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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

June 17, 2022

Dear Barbie Robinson, Executive Director:

The Harris County Auditor's Office Audit Division has completed an audit of Harris County Public Health's Emergency Response Grants. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Post
County Auditor

Report Copies:

District Judges
County Judge Lina Hidalgo

Commissioners:

R. Jack Cagle
Rodney Ellis
Adrian Garcia
Tom Ramsey
Christian Menefee
David Berry



INTERNAL AUDIT REPORT
PUBLIC HEALTH EMERGENCY RESPONSE GRANTS
JUNE 17, 2022

Executive Summary

OVERALL CONCLUSION

The overall controls related to the Public Health Emergency Response Grants (PHERG) are effective. However, Harris County Public Health Services (PHS) did not comply with Federal grant requirements for procurement and allowable costs. The issues were discussed with the PHS, and management action plans were developed to address the issues identified by September 30, 2022.

SCOPE AND OBJECTIVE

The audit scope included processes and records for the 12 months ending September 30, 2021. The objective was to evaluate compliance with the following federal grant requirements for the PHERG:

- Allowable Costs
- Procurement
- Reporting
- Special Contract Requirements

SUMMARY OF AUDIT ISSUES

- Non-compliance with Federal procurement requirements due to a lack of oversight by PHS.
- Non-compliance with Federal procurement requirements due to a lack of oversight by the Purchasing department.
- Indirect costs were not calculated correctly.

The audit issues, management's action plans to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to PHS.

AUDIT ISSUES

ISSUE #1: Master Service Agreements (MSA) Lacked Federal Procurement Requirements [HIGH] REPEAT ISSUE

What is the Issue: PHS did not comply with Federal procurement requirements regarding utilization of minority businesses, women's business enterprises, and labor surplus area firms, as a result of staffing contracts executed through a (Master Service Agreement) MSA that was not federally procured.

Why it Happened: PHS did not implement the recommendation from the May 18, 2020, "Vendor Federal Procurement Review of Health Planning Studies Project" audit report to correct non-compliance with federal regulations for MSAs. Furthermore, PHS did not follow the Purchasing Agent's subsequent guidance to utilize different MSAs.

Why it Matters: Non-compliance with Federal procurement requirements may result in loss of Federal funding.

What is Expected: Per chapter 3 of the Harris County Federal Procurement Procedure Manual and 2 Code of Federal Regulations (CFR) 200.321, the non-federal entity (Harris County) should take all necessary steps to assure that small and minority businesses, women's business enterprises, and labor surplus area firms are used when possible.

What Action(s) are Suggested: Future staffing contracts should be executed under a MSA that is procured according to Federal requirements.

MANAGEMENT'S ACTION PLAN

Responsible Party: Richard Williams, Grants Manager - PHS

In compliance with 2 CFR 200.321, HCPH worked with HC Purchasing to create a new MSA for contract staffing. Commissioner's Court approved the new MSA on 3/8/22. HCPH informed Purchasing that moving forward, there is a high probability that grant funds be used with all vendors that work with HCPH. All RFPs moving forward will have language that complies with the procurement standards in 2 CFR 200.318 - 200.32. HCPH created a new position in the Office of the Executive Director to ensure that procurement compliance is followed as well. HCPH has taken additional steps to train program staff to use the appropriate contract/job numbers that apply to federal grant requisitions.

Due Date: Completed

ISSUE #2: Procurement Lacked Federal Provisions [HIGH]

What is the Issue: A chemical pesticide procurement lacked the required Federal contract provisions and outreach to minority businesses, women's business enterprises, and labor surplus area firms.

Why it Happened: An oversight by the Purchasing Department allowed the Federal procurement process to bypass the instructions on the procurement documentation submitted by PHS.

Why it Matters: Non-compliance with Federal procurement requirements may result in loss of Federal funding.



What is Expected: Non-Federal entities including subrecipients of the state, must follow the procurement standards in 2 CFR 200.318 - 200.327.

What Action(s) are Suggested: The Purchasing Department should ensure that Federal funded procurements are properly identified.

MANAGEMENT'S ACTION PLAN

Responsible Party: DeWight Dopslauf, Purchasing Agent

The Harris County Federal Procurement Policy Manual was recently updated and approved in Commissioners Court on March 8, 2022, which has been provided to all buyers as a resource for guidance on Federal requests. The Purchasing Department, Compliance Manager provided internal Federal Procurement Training, covering 2 CFR 200.318 – 200.32 to all buyers shortly after the Federal Procurement Policy Manual was approved; the training took place in April 2022. Additional training will be provided to buyers to ensure internal processes within the Purchasing Department are followed when it comes to checking for Federal funds on new projects and/or requisitions. In addition, the internal procedure on how to check for Federal funds on requisitions will be updated, as our current procedure does not include the following funding codes: 2650 – Cares Act Fund, 2651 – American Rescue Plan 2021, 2688 – Grant Program Income, and 2699 – Grant Match. The Compliance Manger will work with the Auditor's Office to schedule additional training around Federal Procurements, such as, Disaster Grants Training to further educate buyers on the Federal/Grant process.

Due Date: August 31, 2022

ISSUE #3: Improper Calculation of Indirect Costs [HIGH]

What is the Issue: A journal entry for indirect costs in the amount of \$25,647 was calculated using the wrong base period. The calculation used a cost basis from multiple years, which does not properly allocate indirect costs for the period in which the costs were incurred.

Why it Happened: PHS does not have a formal policy that governs indirect costs. The Auditor's Office Grants Accounting Administration Manual mentions indirect cost entries, but specific directions for complying with indirect cost proposals from 2 CFR 200 Appendix VII are not included.

Why it Matters: Non-compliance with Federal allowable cost requirements may result in loss of Federal funding.

What is Expected: According to 2 CFR Appendix VII, the base period for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year but should avoid inequities in the allocation of costs.

What Action(s) are Suggested: The Auditor's office should update the Grants Accounting Administration Manual detailing the consistency and methodology for calculating and allocating indirect costs. PHS should create an internal policy that details the method to be utilized, the indirect cost percentage that should be applied, and any exceptions or special circumstances that should be considered. The methodology should comply with 2 CFR Appendix VII and should be coordinated with the Auditor's Office Grants Accounting Department to ensure all stakeholders are aware of the requirements. Both policies should be reviewed on an annual basis.



MANAGEMENT'S ACTION PLANS

Responsible Party: Richard Williams, Grants Manager

HCPH currently prepares an Indirect Cost Rate Plan on an annual basis in accordance with 2 CFR 200. We will work with the Auditor's Office Grants Accounting Department to develop an internal policy. The policy includes an annual rate cap will be determined by HCPH Executive Staff and applied consistently agency-wide based on the granting agency type with the corresponding cost allocation methods:

- Modified Total Direct Cost (MTDC) – For direct federal grants (with regard to administrative cap)
- Total Direct Salaries Cost – For state and state pass-through grants (HHSC has a policy and procedure for all awards after Feb. 2021) and non-federal grantors

The target date for the policy to be effective is August 1, 2022. Once the draft policy is approved, the policy will be distributed to HCPH Directors and Finance Staff. HCPH will implement a training plan for Finance - Grants Management staff on the application of indirect costs in July 2022 and standardize all indirect cost allocation by August 1, 2022.

HCPH will also continue to work with the Auditor's Office Grants Accounting Department to review and apply indirect costs in the proper accounting period.

Due Date: August 1, 2022

Responsible Party: Paul Wilden, Grants Accounting Manager

The Auditor's Office, Grants Accounting, will update the Grants Accounting Administration Manual to include a reference to 2 CFR Appendix VII, guidance for allocating indirect costs and that the grantor should be contacted for any discrepancies or concerns with applying the indirect rate to the grant.

Due Date: September 30, 2022



BACKGROUND

The Public Health Emergency Response Grant – Hurricane Harvey Crisis Grant is funded by the Centers for Disease Control and passed through the Texas Department of State Health Services. The grant includes funding for response, recovery, preparation, mitigation, and other expenses directly related to the consequences of Hurricanes Harvey, Irma, and Maria in the amount of \$3,048,054.

The Public Health Emergency Response Grant – Preparedness Coronavirus 2019 is funded by the Centers for Disease Control and passed through the Texas Department of State Health Services. This supplemental grant aims to support the governmental public health emergency response to COVID-19 and will provide resources to prevent, prepare for, and respond to COVID-19. The funding in the amount of \$3,175,315 is for health departments to carry out surveillance, epidemiology, infection control, mitigation, communications, increase laboratory capacity, and other related activities.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing “Standards”. The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement’s scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.

