

AUDITOR'S REPORT

HARRIS COUNTY PUBLIC HEALTH AND ENVIRONMENTAL SERVICES DEPARTMENT SUBRECIPIENT MONITORING



March 8, 2019

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HARRIS COUNTY AUDITOR

March 8, 2019

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Executive Director/Local Health Authority
Harris County Public Health Services
2223 West Loop South
Houston, TX 77027

RE: Harris County Public Health Services Department Subrecipient Monitoring

The Harris County (County) Auditor's Office performed procedures relative to the subrecipient monitoring performed by the County's Public Health Services Department (Public Health). The objective of the engagement was to evaluate the design and operating effectiveness of controls over subrecipient monitoring for the Ryan White HIV/AIDS Program (the Program).

We performed the following procedures:

- Reviewed documentation of site visits and desk reviews for adequacy and completeness.
- Selectively tested Contract Expense Reports to determine that they met the requirements of the subaward agreement with each subrecipient (Contract).
- Selectively tested Administrative Cost Reports to verify that the administrative costs were in compliance with the Contract.
- Verified that program income was collected and expended in accordance with the Contract.
- Evaluated the supporting documentation to determine whether the St. Hope Foundation complied with the Contract.

The engagement process included providing you with a scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise professional judgment in completing the scope procedures. As the procedures were not a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

Umair A. Shah, MD, MPH
Executive Director/Local Health Authority

The enclosed Auditor's Report presents the significant issues and recommendations identified during our procedures. We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Michael Post
County Auditor

cc: District Judges
County Judge Lina Hidalgo
Commissioners:
 R. Jack Cagle
 Rodney Ellis
 Adrian Garcia
 Steve Radack
Kim Ogg
Vince Ryan
William J. Jackson

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OVERVIEW

Public Health, through its Ryan White Grant Administrative Section, is responsible for overseeing funding for services provided under the Program for the Houston area. Public Health receives grant funds from the United States Department of Health Resources and Services Administration. The Program is a federal initiative enacted in 1990 to provide a comprehensive system of care that includes primary medical care and essential support services for people living with HIV/AIDS who are uninsured or underinsured. The Program works with cities, states, and local community based organizations to provide HIV/AIDS care and treatment services to more than half a million people each year. Public Health subawards funds to other agencies (subrecipients) to assist in carrying out this program. As such, Public Health is referred to as a “pass-through entity.” For the Fiscal Year 2018, the department received Ryan White grant funding totaling \$23,850,199. Of this total, \$18,690,225 or 78% was awarded to 9 subrecipients.

The United States Office of Management and Budget’s Uniform Guidance (Uniform Guidance) (Title 2 of the Code of Federal Regulations (CFR) §200), is an authoritative set of rules and regulations related to federal grants. Noncompliance with the Uniform Guidance could result in the repayment of disallowed costs and/or the loss of future grant funding. The following requirements are related to the monitoring of subrecipients by pass-through entities:

- Evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward to determine the appropriate monitoring activities (Title 2 CFR §200.331 (b), *Requirements for Pass-through Entities*).
- Review financial and programmatic reports required by the pass-through entity (Title 2 CFR §200.331d (1), *Requirements for Pass-through Entities*).
- Follow-up and ensure that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award (Title 2 CFR §200.331d(2) *Requirements for Pass-through Entities*).
- Issue management decisions for audit findings pertaining to the federal award (Title 2 CFR §200.331d(3), *Requirements for Pass-through Entities*).
- Verify that every subrecipient that is expected to expend more than \$750,000 in federal funds during its fiscal year undergoes a compliance audit known as a “Single Audit.” (Title 2 CFR §200.331f, *Requirements for Pass-through Entities*).

These requirements are designed to ensure the subrecipients comply with the federal statutes, regulations, and subaward requirements.

RESULTS

Our procedures indicated that Public Health's process of review and approval of the monthly Contractor Expense Reports was materially effective. In addition, the site visits performed related to program compliance were found to be compliant with the Uniform Guidance, and Administrative Cost Reports selected for testing complied with the subaward. However, Public Health's subrecipient monitoring controls need improvement as follows:

1. Public Health was unable to provide us with oversight documentation required by the Uniform Guidance. Public Health Management should implement monitoring controls over document retention related to subrecipient monitoring.
2. 30 of 30 (100%) Contractor Expense Reports reviewed were submitted after the subaward requirement of 10 calendar days.
3. 18 of 30 (60%) Contractor Expense Reports billed amounts that were in excess of the subaward limit of one-twelfth of the annual subaward amount in a month. However, the subaward amount is adjusted throughout the year, thus we were unable to verify whether these Contractor Expense Reports were out of compliance with the subaward.
4. Total payments made to a sample of subrecipients exceeded the amount of expenditures of federal awards reported on their single audit reports by a combined total of approximately \$340,000. Public Health Management should implement controls to ensure that amounts paid to subrecipients do not exceed the actual cost of providing the services as required by The National Monitoring Standards for Ryan White Part A and the Uniform Guidance. Additionally, Public Health Management should determine whether the County has a liability related to overpayments to subrecipients

No testing of program income was performed because it was determined that there was no program income collected during the audit period. Additionally, the St. Hope Foundation complied with the Contract.

These matters are discussed in more detail in the following Issues and Recommendations section of this report.

ISSUES AND RECOMMENDATIONS

Performing Subrecipient Monitoring Activities

Background

Title 2 of CFR §200.331, *Requirements for Pass-through Entities*, requires that all pass-through entities perform the following:

- Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring activities.
- Monitor the activities of its subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.
- Verify that every subrecipient receives a single or program specific audit when required by the Uniform Guidance.

Title 2 of CFR §200.333, *Retention Requirements for Records*, requires that pass-through entities maintain documentation of their subrecipient monitoring for a period of three years from the date of submission of the final expenditure report.

Issues

Public Health's monitoring controls over document retention related to subrecipient monitoring and the enforcement of subaward provisions need improvement. Public Health was unable to provide us with the following documentation as required by the Uniform Guidance:

- Final Financial Reports for the year ended February 28, 2018
- Subrecipient Single Audit Reports
- Supporting documentation for site visit financial monitoring
- Financial site visit reports for 6 of the 9 subrecipients. Additionally, the 3 financial site visit reports that were provided referenced outdated guidance.

Furthermore, we noted the following subaward compliance enforcement issue:

- 30 of 30 (100%) Contractor Expense Reports reviewed were submitted after the subaward requirement of 10 calendar days.

Additionally, 18 of 30 (60%) Contractor Expense Reports billed amounts that were in excess of the subaward limit of one-twelfth of the annual subaward amount in a month. However, the subaward amount is adjusted throughout the year, thus we were unable to verify whether these Contractor Expense Reports were out of compliance with the subaward.

Ineffective monitoring controls over document retention related to subrecipient monitoring and the enforcement of subaward provisions has resulted in non-compliance with the Uniform Guidance, which could result in the repayment of disallowed costs and/or the loss of future grant funding.

ISSUES AND RECOMMENDATIONS

Performing Subrecipient Monitoring Activities (Continued)

Recommendations

1. Public Health Management should strengthen monitoring controls over document retention related to subrecipient monitoring and the enforcement of all subaward provisions.
2. Public Health Management should consider seeking training regarding the compliance requirements for the Ryan White Grant as well as the Uniform Guidance.

Management Response

Ryan White Grants Administration (RWGA) agrees with finding recommendations. Unfortunately, during the time that the County Auditors subrecipient monitoring review was conducted, RWGA had experienced a turnover of 100% of its staff responsible for review of sub-recipient financial review and monthly expense report processing. During a 12 month period RWGA had protracted vacancies in its Grants Management Project Coordinator, Accounting Coordinator, and Financial Analyst positions. Additionally, the incumbents that vacated the Grants Management Project Coordinator and Accounting Coordinator positions had over 45 years of combined experience in Contract management and sub-recipient expense reporting for the Houston Ryan White Program. During this period of transition, tasks that were previously performed as routine, such as sub-recipient reminders and follow up for delayed Contractor Expense Reports, were not performed. However, RWGA has a strong foundation of policies and procedures for ensuring Ryan White program and Uniform Guidance requirements are followed and enforced. The RWGA Manager agrees with report recommendations that new staff must familiarize themselves with department and Uniform Guidance policies and procedures, and demonstrate proficiency quickly. RWGA has discussed additional training opportunities with County Auditors, and has requested HCPH approval for additional County Auditors technical assistance. Additionally, RWGA has secured Ryan White Program fiscal technical assistance for the 2019 calendar year.

ISSUES AND RECOMMENDATIONS

Unit Costs Exceed the Actual Cost of Providing Services

Background

The National Monitoring Standards for Ryan White Part A Grantees state:

“Requirements to be met in determining the unit cost of a service:

- Unit cost not to exceed the actual cost of providing the service
- Unit cost to include only expenses that are allowable under Ryan White requirements
- Calculation of unit cost to use a formula of allowable administrative costs plus allowable program costs divided by number of units to be provided”

Additionally, according to the Uniform Guidance (Title 2 of CFR §200.403, *Factors Affecting Allowability of Costs*), in order to be allowable, a cost must meet the following criteria:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

Issue

Public Health does not have controls in place to ensure that amounts paid to subrecipients do not exceed the actual cost of providing the services as required by The National Monitoring Standards for Ryan White Part A and the Uniform Guidance. Total payments made to a sample of subrecipients exceeded the amount of expenditures of Federal awards reported on their single audit reports by a combined total of approximately \$340,000. These overpayments could result in a liability for Harris County to the grantor agency.

Recommendations

1. Public Health Management should implement controls to ensure that amounts paid to subrecipients do not exceed the actual cost of providing the services as required by The National Monitoring Standards for Ryan White Part A and the Uniform Guidance.
2. Public Health Management should determine whether the County has a liability related to the identified overpayments to subrecipients totaling approximately \$340,000. Public Health Management should also consider performing procedures to evaluate the actual allowable costs (both administrative and program) for each subrecipient for grant years 2016 through 2018 in order to determine if the amounts paid to subrecipients exceeded their actual costs. The results of these evaluations should be provided to both the United States Health Resources and Services Administration as well as the County Auditor.

ISSUES AND RECOMMENDATIONS

Unit Costs Exceed the Actual Cost of Providing Services (Continued)

3. Public Health Management should consider seeking training regarding the compliance requirements for the Ryan White Grant as well as the Uniform Guidance.

Management Response

Based on this finding, RWGA has requested clarification from the program funder, the Health Resources and Services Administration (HRSA), regarding allowable use of program income and unit cost restrictions. RWGA has identified fiscal technical assistance for the 2019 calendar year to provide additional clarification of HRSA's interpretation of this guidance. Additionally, RWGA has requested additional documentation from affected subrecipients related to this finding. Documentation is pending from multiple providers. Where single audit errors are identified, revision will be corrected, and findings with action plans documented.