 7/19/19 was written by the <u>vendor</u> and sent to Purchasing. A letter from the vendor justifying that they are the sole source is not adequate to comply with 2 CFR 200.320(f).
MySidewalk	2 CFR 200.320(f.)	There was not adequate documentation that price or rate quotations were obtained from an adequate number of qualified sources or that the selected vendor was the only provider of the service.