

GRANTS ADMINISTRATION

Audit Report No. AGM0110

May 11, 2010



**MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY**

Internal Audit Report

AUDITOR'S REPORT

Agency Grant Management

Harris County, Texas

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Henry E. Webb, CFE

Internal Auditor





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Re: Agency Grant Management
(Report No. AGM0110)

BACKGROUND

The Mental Health Mental Retardation Authority of Harris County is awarded millions of dollars annually in grants for diverse programs designed for those persons who can be effectively treated in their own community and do not require long-term institutional care. MHMRA of Harris County provides a full range of effective services and supports designed to provide quality care in the least restrictive manner, to the degree resources permit.

In all cases, grants require a formal application to the grantor and funds must be used for a stated purpose. Generally, the results of grant-funded programs must be periodically reported to the grantor.

The Agency receives grants for varying amounts and time periods. A grant award may be a few thousand dollars for a single event, or may total millions of dollars over multiple years.

As of the audit period, approximately \$8.3 million or 5% of the revenue received by MHMRA was from a grant source (based on Agency expended amount, not total awarded). Most grant sources across the United States are being reduced and becoming more competitive, and, as such, actively seeking out grant revenues that assist in achieving identified Agency goals and objectives should play a key role in the Agency's overall financial health strategies.

Grants are not gifts. They almost always come with strings attached and in the case of federal grants, the requirements may be so numerous that the grant is practically indistinguishable from a contract.

Grant administration refers to timely development and implementation of programs as required by the grantor, as well as fiscal and programmatic reporting.

Departments must comply with grantor's fiscal reporting requirements to ensure they are staying in line with the budget. Departments must maintain, track and report detailed financial information, related to

both the program and administrative costs of the grant. In addition to accurately tracking and reporting costs, departments must submit reimbursement request timely, to capture available grant revenue. Departments must also assess the progress of program implementation and achievement of goals and periodically report this information to grantors. In addition to being a condition of most grants, these reports serve as a valuable tool for departments to use to internally evaluate the success and sustainability of programs.

Depending on the structure and size of the department, the level of coordination of these administrative components varied. Since fiscal and programmatic tasks are segregated, it is important that staff responsible for each component communicate early and regularly to ensure that all aspects of the grant are appropriately administered.

Our audit found that all of the departments reviewed can improve some aspect of their administrative process. Adequate grant administration is necessary to provide assurance that limited grant dollars are utilized as efficiently and effectively as possible.

Compliance requirements exist because government grants are often given to promote certain policies (and discourage others). The requirements may derive from the enacting legislation, agency regulations, executive orders or government-wide policy documents issued by the Office of Management and Budget (OMB). The vast majority of federal compliance requirements are found in four places:

- OMB management and cost circulars;
- The annual compliance supplement to OMB Circular A-133;
- The Standard Assurances for Construction and Non-construction Grant Funding;
- Various government-wide rules (codified agency adoptions).

OBJECTIVE

The objectives of the audit were to assess current practices and opportunities to improve efficiency and effectiveness in identifying, applying for, accepting and administering grant funds.

The specific audit objectives were:

- (1) To determine and evaluate how departments identify grant funding opportunities that support their core mission.
- (2) To assess the level of coordination between departments and key players in identifying, applying for, and accepting grants.
- (3) Evaluate procedures followed by departments in submitting applications for potential grants and identify opportunities to streamline the approval process.
- (4) To assess and evaluate departments' procedures in administering grants to ensure timely program development and implementation of grant requirements.
- (5) Review departments' procedures to ensure compliance with grant requirements.
- (6) Research and identify best practices, including procedures employed by other governmental entities, for seeking and administering grants.

To obtain an Agency-wide perspective, we conducted a detailed review of grant processes at three departments. The departments were selected based on the dollar value and number of grants received.

In order to assess the grant administrative activities, Internal Audit reviewed the following:

- Processes for monitoring program revenues and expenditures;
- Adequacy of coordination between fiscal and program staff;
- Compliance with grant reporting requirements; and
- Timely submission of reimbursement requests.

Internal Audit interviewed staff and conducted test work on a random sample of 4 grants that were administered by the three departments during Fiscal Years 2008-2009.

SCOPE

The scope of the audit did not constitute an evaluation of the overall internal control structure of the unit. The examination was designed to evaluate and test compliance with established policies, procedures, laws, and regulations. The audit scope was for the period September 1, 2007 through August 31, 2009.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policy and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. Internal Audit would like to thank management and staff for their cooperation throughout the audit.

METHODOLOGY

In order to meet the objectives, Internal Audit conducted business process mapping and evaluated controls over the grant activities, reviewed the system relating to accounts, and reviewed laws, regulations, policies and procedures for compliance. Audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 95%, expected error rate of 6 to 7%, and a desired precision of +/-5%. Statistical sampling was used in order to infer the conclusions of test work performed on a sample of the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decisions made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

RESULTS

As a result of the audit procedures and surveys conducted, it was determined that departmental compliance with established criteria to govern grant activities generally meets Agency requirements for reporting of grants, except for the findings presented in the body of the report.

FINDING

Lack of a Systematic and Coordinated Approach for Grant Development

Internal Audit found that MHMRA generally does not have a comprehensive structure for grant procurement that formally establishes staff roles and responsibilities, procedures for internal analyses to determine if grants should be pursued and requirements for management approval. The level of formal processes and structure varies considerably for the departments reviewed.

The audit found the Agency's processes fall short of most of the leading grant practices. The Agency lacks adequate centralized oversight to provide reliable information on grant activities. In addition, the Agency's processes for seeking, applying for and administering grants is uncoordinated and complicated due to varying approaches to grant management by Agency departments.

Given the nature and complexity of the grants received, most grant functions should remain decentralized. Grant identification and application, program development and execution, and outcome evaluation should be performed by the departments whose staff possess the subject area expertise and are ultimately responsible for program implementation. However, to provide an Agency-wide perspective of grant activities and to ensure consistent protocols, this decentralized system should be guided by a formal and comprehensive set of grant policies and procedures

RECOMMENDATION

In assessing the Agency's processes, Internal Audit surveyed leading grant practices in six other governmental entities. Our audit focused primarily on processes for competitive grants, though many of the recommendations are also applicable to non-competitive grants.

An effective grants policy and procedure should contain the following elements:

- ▶ Good internal controls over departmental grant identification, analysis and approval;
- ▶ Strategic planning and budgeting to ensure grants are aligned with departmental goals, objectives and funding;
- ▶ Efficient processes to apply for and accept grant awards;
- ▶ Regular evaluation of grant-funded programs to support management decisions on whether to continue the programs, either through subsequent grants or Agency funds;
- ▶ Procedures to ensure compliance with grantor requirements;
- ▶ Monitoring to ensure program outcomes are achieved, grant revenues are maximized, and expenditures reflect actual costs that are allowable under the terms of the grant, or are appropriately charged within established budgets;
- ▶ Regular reporting of timely, complete and accurate grant information to decision makers;
- ▶ Formally evaluate, beyond the requirements of the grantor, the impact of the grant-funded programs (i.e. cost not provided in grants and effect on current Agency resources).

Departments' program evaluation activities appear to focus mostly on outputs and are limited to grantor requirements. In addition, upon completion of the grant funded-program, departments are not formally assessing the value of the program relative to total costs.

Departments should consider a program's effectiveness in achieving identified needs and objectives, to determine whether the programs should be modified or discontinued. Departments should also consider

this information when updating their strategic plans, since there may be a more effective approach to addressing needs and fulfilling objectives.

The Agency should require departments to complete a standardized evaluation checklist to determine whether a grant should be pursued in order to ensure that the appropriate analysis is performed prior to submitting grant applications. This analysis (fiscal impact analysis) should provide the estimated Agency costs (in addition to the required match) to administer and implement the program/project, and if additional Agency resources are required, whether they can be identified within the department's budget, and the impact the project will have on existing programs and commitments (i.e. facilities, accounts payable, general accounting, information technology support, HR/payroll).

Grants primarily reimburse direct costs associated with implementing an approved program. Some grants cover a portion of indirect or administrative costs, but most do not. Departments generally track actual reimbursable costs as incurred for each grant program.

Departments generally do not account for expenses relative to grant programs when they are not reimbursable. As a result, it is impossible to know the total actual costs of implementing the program, or whether they were in line with the budget, making it very difficult to properly estimate costs for subsequent grant periods. Further, departments generally do not know the true costs to administer grants.

By tracking the full, actual costs of grant implementation, departments would be able to conduct a meaningful cost-benefit analysis at the end of the grant term. For example, a department might find that the administrative costs incurred, which are necessary due to the reporting requirements or other programmatic challenges, outweigh the benefits received through the actual outcomes of the services provided. Departments can then make an informed decision about whether to continue the program. The ability of a department to identify and aggregate all expenses, including administrative costs, is also necessary to provide accurate reports to Agency Executive Staff and the Board of Trustees regarding the full cost of grant programs.

Management Response

“Administration believes the recommendations herein are generally sound and will work with Agency budget and evaluate personnel to more adequately track the costs incurred with respective grant programs as well as the impact of each to determine whether a given grant program is cost beneficial in its entirety or in part and should be continued if resources may be identified post the grant funding period. Grant programs have been sought as a mechanism to respond to critical community needs, address high priority core functions/limitations which then current operational resources would not permit being otherwise considered, or expand/enhance services or supports at a given point in time. It has long been recognized that some grants have not paid or carried their “fair share” of the administrative expenses needed to cover their individual operations. It has been administration’s orientation that the direct benefits to the community have outweighed the administration financial support and, therefore, the Agency has “pushed” its administrative functions to pick up those grants without additional or sufficient financial support. The Agency may be facing an environment over the next several years with the implementation of health care reform and the State of Texas response to this wherein such financial flexibility may not be possible in the future.”

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ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
May 11, 2010

Unit: ALL Area: Audit		
Inherent Risk: Low Moderate High	Control Environment: Well Controlled Acceptable Poorly Controlled	Overall Risk: Low Moderate High
Type of Procedures: Audit		
Scope: <ul style="list-style-type: none"> * Using Internal Control Evaluation (ICEs) forms, documented internal controls * Conducted a preliminary survey reviewing applicable policies and procedures, etc. * Interviewed various staff, obtained understanding of management controls * Examined detailed receipts, vouchers, and supporting documentation 		
Priority Rating: 1	Audit Recommendations: Develop an Agency-wide systematic and coordinated Policy & Procedure for Grant Development.	
Follow-up: One year		

Priority Rating

1. Implement immediately (30 - 90 days) - Serious internal control deficiencies or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.
2. Work towards implementing (6 - 18 months) - Less serious internal control deficiencies or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e., budgetary, technological constraints).
3. Implement in the future (2 - 3 years) - Recommendations that should be implemented but that can not be implemented until significant and/or uncontrolled events occur (i.e. legislative changes, buy and install major systems, requires third party cooperation).