

**Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit**



**Performance Audit of the Department of Health and Human Services'
Grant Operations**

Department of Health and Human Services

June 19, 2019

Highlights

Why MCIA Did this Assessment

The Montgomery County Office of Internal Audit (MCIA) conducted a performance audit of the Department of Health and Human Services' (DHHS) grant operations. In fiscal year 2018, DHHS service areas and offices managed over 120 grant programs totaling more than \$80 million in federal and state funding.

This performance audit is a result of the county-wide risk assessment completed in 2016. The focus of the audit was to determine the existence of consistent grant management practices within DHHS service areas, and to evaluate whether current practices comply with DHHS and County requirements. The performance audit was conducted by the accounting firm SC&H, under contract with MCIA.

MCIA is making three sets of recommendations to strengthen DHHS' internal grant management practices, coordination with Department of Finance, and to promote compliance with federal, state, and county regulations.

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Performance Audit of Department of Health and Human Services' Grant Operations

What MCIA Found

DHHS does not have a centralized team that is responsible for providing guidance, monitoring, or oversight for the department's grants. Additionally, grant management policies, procedures, and responsibilities are not documented to assist DHHS offices and service areas in the monitoring and management of grant related activities over the grants lifecycle to ensure compliance with grantor requirements. However, DHHS offices and service areas appear to be competently monitoring their programs as there were no material findings noted during testing.

There are opportunities for DHHS to improve the oversight of grants management and compliance with grantors. We identified three findings related to grants management within DHHS. These findings are related to:

1. Development of standardized grant management guidelines
2. Coordination and communication between DHHS and the Department of Finance
3. Centralized audit finding and remediation tracking, and improved management oversight process

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Objectives

This report summarizes the performance audit (audit) performed by SC&H¹, under contract with the Montgomery County (County) Office of Internal Audit (MCIA), of the Department of Health and Human Services' (DHHS) grant operations. The performance audit focused on DHHS' grant management practices, the consistency of the practices across the service areas responsible for grant management, and compliance with DHHS and County requirements.

The audit was conducted in two phases:

1. Planning (February 2018 – May 2018): Planning focused on gaining an understanding of the various grant functions performed by DHHS.
2. Fieldwork (May 2018 – January 2019): Fieldwork focused on evaluating the consistency of grant practices across DHHS service areas to identify opportunities for improvement.

The audit objectives were:

1. Evaluate the consistency of DHHS practices across service areas² by performing detailed walkthroughs for a sample of grant programs.
2. Assess detailed characteristics of selected grants sub-processes to identify inconsistency and non-compliance with DHHS and County requirements.
3. Evaluate the processes performed by DHHS and Department of Finance to ensure grant related expenditures were properly recorded and reported.
4. Identify opportunities for enhancements to DHHS and County processes and internal controls.

Background

The Montgomery County Department of Health and Human Services was created in 1995 by merging four County departments: Department of Addiction, Victims and Mental Health Services; Department of Family Resources; Department of Social Services; and the Health Department. DHHS' mission is to promote and ensure the health and safety of the residents of Montgomery County and to build individual and family strength and self-sufficiency³. DHHS ensures delivery of a full array of services to protect the community's health, protect the health and safety of at-risk children and vulnerable adults, and address basic human needs including food, shelter and clothing. DHHS directs, manages, administers, funds, and delivers critical support for the most vulnerable residents. In fiscal year (FY) 2018, DHHS employed approximately 1,649 full- and part-time employees with a budget allocation totaling \$313.0 million⁴. Federal and state grants funded approximately \$82.0 million of the County's health and human service programs.

¹ SC&H Group Inc., including wholly owned affiliate, SC&H Attest Services, P.C. (SC&H)

² Divisions within DHHS are often referred to as service areas which are differentiated by the type services they provide. The five primary service areas within DHHS are Children, Youth and Family Services; Aging and Disability; Behavioral Health and Crisis Services; Public Health; and Special Needs Housing.

³ DHHS website, About Us section, accessed December 12, 2018.

<https://www.montgomerycountymd.gov/hhs/aboutHHS/aboutHHSmain.html>

⁴ Office of Management and Budget website, accessed on December 12, 2018.

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/BudgetSnapshot.aspx?ID=SHOWHHS&TYPE=FN>

DHHS Organization and Budget

Administration and Support Areas

DHHS conducts administrative functions within its department which include budget administration, fiscal administration, contract management, facilities and logistics, grant acquisition, human resources, information systems, and performance management. Offices/divisions within DHHS that support these functions include:

1. Office of the Chief Operating Officer (OCOO)
2. Office of the Director (OD)
3. Office of Community Affairs (CA)
4. Human Capital and Organizational Development
5. Planning, Accountability, and Customer Service
6. Policy and Risk Management⁵

The OCOO and OD are involved in the grant management and oversight practices of DHHS grants. The FY 2018 budget allocation for DHHS Administration and Support was \$38.6 million. Further, these three offices were responsible for nine grant programs totaling approximately \$4.6 million in FY 2018.

Service Areas

DHHS provides services to the community through the following service areas:

1. Aging and Disability Services
2. Behavioral Health and Crisis Services
3. Children, Youth, and Family Services
4. Public Health Services
5. Special Needs Housing

Each service area has several program offices that are responsible for the management and implementation of individual grant programs. Table 1 below provides details for each service area's FY 2018 budget allocation⁶, FY 2018 budgeted grant award fund, and number of grant-funded programs⁷.

Service Area	FY 2018 Budget Allocation	FY 2018 Grant Award Funds	Grant-Funded Programs
Children, Youth, and Family Services	86,678,402	38,787,134	19
Aging and Disabilities Services	47,408,184	10,445,683	25

⁵ The divisions of Human Capital and Organizational Development; Planning, Accountability, and Customer Service; and Policy and Risk Management did not receive or manage any grant funding during the audit period. Therefore, they were not interviewed for this audit.

⁶ County's Office of Management and Budget website, accessed on December 18, 2018; <https://apps.montgomerycountymd.gov/BASISOPERATING/Common/BudgetSnapshot.aspx?ID=SHOWHS&TYPE=FN>

⁷ The source for grant funds awarded and number of grant-funded programs was generated by DHHS from the County's financial system, Oracle. The report titled "HHS FY18 Grant Load and Budget Adjustments" was received from the OCOO and the numbers are unaudited. These numbers represent changes made after the budget was approved and therefore differ from Grant Revenues reported on the County's budget website.

Service Area	FY 2018 Budget Allocation	FY 2018 Grant Award Funds	Grant-Funded Programs
Behavioral Health and Crisis Services	43,165,219	12,133,911	26
Public Health Services	75,964,225	15,622,869	42
Special Needs Housing	21,162,100	496,100	4
Total – DHHS Service Areas	274,378,130	77,485,697	116
DHHS Administration and Support	38,583,266	4,556,945	9
Total – DHHS	312,961,396	82,042,642	125

Table 1: DHHS FY 2018 Budget Allocation and Grant Funding

For more information on each DHHS service area and office with grant-related responsibilities, see Appendix A.

Grant Accounting

The County utilizes the Oracle’s Enterprise Resource Planning system (Oracle) to record grant-related appropriations, encumbrances, revenues, and expenditures. More specifically, grants are tracked through an Oracle’s subledger module, called Projects and Grants (PnG), where grant related financial information is maintained by grant award. In contrast, the same financial information is maintained in Oracle’s General Ledger module summarized by fund. The financial information within both PnG and the General Ledger integrates from other Oracle modules like Financials, Payroll, Labor Distribution, and Procurement. When financial transactions are recorded in Oracle, if the transaction is grant-related, transaction details will post to PnG and Oracle’s General Ledger.

The preliminary grants budget development process is completed in November of each year for the following fiscal year. Therefore, the FY 2020 budget process will begin in November 2018. For renewal⁸ grants, DHHS reviews their prior year grants balances and enters the next budget year’s anticipated award. DHHS increases or decreases the anticipated funding based on historical experience or internal management estimates for grants where a formal Notice of Award for the current year has not been received before the budget is loaded into Oracle. Once DHHS’ internal review is complete, DHHS notifies the Department of Finance (Finance) that the next year’s budget load has been submitted. Finance reviews and approves the submission, resulting in a baseline budget for the next fiscal year. Baseline is the process of approving a budget for use in reporting and accounting and allows DHHS to expend funds associated with grant programs before receipt of the current year’s Notice of Award⁹. New grants are considered unknown funding sources and are not loaded into Oracle until the formal Notice of Award is received.

Once the Notice of Award is received, DHHS enters any changes into PnG (e.g., an increase or decrease to baselined budget). Once the change is submitted, a notification is created for Finance to review the updated grant fund balance in Oracle. Finance approves and baselines the new

⁸ For budget purposes, grants are considered new or renewal. New grants represent applications for funding that has not been awarded to DHHS previously. Renewal grants have been received in the previous years and the current year’s application seeks to continue the program in the current year.

⁹ The Notice of Award is often received after the start of the fiscal year and could be received multiple months after the fiscal year starts. Therefore, to be able to expend funds in the grant period, DHHS begins incurring expenses before receipt of the Notice of Award based on the prior year’s funding level if they are reasonably assured that the grant will be funded in the current year.

budget balance, allowing DHHS to expend funds associated with the current year's Notice of Award.

Grant funds will be referred to by the following classifications in this report:

1. Budgeted: represents the County's best estimate of the anticipated grant funding that was reviewed and approved through the County's budget process
2. Awarded: represents the final, authorized amount of funding formally awarded through a Notice of Award
3. Expended: represents the actual amount of grant funds expended in the grant period

The budgeted, awarded, and expended grant funds could all be the same (e.g., if the grant is consistently funded at the same level and DHHS was able to spend all of their budget) or could all be different (e.g., if funding level changed or if the County was unable to expend all grant funds).

DHHS Grant Lifecycle

DHHS receives federal, state, and pass-through¹⁰ grant funding. DHHS does not have a centralized grant management team responsible for applying for and managing grants for the entire department. Instead, program staff within each service area are responsible for applying for and managing grant funds.

The grants lifecycle is categorized into three phases:

1. Pre-Award: search for opportunities, create grant applications, obtain County approval for grant applications, and submit applications
2. Award: receive the Notice of Award and record the grant's fund budget in Oracle
3. Post-Award: implement the grant program (e.g., provide services to the community or hire staff), incur and approve grant-related expenses, provide financial and programmatic reporting, and conduct close-out/audit procedures

Each DHHS service area is responsible for ensuring the proper execution of grant-related activities for the grant lifecycle. While DHHS' administrative and support areas provide some oversight and guidance, the service areas are responsible for ensuring compliance with grantor and County requirements. Neither DHHS nor the County have documented grants management guidelines to ensure consistent and compliant grant management practices. However, Montgomery County Administrative Procedure 7-1, *Grant Application*, provides the County procedures for new grant applications, renewals and modifications.

A detailed explanation of DHHS' grants lifecycle by phase is provided below¹¹.

1. Pre-Award Phase

New grant opportunities are identified through research or direct notification from potential grantors.

¹⁰ Pass-through funds are federal grant funds issued that are transferred to the County through a state agency or District of Columbia.

¹¹ The explanation includes the general details for the DHHS grants lifecycle. Grant requirements differ for each program. Therefore, items such as application requirements, allowable costs, and the financial and programmatic reporting requirements will differ based on the grantor's instructions.

New Grant Consideration

A grant opportunity could be identified through one of several ways: internally within a DHHS program office, DHHS could be contacted by another agency to partner with on a grant application, or an individual within DHHS's OCOO could research and identify new grant opportunities. All new grant opportunities are routed to the individual within OCOO who is responsible for scheduling a meeting with relevant DHHS stakeholders and determining if DHHS should pursue the grant. A Grant Consideration Worksheet is utilized during the meeting to determine if DHHS can comply with grantor requirements, achieve program goals within grant dollar amount, and manage the grant programmatically and fiscally within DHHS' current infrastructure and resources. Generally, DHHS does not pursue grants less than \$50,000 and the grant's objective must align with the County or DHHS' priority areas.

New Grant Application

Program staff are responsible for developing applications for new grants. Applications contain narratives or program plans defining how the goods or services will be provided with the grant funds, and a budget section defining how grant funds will be spent by budget line item (e.g., salary, supplies, etc.). The application is reviewed and approved internally by the Service Area Chief, Policy and Risk Manager, the budget team¹², Chief Operating Officer, and the Director. Then, the application and supporting documentation is routed through various County departments¹³ for review and approval as follows:

- Office of Management and Budget (OMB): A paper copy of the grant application package, including the completed application, supporting documentation (e.g., narrative, budget, etc.) with the attached grant routing form is submitted to OMB once all DHHS signatures have been obtained. OMB reviews the application to determine budget implications such as whether the County has any requirements to match funds (i.e., cash or in-kind) and/or hiring of staff is required. OMB signature is required for all new grants.
- Office of the County Attorney (OCA): OCA utilizes a standard checklist to review the application for the appropriateness of signatures and accuracy of terms and conditions submitted with the grant application package. OCA's review depends on the complexity of the grant and DHHS' required assistance. However, OCA's staff signature is required for all new grants.
- County Executive's Office: An Assistant Chief Administrative Officer reviews final grant application package on behalf of the County. If approved, the grant application is returned to the DHHS service area.

Once all three signatures have been obtained, the service area program staff are responsible for submitting the application directly to the grantor agency either in hard-copy or electronically based on the grantor's requirements.

¹² The position within the budget team that must sign-off is not defined.

¹³ SC&H did not meet with individuals from OMB, OCA, or Chief Executive's Office for this performance audit. SC&H obtained details about their practices from the Office of Legislative Oversight Report on Federal Grant Administration in Montgomery County dated July 25, 2017. SC&H confirmed this understanding of practices with DHHS staff through interviews and review of a sample of approved applications and supporting documentation.

Renewal Grant Application

In FY 2018, approximately 95% of DHHS grants were considered renewal¹⁴, which is an application requesting additional funding for a period after the original grant term. The renewal grant process still requires DHHS to submit applications and compete for funding. Therefore, the renewal grants are similar to the new grant application process described above with an expedited review component. The expedited review process can be applied in the following circumstances:

1. Renewals that are \$50,000 higher or lower than the prior year award
2. No new positions proposed, nor positions continued for funding without benefits
3. No positions proposed for funding where the grantor does not allow indirect costs to be charged
4. No change in County match requirements
5. No future obligations to continue the grant funded program with local dollars post grant expiration
6. No future fiscal impacts such as need for vehicles, rental space, unfunded computers, staff equipment, uniforms, durable medical equipment, etc.
7. No significant programmatic changes

All DHHS approvals required for new grants are also required for renewals. However, if the grant application meets the above circumstances, DHHS will select the expedited grant routing form and submit the application package directly to the County Executive's Office. Once all approvals have been obtained, the application package is returned to the service area. The application is then submitted directly to the grantor agency either in hard-copy or electronically based on the grantor's requirements.

2. Award Phase

If the application is successful, DHHS will receive a Notice of Award in hard-copy in the mail, via email, or electronically through a grantor's information system. The Notice of Award is the official, legally binding issuance of the award.

The Notice of Award provides the funding allocation, by program and dollar amount, which is utilized to input or update the budgeted grant funds in Oracle. DHHS is responsible for updating the budgeted amount and submitting the Notice of Award to Finance for review and approval.

There is no standard Notice of Award for DHHS grants. Some grants receive an allocation for the entire fiscal year and other grants receive an allocation broken down through periodic (e.g., quarterly) letters from the grantor.

3. Post-Award Phase

Upon receipt of the Notice of Award, DHHS can implement the program as defined in their approved application. Services may be provided by County employees or through third-party service providers (contractors). If the grant requires the hiring of personnel or procuring of goods and services, staff work with the Office of Human Resources and Office of Procurement to complete the task. During program implementation or continuation, program staff monitor grant operations, budget, and performance metrics to ensure grant terms and conditions are being met.

¹⁴ The FY 2017 and FY 2018 grants listings were compared. Of 125 grants on the FY 2018 listing, a total of six grant programs had not be funded in the prior year. Any one-time executive supplemental or rollover funding was not considered new or renewal for this calculation.

Financial Reporting

The approved award may differ from the amount DHHS requested in the application. Additionally, the approved scope of services could differ from what DHHS applied for. Therefore, DHHS aligns any spending with the final approved award. The County tracks and records expenditures in Oracle; these expenditures follow the County's normal payroll and accounts payable processes. Payroll information is transferred through Oracle's Labor Distribution module to determine the personnel costs associated with each grant. Program staff are responsible for ensuring grant expenditures are in-line with the grant's terms and conditions. If applicable, program staff are also responsible for ensuring grant expenditures comply with contract terms and conditions. Invoices are scanned, reviewed, and approved internally and flow through the County's workflow to Finance.

Finance is responsible for submitting periodic reimbursement requests to the grantor. Only expenditures that have been properly recorded in Oracle are submitted for reimbursement. On a periodic basis (e.g., monthly or quarterly, depending on the grant's requirements), Finance will run a report of expenditures for the grant program for the current period. The required reporting differs by grant; some grants require specialized reporting (e.g., a general ledger report or filling out a form) and some grants require the submission of supporting expenditure documentation for each transaction (e.g., invoices, contracts, etc.). Finance creates the reimbursement request and submits the request directly to the grantor.

Programmatic Reporting

Programmatic reporting allows the service area to provide updates on the status of objectives and details on the accomplishments and outcomes that were observed or measured during the reporting period. The reporting requirements vary by grant. The grantor agency defines the reporting content and format. DHHS program staff are required to submit programmatic reports at the grantor's required frequency. Programmatic reporting may contain narrative sections that require staff to provide status updates, progress, compliance, and/or achievement of programmatic objectives or require staff to fill-in electronic forms. Staff pull data from various sources, such as contractor invoices or internal tracking databases, to fulfill reporting requirements; data can be tracked in program specific or grantor required information systems, tracked manually by DHHS staff, or reported to DHHS from contractors. DHHS must accumulate the necessary data from various sources and provide to the grantor. Programmatic reporting is reviewed internally and submitted directly to the grantor.

Auditing Requirements

Grantors periodically audit DHHS to monitor compliance with financial and programmatic requirements. Program staff prepare for audits based on the audit request and historical experience upon receiving an audit notification. Staff notify the necessary DHHS and County departments and seek assistance where necessary. DHHS Management (i.e., Service Area Chief, Chief Operating Officer, and Director) are notified of any audit findings and recommendations. Program staff are responsible for tracking and implementing the recommendations.

The County is also required to have a single audit¹⁵ conducted each year. DHHS participates in this audit; however, their participation is limited to the auditor's selection of DHHS grants for testing and Finance's request for DHHS' assistance.

Closeout

The closeout step is where the grant lifecycle ends. Even if a grant is renewed, each grant period will be closed out. All expenditures must be recorded properly and timely in Oracle. A grant is considered closed out once all final financial and programmatic reports have been submitted. Most reporting is due within 60 to 90 days after the grant award expires or is terminated. DHHS performs a final review to ensure funds were spent appropriately and in compliance with grant terms and conditions. Following, DHHS submits the required reporting to the grantor agency. Depending on the grant, Finance may submit the final financial report, however DHHS program staff always submit the final programmatic report.

In August and January, a mass prior year purchase order liquidation is done for the prior fiscal year, so that encumbered grant funds that are no longer needed for outstanding expenditures on a grant are liquidated. This allows Finance to close the grant.

Scope and Methodology

The audit was initiated in February 2018 and completed in January 2019. The focus was on current federal and state grant management practices in place during our audit period. As FY 2018 was not completed when fieldwork procedures commenced in May 2018, grant documentation for FY 2017 was utilized for review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In order to achieve the objectives, SC&H performed the following:

[Review of Office of Legislative Oversight \(OLO\) Federal Grant Administration in Montgomery County Report](#)

In 1975, the County Council enacted legislation (Bill 25-75) to establish the OLO.¹⁶ The mission of the OLO is to provide accurate information, analysis, and independent findings and recommendations that help the County Council fulfill its legislative oversight function¹⁷. In July 2017, OLO issued a report titled "Federal Grant Administration in Montgomery County (OLO Grants Report)¹⁸."

¹⁵ A single audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal funds in one year.

¹⁶ Office of Legislative Oversight website; Legal Basis, accessed on December 18, 2018; <https://www.montgomerycountymd.gov/OLO>

¹⁷ Office of Legislative Oversight website; Mission, accessed on December 18, 2018; <https://www.montgomerycountymd.gov/OLO>

¹⁸ Office of Legislative Oversight website; accessed on December 18, 2018; https://www.montgomerycountymd.gov/OLO/Resources/Files/2017%20Reports/OLOReport2017_12FederalGrantAdministration.pdf

DHHS was interviewed as part of OLO's evaluation. While the report focused on Federal grants, SC&H confirmed through interviews with DHHS staff that Federal and State grant processes are the same. Differences in the processing of grants varies only if the grant is new (i.e., first year that the County is receiving funding) or renewal. DHHS follows the grant requirements as defined by the grantor agency for both Federal and State funding sources.

SC&H reviewed the OLO Grants Report to gain an understanding of the County's overall grant administration processes. The OLO Grants Report provides a description of the County's review procedures applied to all grant-recipient departments, but does not provide detail on how individual grant-recipient departments, such as DHHS, manage their grants. Therefore, this report was utilized in preliminary interviews with DHHS to inquire how DHHS' grant management processes aligned with or differed from the general grant management processes described in the OLO Grants Report.

The only department external to DHHS that was interviewed for this audit was Finance due to their financial reporting and grant-related audit responsibilities.

Grants Population Review

SC&H obtained a report¹⁹ listing FY 2018 grants by service area²⁰, summarized above in Table 1, in February 2018. Therefore, the "FY 2018 Grant Award Funds" column represents the revised budgeted amount of grant funds awarded as of a point in time in February 2018. It does not represent the total dollar amount that DHHS was awarded or able to spend in FY 2018.

SC&H reviewed the listing to determine which service areas to interview. Due to lower dollar amount of grant funding received by Special Needs Housing, they were not interviewed.

Interviews

SC&H interviewed representatives from the following service areas/offices:

1. Office of the Chief Operating Officer
2. Children, Youth and Family Services
3. Aging and Disabilities Services
4. Behavioral Health and Crisis Services
5. Public Health Services
6. Office of Community Affairs

The purpose of the interviews was to gain an understanding of DHHS' administration of grants including any differences in each service area grant administration processes.

Additional interviews were conducted with the representatives from Finance and DHHS' OCOO's Contract Management, Payroll, Budget, and Fiscal teams to gain an understanding of their grant management and oversight roles and responsibilities.

¹⁹ The source for grant funds expended and number of grant-funded programs was generated by DHHS from Oracle. The report titled "HHS FY18 Grant Load and Budget Adjustments" was received from the OCOO and the numbers are unaudited.

²⁰ Two grant listings were utilized for this audit. During the planning phase, we utilized the FY 2018 grants listing to determine current funding levels and service areas to interview. During the fieldwork phase, we utilized the FY 2017 grant listing so an entire year's worth of expenditures and the associated journal entries could be evaluated.

Documentation Review

SC&H obtained and reviewed current County and DHHS process documentation and other supporting information:

1. Policies and procedural documentation
2. Prior audit reports²¹
3. Forms utilized in the grant management process
4. Spreadsheets containing information regarding FY 2017 and FY 2018 grant load and expenditures

Analysis

As previously mentioned, each service area performs independent grant management tasks and each grant can have different compliance requirements. Therefore, SC&H selected four grants each administered by a different service area for detailed review. Since the purpose of detailed analysis was to evaluate the budgeted, awarded, and expended grant funds, SC&H obtained a listing of grant programs for FY 2017²² (FY 2017 listing), the most recently completed fiscal year.

Each grant program selected from the FY 2017 listing represents a part of a larger overall grant award. For example, the Older American Act grant funds multiple Title III programs (i.e., Part A, B, C, D and E). As each part is a different line on the FY 2017 listing, only Title III part E was selected for this analysis. The total application and total award were reviewed, but expenditures were only reviewed for the program selected.

The grant programs selected were:

Service Area	Grant Title	Grant Award	Program Title	Program Award
Aging & Disability Services	Older American Act - Title III	\$3,244,121	Title III Part E - Respite Care	\$330,370
Children, Youth and Family Services	Child Care Resource & Referral Grant	\$199,692	Professional Development and Capacity Building	\$135,467
Behavioral Health and Crisis Services	Community Mental Health Grant	\$4,144,710	Homeless Services	\$167,910
Office of Community Affairs	Head Start Grant ²³	\$4,667,820	Community Action Agency	\$344,870

For each selected grant, SC&H:

1. Created an information request to solicit relevant documentation for each grant

²¹ SC&H did not obtain or review copies of each programmatic and financial audit report for each DHHS grant. The major renewal audit reports performed by Maryland Department of Health and Maryland Department of Human Services were reviewed for the past two audit cycles. Also, a sample of programmatic and financial reports were reviewed during testing.

²² This report, titled "FY17 Grant Load and BE Adjustments" was obtained directly from DHHS. Per DHHS, data from this report are considered final but had not been audited.

²³ \$3,768,675 of the Head Start grant is received and managed by Montgomery County Public Schools. The remaining \$554,275 is for school health services and is managed by the DHHS Public Health service area. The \$344,870 is the portion managed by Office of Community Affairs. However, the application and award cover all three programs.

2. Walked through documentation received with service area staff to understand the grant's purpose, execution of services, and documentation
3. Reconciled the budget load, award amount, grant funds expended, and financial reporting for each grant award and program award
4. Evaluated DHHS' compliance with application and award requirements such as timely submissions, local match calculation, and eligibility of grant expenditures
5. Reviewed changes made to the grant fund balance in Oracle for accuracy and timeliness
6. Reviewed contract documents, payroll records, or supporting detail for appropriateness for a sample of expenditures.
7. Assessed practices performed by each service area to record and monitor expenditures
8. Reviewed samples of programmatic and financial reporting provided to grantors for accuracy

After all four program offices were interviewed, an analysis was performed to compare grant management practices across the selected service areas for instances of non-compliance or inconsistency. Additionally, SC&H met with Finance to evaluate the processes performed to ensure grant-related expenditures for selected grants were properly recorded and reported.

Findings and Recommendations

After reviewing the current grant management processes, SC&H did not identify any material findings during testing and, therefore, concludes that while DHHS is competently monitoring their grants individually within each service area. However, improvement opportunities exist to mitigate risks, enhance oversight, and improve overall compliance.

In addition, although not specifically identified as a finding within this report due to potential resource constraints²⁴, it is important to identify best practices for grant management²⁵ as suggestions for DHHS to consider as they look to future improvement opportunities, including the following:

1. "In larger organizations, create cross-functional teams to support entity-wide grants management." This could include developing and updating policies, administering grant trainings, overseeing audits, and monitoring compliance.
2. "Document both government-wide and individual grant policies ... and procedures." This could take the form of a grant management handbook to guide all users through the grant lifecycle.
3. "Utilize financial management systems to support compliance with grant-related legal and regulatory requirements..." and "Ensure that grant information is available to internal stakeholders." This could take the form of purchasing or developing a system to assist with centralizing key grant-related data and integrating with Oracle for financial

²⁴ A workload assessment or staffing study was not performed. However, it was often noted during interviews that grant management is one of many tasks assigned to program office staff and that implementing significant changes to grant management may not be feasible within current resources.

²⁵ This list was created by analyzing DHHS' current practices and comparing to the Government Finance Officers Association's (GFOA) Best Practice/Advisories for Internal Controls for Grant Management. Website accessed on February 1, 2019: <http://www.gfoa.org/internal-control-grants>. A copy of these best practices is included at **Appendix B** of this report.

information; automating the application and award review and approval processes; and creating an intranet page for users that provides policies, procedures, forms, training, and resources.

DHHS may not have the capacity to perform these additional activities aimed at improving internal grant management practices with their current staffing and associated workloads but should look for opportunities to develop and implement these best practices in the future.

Several of the best practices identified by the GFOA provide the context for the three findings identified by SC&H related to DHHS' grants operations that would have the greatest impact to current risks identified. The findings, associated risks, and recommendations are detailed below.

Finding 1: Grant Management Guidelines

Key grant management tasks need to be defined, implemented, and monitored to ensure consistency, accuracy and compliance with grantor policies.

DHHS does not provide grant management guidance to service areas for the administration of grants. Therefore, each service area or office within DHHS is solely responsible for managing grants and ensuring compliance with grantor requirements. Additionally, service areas and offices do not have written procedures in place to ensure proper grant management, and DHHS has not required the documentation of grant or service area specific procedures.

Each grant has varying requirements that must be monitored to ensure compliance with grantor requirements, such as allowable costs, that are not tracked centrally. DHHS has owed funds back to a grantor as recently as FY 2018 due to ineligible expenditures identified during an audit.

Risks

1. Lack of grant management guidance could lead to mismanagement of grant funds, such as not expending funds appropriately or timely.
2. Undocumented processes could result in non-compliance with grantor requirements which could lead to:
 - a. Owing money back to the grantor for unallowable costs or penalties,
 - b. Placement of specific conditions on future grant funds, or
 - c. Reduction in or termination of grant funds.
3. Undocumented processes can result in inconsistencies in grant management practices.

As evidence of how the lack of clear guidance impacts grant management within DHHS, SC&H identified at least one discrepancy, inconsistency, or area of non-compliance during the testing of grants in the following areas:

1. Budgets for two programs from the same grant award loaded differently in Oracle
2. Application submitted ten days after due date
 - a. DHHS communicated with the grantor and the application was accepted without penalty
3. County match reported did not agree to County match requirements documented in the application or award documentation
4. Financial reporting submitted to grantor did not agree to final general ledger amount

5. Prior year rollover accounted for and reported differently in Oracle and financial reports submitted

The financial impact of the above observations identified during testing were not considered material.

Recommendation 1.1

As a first step toward developing a more comprehensive DHHS grants management manual, DHHS should establish a framework for managing grants by developing policies and procedures to ensure key controls are in place. DHHS should clearly define key controls for grant management processes, clarify areas of inconsistency, and communicate guidelines to service areas. For example, DHHS should:

1. Provide clarification for budget development and load for renewal grants
2. Establish required turn-around times for internal (i.e., DHHS) approvals and ensure there is sufficient time is available to obtain County approvals
3. Establish consistent practices for grant submittal and approval
4. Establish required timelines for updating Oracle after receipt of Notice of Award
5. Provide additional clarifications for additions or changes to labor distribution after set-up
6. Define how to determine if County match is required, how it should be accounted for in the General Ledger, and how it should be reported to grantors
7. Define grant monitoring procedures and grant closeout procedures to ensure funds are spent appropriately
8. Document roles and responsibilities of program staff, support staff (i.e., OCOO), and Finance as it relates to grant expenditures and financial reporting.

Additionally, DHHS should consider developing forms or checklists to allow service areas to self-monitor compliance with policy.

Recommendation 1.2

DHHS should determine areas that frequently cause process inefficiencies or result in non-compliance with grantors. These areas should be prioritized and tracked centrally by individuals independent of the grant-recipient service area. A grant database could be created that could track key items, including but not limited to, the following:

1. Application due date
2. Application submitted date
3. Award received date and amount
4. Date Oracle updated with award amount
5. Allowable and prohibited expenditures (including specific information for labor distribution)
6. Match requirements
7. Financial and programmatic reporting frequency and due dates

DHHS should implement a monitoring process to ensure adherence to internal policies and procedures developed under Recommendation 1.1. DHHS should also maintain a checklist of allowable expenditures and grant requirements to ensure key components of compliance are adequately monitored. Each grant has specific requirements that DHHS must comply with, such as allowable costs, which vary depending on the grant's purpose and approved budget.

Additionally, some grants may specify that certain changes, such as adjustments to funded positions or re-allocation of budgeted line items, be pre-approved by the grantor.

Finding 2: Service Area and Finance Coordination

Grant-related financial responsibilities are split between the service areas, which record, review and approve expenditures; and Finance, which posts approved service area transactions and submits financial reporting to grantors.

As previously mentioned, DHHS service areas and offices are responsible for managing their respective grants. However, one area that was consistently brought up as a challenge during interviews was the lack of training and system access to review financial information in Oracle.

Several changes occurred in both DHHS and Finance that impacted financial roles and responsibilities during the scope of the audit. DHHS' Budget and Fiscal teams requested that Finance communicate directly with them instead of the service areas for any transaction/journal entry related questions, as the Budget and Fiscal teams were responsible for the final review and approval of grant-related transactions. DHHS also mentioned varying levels of support received from the Finance grant accountant as a challenge, especially when timely coordination and adjustments are needed during grant closeout. Through inquiry with Finance, they acknowledged a challenge in training and retaining grant accountants, which may have impacted consistency of services provided to individual service areas. Formal transition plans and the impacts of the changes were not communicated to the DHHS service areas, which exacerbated the impacts of the changes. The service areas were not aware of transactions/journal entries reviewed and approved by the Budget and Fiscal team, and when the service areas reached out to Finance for questions, they experienced a different level of support and responsiveness than previously.

When receiving reporting related to grant budget, award, and expenditures, it did not appear that roles and responsibilities for the service areas, DHHS Budget and Fiscal teams, and Finance were clear or understood. Service area staff with grant management responsibilities were not always able to respond to questions regarding financial transactions and outcomes. This could be due to service areas having inadequate or inconsistent access in Oracle or a lack of training on how to access certain information. Regardless, the service areas that are responsible for monitoring their grant balances were not able to provide explanations for grant-related financial transactions. There appeared to be an overall lack of clarity and consistency of roles between service area program staff and DHHS Budget and Fiscal teams, and Finance, for grant-related financial transactions.

Also, financial reporting for grant funds is frequently prepared by Finance and submitted to the grantor without review by DHHS. Programmatic reports, which could have financial elements, are prepared by program staff and submitted directly to the grantor. There is no review process that is required to ensure financial reporting submitted to grantors – irrespective of whether Finance submits or DHHS service area staff submits – is accurate, complete, and compliant.

Risks

1. Financial reporting could be inaccurate or incomplete.
2. Financial reporting and programmatic reporting submitted to the same agency could have contradictory information.
3. Expenditures recorded could be non-compliant with grant terms and conditions.

4. County funds could be expended for grant-eligible transactions.

Based on testing performed, the source of and explanation for financial discrepancies identified during testing was not clear. However, the financial impact of the above observations identified during testing were not considered material.

Recommendation 2.1

DHHS Budget and Fiscal teams and Finance should develop and document clear roles and responsibilities for key grant-related financial tasks. Both departments should agree upon how to handle coordination efforts that frequently cause disagreements, discrepancies, or delays. If Finance or the Budget and Fiscal team is required to make an adjustment to a grant-related transaction, the responsible service area should always be aware of the change and the explanation for the change so that they can be accountable for the financial aspects of their grant programs. Once roles and responsibilities are clearly defined and documented, these should be formally communicated to DHHS service areas.

Recommendation 2.2

DHHS and Finance should create grant checklists for financial and programmatic reporting for each grant to ensure both departments are in agreement to what is being monitored by whom to reduce duplication of efforts and/or improve compliance monitoring. Further, reporting submitted to grantors should be reviewed by both DHHS and Finance, whenever financial elements are reported.

Recommendation 2.3

DHHS service areas and the Budget and Fiscal teams should work with Finance to develop a grant-related training that clarifies common challenge areas; such as discrepancies between PnG and the General Ledger. Additionally, service areas as well as DHHS Budget and Fiscal teams need to be re-trained to ensure they are able to pull financial information accurately and consistently with how Finance pulls data and clarify areas that lead to discrepancies, such as timing/interface issues and reconciliations that could affect the data.

Recommendation 2.4

DHHS and Finance should improve transparency by evaluating current access/roles within Oracle to ensure DHHS staff have the appropriate access to view transactions, supporting documentation and balances.

Finding 3: Audit Finding Monitoring

A formalized process is not in place to track audit findings across all audits performed at DHHS.

DHHS is frequently audited by grantors. The Maryland Department of Health (DOH) and the Department of Human Services (DHS) are considered the highest priority audits by grantors due to the amount of grant funding received by the County. These audits are performed on a rotating three-year cycle, with some follow-up reviews performed between audits for areas of non-compliance.

For these audits, DHHS currently tracks the status of corrective actions and performs reviews of documentation and/or conducts site visits to ensure the finding has been remediated. The Compliance team within the OCOO is responsible for overseeing remediation of audit findings, but each service area is responsible for the implementation of recommendations and ensuring overall compliance with grantor requirements.

However, the most recent audits for both DOH and DHS, performed in FY 2017 and FY 2018 respectively, had multiple repeat audit findings. Additionally, DHHS has been required to pay back some grant funding to DOH for the past two audits due to unallowable expenditures. DHHS needs to improve their compliance monitoring function to ensure findings are appropriately remediated.

Risks

1. Recommendations are not implemented timely or completely.
2. Repeat audit findings result in areas of non-compliance which could:
 - a. Result in the County owing a grantor for misuse of grant funds, or
 - b. Impact future grant funding

Recommendation 3.1

DHHS should consider developing a compliance database and a management oversight process that would allow DHHS management, including service area management, to track all DHHS audit report findings, recommendations, management/corrective action plans, timelines, status, progress, implementation/supporting documentation, and the due diligence performed by the Compliance team. This process should include regular management-level reviews of progress to ensure corrective actions address audit findings; as well as surprise audits of the service areas to ensure accountability and the continued operating effectiveness of the remediation/implementation.

Comments and MCIA Evaluation

We provided DHHS and Finance with a draft of this report for review and comment on May 15, 2019. DHHS responded with comments on May 30, 2019. Finance responded with comments on June 17, 2019. The DHHS responses can be found in Appendix C. The Finance responses are included in Appendix D. MCIA has reviewed both the DHHS and Finance comments, which generally support the findings and recommendations; no changes have been made in the report based on the comments.

Appendix A – Additional DHHS Information

Summary descriptions of each DHHS office or service areas with grant-related responsibilities are provided below. These descriptions were taken from DHHS' FY 2018 Approved Budget document²⁶. Departments that did not have grant-related responsibilities have been omitted.

Children, Youth and Family Services

The Department of Children, Youth and Family Services promotes opportunities for children to grow up safe, healthy, ready for school, and for families and individuals to achieve well-being and self-sufficiency. This mission is realized through the provision of protection, prevention, intervention, and treatment services for children and their families, and through educational, support, and financial assistance for parents, caretakers, and individuals. These services work to build on the strengths of both the individual and the community in addressing issues of child development, abuse, neglect, health, and economic security.

Aging and Disabilities Services

The Department of Aging and Disabilities Service's mission is to affirm the dignity and value of seniors, persons with disabilities, and their families by offering a wide range of information, home and community-based support services, protections, and opportunities, which promote choice, independence, and inclusion.

Behavioral Health and Crisis Services

The Department of Behavioral Health and Crisis Services promotes the behavioral health and well-being of Montgomery County residents. BHCS works to promote mental wellness, prevent substance abuse and suicide, and to ensure access to a comprehensive treatment and recovery system of effective services and support for children, youth and families, adults, and seniors in crisis or with behavioral health needs. BHCS is committed to ensuring culturally and linguistically competent care and the use of evidence-based or best practices along a continuum of care. BHCS works with the State's Behavioral Health Administration, HHS service areas, County agencies, and the community to provide strength-based and integrated services to persons in need.

Public Health Services

The Department of Public Health Services programs are to protect and promote the health and safety of County residents. This is accomplished by monitoring health status and implementing intervention strategies to contain or prevent disease (including bio-terrorism and emerging diseases); fostering public-private partnerships, which increase access to health services; developing and implementing programs and strategies to address health needs; providing individual and community level health education; evaluating the effectiveness of select programs and strategies; and licensing and inspecting facilities and institutions affecting public health and safety.

Special Needs Housing

The Montgomery County Department of Special Needs Housing has a mission to make homelessness a rare, brief, and non-recurring event by operating from a Housing First philosophy.

²⁶ County's Office of Management and Budget website, accessed on December 18, 2018; <https://apps.montgomerycountymd.gov/BASISOPERATING/Common/BudgetSnapshot.aspx?ID=SHOWHS&TYPE=FN>

Housing First recognizes that people are most successful when they have choice in housing and seeks to eliminate barriers such as sobriety requirements or treatment compliance. SNH provides a full continuum of services including housing stabilization, homeless diversion, and permanent housing; and employs evidence-based and promising practices. The mission cannot be achieved without collaborating with public and private partners through the Interagency Commission on Homelessness. Special needs populations include veterans, individuals and families, persons with behavioral health challenges, individuals with developmental disabilities, and transitioning youth and seniors with disabilities experiencing or at risk of homelessness.

Office of Community Affairs

This Office of Community Affairs supports DHHS' vision of building a healthy, safe, and strong community. Its mission is to promote health equity, improve quality of services, and increase individual and family self-sufficiency, especially among racial and ethnic minorities and low-income communities. The Office accomplishes its mission by fostering strong partnerships to provide education, outreach, system navigation, effective referrals, language assistance, and policy advocacy. It consists of the Community Action Agency, Head Start, Takoma-East Silver Spring (TESS) Center, the Leadership Institute of Equity and Elimination of Disparities, the African American Health Program, the Latino Health Initiative, and the Asian American Health Initiative.

Office of the Director

The Office of the Director provides comprehensive leadership and direction for the Department, including policy development and implementation, planning and accountability, service integration, customer service, the formation and maintenance of partnerships with non-governmental service providers, and human resource management. Further, the Office of the Director facilitates external liaison and communications, provides overall guidance and leadership of health and social service initiatives, and ensures compliance with relevant laws and regulations including the Americans with Disabilities Act (ADA) and the Health Insurance Portability and Accountability Act (HIPAA).

Office of Chief Operating Officer

The Office of the Chief Operating Officer provides overall administration of the day-to-day operations of the Department, including direct service delivery, budget and fiscal management oversight, contract management, logistics and facilities support, and information technology support and development.

Appendix B – Government Finance Officers Association: Best Practice – Internal Control for Grants

BEST PRACTICE

Internal Control for Grants

BACKGROUND:

Federal, state, local and private entity grant funds often represent a significant source of funding for governments. In some governmental functions they represent the primary source of funding (e.g. housing, social services, etc.). As a result, it is crucial that governments have the proper framework for internal control to ensure that:

1. These resources are being utilized effectively and efficiently;
2. Assets purchased or developed with them are being safeguarded properly;
3. Financial reporting required by these grants is accurate and timely; and
4. Grant resources are being utilized in compliance with appropriate laws and regulations.

RECOMMENDATION:

The most widely recognized source of guidance on internal control is the Committee of Sponsoring Organizations (COSO), which updated its classic *Internal Control—Integrated Framework* in 2013. The GFOA has organized the following best practice steps for grant internal control into COSO's five essential components of a comprehensive framework of internal control: 1) Control Environment; 2) Risk Assessment; 3) Control Activities; 4) Information and Communication; and 5) Monitoring, as follows:

1. Control Environment¹

1. Alert agencies that policy decisions concerning grants are made entity-wide to ensure consistency and adherence to strategic planning goals;
2. Ensure that each area of the grant process (programmatic, budgeting, accounting, etc.) is managed by competent staff who are knowledgeable in their areas of responsibility;
3. Give staff authority and responsibility for their tasks associated with the grant;
4. Hold staff accountable for their tasks; and
5. In larger organizations, create cross-functional teams to support entity-wide grants management.

2. Risk Assessment²

1. Perform and document a risk assessment of the entity's grants management processes;
2. Utilize a comprehensive, internal control questionnaire to facilitate the risk analysis;
3. Consider the level of program risk (e.g., high, medium, low) when establishing control activities;
4. Perform a cost/benefit analysis prior to installing a new control activity;
5. Consider the possibility and likelihood of fraud in the entity's grants management process; and

6. Identify and assess changes in the regulatory, technology, personnel and operating environment under which the grants are managed.

3. Control Activities³

1. Document both government-wide and individual grant policies;
2. Document both government-wide and individual grant procedures;
3. Develop a timeline and process for updating policies and procedures as changes occur;
4. Become knowledgeable of and adhere to federal, state, and local laws and regulations;
5. Establish control activities to ensure the reliability of information obtained from third parties (e.g., vendors);
6. Develop comprehensive, information technology policies and procedures;
7. Keep information technology policies and procedures current;
8. Become knowledgeable of and implement, as necessary, federal and state standards for financial management systems;
9. Utilize financial management systems to support compliance with grant-related legal and regulatory requirements;
10. Become knowledgeable of and implement, as necessary, federal and state standards for procurement; and
11. Utilize federal and state official debarment lists to update the government's list of vendors.

4. Information and Communication⁴

1. Document in a format accessible to stakeholders the purpose and the government's responsibilities for each of its grants;
2. Distinguish grants by source (federal, state, local, and private entity);
3. Identify the time periods required by the grants;
4. Identify grant reporting requirements;
5. Identify grants that require specialized administration;
6. Ensure that grant requirements are documented in vendor communication;
7. Ensure that grant information is available to internal stakeholders;
8. Develop ongoing communication and knowledge of grantors, and pass-through organizations;
9. Develop an ongoing dialogue with financial statement, single audit, and program auditors concerning grant reporting and compliance; and
10. Develop processes to ensure that quality, supportable information is utilized in grant decision making.

5. Monitoring⁵

1. Develop a processes of ongoing (daily/weekly) and periodic (annual) programmatic control activities that ensures compliance with laws and regulations;
2. Provide an annual periodic review of the risk assessment process;
3. Ensure that program deficiencies are communicated to all responsible parties, including management and elected officials; and
4. Ensure that corrective action plans are taking place, addressing the control deficiencies and responding to the deficiencies in a timely manner.

Notes:

1. The *control environment* is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.
2. *Risk assessment* involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.

3. *Control activities* are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.
4. *Information and communication* are the continual iterative process of providing, sharing, and obtaining necessary information.
5. This represents the process of ongoing and periodic evaluations to ascertain whether the components of internal control are present and functioning. To the extent control deficiencies are found they are communicated, in a timely manner, to responsible parties, including senior management and elected officials, for corrective action.

This best practice was previously titled Framework for Entity-wide Grants Internal Control.

Appendix C – DHHS Response



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Marc Elrich
County Executive

Victoria Buckland
Acting Director

May 30, 2019

TO: William Broglio, Manager
Office of Internal Audit

FROM: Victoria S. Buckland, Acting Director
Department of Health and Human Services

SUBJECT: Response to Grant Operations Audit

A handwritten signature in blue ink that reads "Victoria S. Buckland".

We like to thank Internal Audit for their time and effort in performing the grant operations audit. Department of Health and Human Services looks forward to implementing your recommendations to improve the department's grant management process. Below is DHHS's response to each of your recommendations.

Finding 1: Grant Management Guidelines:

Key grant management tasks need to be defined, implemented, and monitored to ensure consistency, accuracy and compliance with grantor policies.

DHHS does not provide grant management guidance to service areas for the administration of grants. Therefore, each service area or office within DHHS is solely responsible for managing grants and ensuring compliance with grantor requirements. Additionally, service areas and offices do not have written procedures in place to ensure proper grant management, and DHHS has not required the documentation of grant or service area specific procedures.

Each grant has varying requirements that must be monitored to ensure compliance with grantor requirements, such as allowable costs, that are not tracked centrally. DHHS has owed funds back to a grantor as recently as FY 2018 due to ineligible expenditures identified during an audit.

Risks

1. Lack of grant management guidance could lead to mismanagement of grant funds, such as not expending funds appropriately or timely.
2. Undocumented processes could result in non-compliance with grantor requirements which could lead to:

3. Undocumented processes can result in inconsistencies in grant management practices.

As evidence of how the lack of clear guidance impacts grant management within DHHS, SC&H identified at least one discrepancy, inconsistency, or area of non-compliance during the testing of grants in the following areas:

1. Budgets for two programs from the same grant award loaded differently in Oracle
2. Application submitted ten days after due date
 - a. DHHS communicated with the grantor and the application was accepted without penalty
3. County match reported did not agree to County match requirements documented in the application or award documentation
4. Financial reporting submitted to grantor did not agree to final general ledger amount
5. Prior year rollover accounted for and reported differently in Oracle and financial reports submitted

The financial impact of the above observations identified during testing were not considered material.

Recommendation 1.1

As a first step toward developing a more comprehensive DHHS grants management manual, DHHS should establish a framework for managing grants by developing policies and procedures to ensure key controls are in place. DHHS should clearly define key controls for grant management processes, clarify areas of inconsistency, and communicate guidelines to service areas. For example, DHHS should:

1. Provide clarification for budget development and load for renewal grants
2. Establish required turn-around times for internal (i.e., DHHS) approvals and ensure there is sufficient time is available to obtain County approvals
3. Establish consistent practices for grant submittal and approval
4. Establish required timelines for updating Oracle after receipt of Notice of Award
5. Provide additional clarifications for additions or changes to labor distribution after set-up
6. Define how to determine if County match is required, how it should be accounted for in the General Ledger, and how it should be reported to grantors
7. Define grant monitoring procedures and grant closeout procedures to ensure funds are spent appropriately
8. Document roles and responsibilities of program staff, support staff (i.e., OCOO), and Finance as it relates to grant expenditures and financial reporting.

Additionally, DHHS should consider developing forms or checklists to allow service areas to self-monitor compliance with policy.

DHHS Response to I.1: Concurs with Recommendation 1.1

DHHS has initiated a grant management group consisting of budget, fiscal and compliance managers to identify the policies and procedures necessary for grant management within the department which will entail items#1 through #8. Internal Control will be clearly documented in the manual including acquisition criteria, application submission process, document management and grant reporting, etc. Additionally, the policy will include checklists and tools for self-monitoring the grant. In the manual, the following items will be included:

1. Define the roles of the service area, fiscal, and budget teams as well as the roles of the Finance Department with grant application process, grant monitoring and grant reporting both programmatically and fiscally and the respective personnel responsible for each role.
2. Establish timelines for updating Oracle after receiving the Notice of Award.
3. Establish reporting frequency and due dates for programmatic and financial information for DHHS and Finance to grantor.
4. Required goals or performance measures which only reflects the grant funds provided by the funder and Not additional County funding.
5. Determine if there is truly a required match from the funder for grant eligibility and if so, provide guidance to the grant manager on tracking the match within Oracle.
6. Ensure the required appropriate personnel take or attend required training by the grantor.
7. Ensure that the DHHS personnel responsible for grants enroll and obtain certification for the required County Oracle training so there is an understanding of the Oracle modules for general ledger and PNG (Projects and Grants). DHHS personnel will be reminded of the mechanics of the Oracle system in processing information to monitor their grant revenue and expenditures. It must be noted that the timing of the recording of expenditures where payroll expenditures are delayed up to several weeks for the period covered and invoice payments may take up to 60 days before the expenditures are recorded into Oracle. These delays impact the grant reporting which are unavoidable except at year end when expenditures are accrued on grant financial reports.

Recommendation 1.2

DHHS should determine areas that frequently cause process inefficiencies or result in non-compliance with grantors. These areas should be prioritized and tracked centrally by individuals independent of the grant-recipient service area. A grant database could be created that could track key items, including but not limited to, the following:

1. Application due date
2. Application submitted date
3. Award received date and amount
4. Date Oracle updated with award amount
5. Allowable and prohibited expenditures (including specific information for labor distribution)
6. Match requirements
7. Financial and programmatic reporting frequency and due dates

DHHS should implement a monitoring process to ensure adherence to internal policies and procedures developed under Recommendation 1.1. DHHS should also maintain a checklist of allowable expenditures and grant requirements to ensure key components of compliance are adequately monitored. Each grant has specific requirements that DHHS must comply with, such as allowable costs, which vary depending on the grant's purpose and approved budget. Additionally, some grants may specify that certain changes, such as adjustments to funded positions or re-allocation of budgeted line items, be pre-approved by the grantor.

DHHS Response: Concur Substantially with Recommendation 1.2

DHHS is considering assigning a position in the DHHS Office of Chief Operating Officer, which is independent of the service area, with the recommended tasks from #1 to #7 to create a simple database to track all grants received by DHHS and the related documentation such as application, approvals, notice of grant award and applicable grant requirements which will be located in the DHHS shared drive.

As stated in 1.1 response, DHHS would develop checklist and monitoring tools to assist with grant compliance. Because grants have such different requirements, it is particularly challenging to craft policies and procedures that can cover all grant requirements, so the policies will need to be generic in nature. Allowable costs depend on the funder's guidance and policies for both fiscal and programmatic requirements. The grant checklist will indicate the guidance the grant manager is to follow for their grant.

Recommendation 2.1

DHHS Budget and Fiscal teams and Finance should develop and document clear roles and responsibilities for key grant-related financial tasks. Both departments should agree upon how to handle coordination efforts that frequently cause disagreements, discrepancies, or delays. If Finance or the Budget and Fiscal team is required to make an adjustment to a grant-related transaction, the responsible service area should always be aware of the change and the explanation for the change so that they can be accountable for the financial aspects of their grant programs. Once roles and responsibilities are clearly defined and documented, these should be formally communicated to DHHS service areas.

DHHS Response: Concur with Recommendation 2.1

Defining the roles and responsibilities for grant management in Finance and DHHS will be one of the first tasks undertaken by the DHHS grant team. It will be documented in the upcoming grant manual and will be communicated to the service areas.

Recommendation 2.2

DHHS and Finance should create grant checklists for financial and programmatic reporting for each grant to ensure both departments are in agreement to what is being monitored by whom to reduce duplication of efforts and/or improve compliance monitoring. Further, reporting submitted to grantors should be reviewed by both DHHS and Finance, whenever financial elements are reported.

DHHS Response: Concur Substantially with Recommendation 2.2

DHHS and Finance Departments met on May 24, 2019 to discuss issues identified by each department in the grant monitoring area. Finance has indicated in prior discussions that time constraints are an obstacle to having DHHS approve grant financial reports prior to submission to the funder. DHHS is working to develop a central location to place the financial reports so they are available to Finance and DHHS staff as needed.

Again, DHHS grant managers will be educated on t Oracle processing so they understand there are delays in recording expenditures in the PNG module and that Finance prepares their financial reports solely based on the information in Oracle except at year end. DHHS does not anticipate the grant financial reporting process to change.

Finance has offered Oracle training to grant managers, so the managers may generate their own financial reports to compare with the financial reports sent to the funder by the Finance Department. DHHS has concerns that grant managers are hired for their programmatic expertise

and not financial acuity so having a centralized support system should alleviate some issues with the grant financial reporting.

Recommendation 2.3

DHHS service areas and the Budget and Fiscal teams should work with Finance to develop a grant-related training that clarifies common challenge areas; such as discrepancies between PrG and the General Ledger. Additionally, service areas as well as DHHS Budget and Fiscal teams need to be re-trained to ensure they are able to pull financial information accurately and consistently with how Finance pulls data and clarify areas that lead to discrepancies, such as timing/interface issues and reconciliations that could affect the data.

DHHS Response: Concur with Recommendation 2.3

The training that will be developed by DHHS will focus on common discrepancies between the two modules. As previously stated, grant managers are selected for their programmatic expertise and not financial knowledge. The training will also entail the reasons for the timing issues and the unavoidable delays in recording expenditures in Oracle.

For the most part the grant managers are not accountants and may or may not have other personnel in their units to assist them with analysis of the financial information in Oracle so the centralize grant support will assist where there is no financial help in the service area.

Recommendation 2.4

DHHS and Finance should improve transparency by evaluating current access/roles within Oracle to ensure DHHS staff have the appropriate access to view transactions, supporting documentation and balances.

DHHS Response: Partially Concur to Recommendation 2.4.

DHHS does not believe there is an access issue but rather a training issue with our grant managers. If the grant manager undertakes the Oracle training, they will have access to the same financial information as the Finance Department. The Finance versus DHHS roles in Oracle may be the issue. The DHHS Administrative Service Coordinators (ASC) have the manager role in Oracle for grants which currently allows one individual to make the changes to the grant information. If the ASC are not available, Finance Department would be required to make the adjustment in an emergency. The system does not allow for a back up manager as such

with Accounts Payable approval processes. The Acting Director has sent a communication to the ERP team to determine if a back up process could be implemented as it is for the Accounts Payable process.

The information is the same in Oracle for both Finance and DHHS staff. The screen may have a different format, but the data is the same. Providing the grant manager the training in Oracle will assist in expanding the grant manager's knowledge on researching the data that is available to the Finance Department.

Recommendation 3.1

DHHS should consider developing a compliance database and a management oversight process that would allow DHHS management, including service area management, to track all DHHS audit report findings, recommendations, management/corrective action plans, timelines, status, progress, implementation/supporting documentation, and the due diligence performed by the Compliance team. This process should include regular management-level reviews of progress to ensure corrective actions address audit findings; as well as surprise audits of the service areas to ensure accountability and the continued operating effectiveness of the remediation/implementation.

DHHS Response: Substantially Concur with Recommendation 3.1

DHHS will develop a simple compliance spreadsheet that can track all DHHS audit report findings, recommendations, management corrective action plans, timelines, and a brief progress status for the audits submitted to the Compliance Team. The supporting documentation for the corrective action will be managed in the Corrective Action folder under the audit.

There may a simple solution to remediate the findings but the implementation is difficult to implement because there are many pieces to the puzzle that must fit together. Different staff are responsible for different aspects of the grant management such as budget, invoice approval and programmatic reporting and must understand the overall process for effective grant management and to prevent future findings.

DHHS Compliance will formally present the findings and recommendations status spreadsheet to top level management identifying areas where implementation may be lacking. The service area management are responsible for implementing the recommendations while DHHS Compliance role is to report on the implementation status and sometimes to acts as a consultant to the service area for guidance for implementation.

DHHS Compliance has performed periodic surprise audits on bus tokens and gift cards in the service areas for accountability but does not anticipate performing surprise audits in the grant

William Broglie, Manager
Office of Internal Audit
May 30, 2019
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area at this time because of staffing capacity and the amount of time required to perform surprise reviews. Compliance will continue to perform surprise counts in the areas of high risk assets.

Appendix D – Finance Response



DEPARTMENT OF FINANCE

Marc Elich
County Executive

Michael J. Coveyou
Acting Director

June 17, 2019

TO: William Broglic, Manager
Office of Internal Audit

FROM: Michael Coveyou, Acting Director
Department of Finance

SUBJECT: Response to Grant Operations Audit

A handwritten signature in black ink, appearing to read "Michael J. Coveyou", is written over the printed name in the "FROM:" field.

Below, please find the Department of Finance's response to Finding 2: Service Area and Finance Coordination found in the Performance Audit of the Department of Health and Human Services' Grant Operations. If you have any questions, please contact Kim Williams, General Accounting Manager or Karen Q. Hawkins, Chief Operating Officer at x 78803 and 78828, respectively.

Recommendation 2.1

DHHS Budget and Fiscal teams and Finance should develop and document clear roles and responsibilities for key grant-related financial tasks. Both departments should agree upon how to handle coordination efforts that frequently cause disagreements, discrepancies, or delays. If Finance or the Budget and Fiscal team is required to make an adjustment to a grant-related transaction, the responsible service area should always be aware of the change and the explanation for the change so that they can be accountable for the financial aspects of their grant programs. Once roles and responsibilities are clearly defined and documented, these should be formally communicated to DHHS service areas.

Recommendation 2.2

DHHS and Finance should create grant checklists for financial and programmatic reporting for each grant to ensure both departments are in agreement to what is being monitored by whom to reduce duplication of efforts and/or improve compliance monitoring. Further, reporting submitted to grantors should be reviewed by both DHHS and Finance, whenever financial elements are reported.

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www.montgomerycountymd.gov

montgomerycountymd.gov/311  Maryland Relay 711

William Broglie, Manager
Office of Internal Audit
June 17, 2019
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Recommendation 2.3

DHHS service areas and the Budget and Fiscal teams should work with Finance to develop a grant-related training that clarifies common challenge areas; such as discrepancies between PnG and the General Ledger. Additionally, service areas as well as DHHS Budget and Fiscal teams need to be re-trained to ensure they are able to pull financial information accurately and consistently with how Finance pulls data and clarify areas that lead to discrepancies, such as timing/interface issues and reconciliations that could affect the data.

Recommendation 2.4

DHHS and Finance should improve transparency by evaluating current access/roles within Oracle to ensure DHHS staff have the appropriate access to view transactions, supporting documentation and balances.

Finance Response:

Finance agrees with the overall objectives and underlying issues of the finding and areas of opportunities for improvement. Finance and DHHS officials have met to discuss the issues identified, to identify any remaining root causes of the issues, and to begin to determine specific strategies for implementing improvements. Initial actions to improve communications, processes, and training have been identified, and on-going meetings between the departments will be held to continue working collaboratively to resolve the issues identified.

ME:kkw

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