

LEGISLATIVE AUDIT REPORT

Department of Health and Human Resources - Grant Disbursements

FOR THE PERIOD JULY 1, 2006 - JUNE 30, 2007

REPORT OVERVIEW

- Inadequate Monitoring Over the Use of Grant Funds
- Failure to Closeout Grants & Promptly Recover Unused Advance Payment Grant Funds
- Failure to Acquire or Maintain Required Grant Reports
- Improper Alteration of Grant Payment Invoices



WEST VIRGINIA LEGISLATIVE AUDITOR
POST AUDIT DIVISION



Aaron Allred - *Legislative Auditor*
Stacy Sneed, CPA - *Director*

Room 329 W, Building 1
1900 Kanawha Boulevard East
Charleston, West Virginia 25305
phone: (304) 347 - 4880

LEGISLATIVE POST AUDIT SUBCOMMITTEE

Senate

Acting President Jeff Kessler, Chairman
Roman Prezioso
Mike Hall

House

Speaker Richard Thompson, Chairman
Harry Keith White
Tim Armstead

WEST VIRGINIA LEGISLATIVE AUDITOR LEGISLATIVE POST AUDIT DIVISION

Aaron Allred
Legislative Auditor

Stacy L. Sneed, CPA, CICA
Director

Stanley D. Lynch, CPA
Audit Manager

Alla A. Long, CPA, CICA
Auditor-in-Charge

Deanna K. Lyons, Auditor II
Sheela Francis, Auditor II
Terry J. Edwards, Auditor I
Nathan M. Hamilton, Auditor I
Staff Auditors

Legislative Post Audit Division
Building 1, Room W-329
1900 Kanawha Blvd., East
Charleston, WV 25305-0610
(304) 347-4880

Post Audit reports are available on-line at
<http://www.legis.state.wv.us/Joint/postaudit/reports.cfm>
For more information about the Legislative Post Audit Division, please visit our website at
www.legis.state.wv.us/Joint/postaudit/postaudit.cfm

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division
Building 1, Room W- 329
1900 Kanawha Blvd., E
Charleston, West Virginia 25305-0610



Area Code (304)
Phone: 347-4880
Fax: 347-4889

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we conducted a limited scope post audit of the West Virginia Department of Health and Human Resources (DHHR) disbursement and oversight of State and Federal grant funds. Our audit was limited to DHHR's grant monitoring processes and monitoring procedures after the awarding of grants and, therefore, did not include the methods employed by DHHR in selecting applicants for grant awards. The objectives of our audit were (1) to evaluate internal controls related to the recording and monitoring processes over grant disbursements; and (2) to determine if the disbursements were made and monitored in accordance with West Virginia Code §12-4-14, as amended, Title 148, Series 18 of the Legislative Rule, OMB Circular A-133 and other applicable sections of West Virginia Code, State and Federal rules, as well as other rules and regulations.

The period covered by the audit was July 1, 2006 through June 30, 2007. Since W. Va. Code §12-4-14 allows grant recipients two years after the end of each grantee's fiscal year in which disbursements of state grant funds by the grantor were made to file reports required by the section, we could not perform audit procedures for compliance with the statute for subsequent periods.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our audit disclosed certain findings, which are detailed in this report. The Department of Health and Human Resources management responded to the audit findings; we have included the responses in Appendix B of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

SLS/cdo

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

TABLE OF CONTENTS

Independent Auditor’s Report	2
Executive Summary	4
Introduction	7
Post Audit Authority	7
Background.....	7
Spending Unit Contacts	8
Report Scope	10
Objectives and Methodologies	10
Conclusion	11
Exit Conference	11
Material Weakness in Internal Control and Reportable Compliance and Other Matters Findings	12
Finding 1	12
Finding 2	16
Finding 3	18
Finding 4	20
Finding 5	23
Appendix A	25
Appendix B	28
Certificate of Director, Legislative Post Audit Division	39

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

INDEPENDENT AUDITOR'S REPORT

Post Audit Subcommittee:

Compliance

We conducted a limited scope post audit of the West Virginia Department of Health and Human Resources (DHHR) disbursement and oversight of State and Federal grant funds in compliance with the laws, rules, and regulations applicable for the fiscal year 2007. Our audit was limited to DHHR's grant fund processes and monitoring procedures after the awarding of grants (post award). Therefore, our audit did not include the methods employed by DHHR in selecting those entities chosen by DHHR for grant awards. The objectives of our audit were (1) to evaluate internal controls related to the recording and monitoring processes over grant disbursements; and (2) to determine if the disbursements were made and monitored in accordance with W. Va. Code §12-4-14, Title 148, Series 18 of the Legislative Rule, and Federal rules and regulations. Compliance with the requirements referred to above is the responsibility of DHHR management. Our responsibility is to express an opinion on DHHR's compliance based on our audit.

Except for the organizational impairment described in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on DHHR. An audit includes examining, on a test basis, evidence about DHHR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of DHHR's compliance with those requirements.

In accordance with W. Va. Code Chapter 4, Article 2, the Post Audit Division is required to conduct post audits of the revenues and expenditures of the spending units of the state government. The Post Audit Division is organized under the Legislative Branch of the State and our audits are reported to the Legislative Post Audit Subcommittee. Therefore, the Division has historically been organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State. However, this organizational independence was impaired when the President of the Senate became acting Governor of the State on November 15, 2010, in accordance with W.Va. Code §3-10-2. Audits completed after this date will not comply with Governmental Auditing Standards sections 3.12 – 3.15. These sections of the auditing standards assert that the ability of an audit organization to perform work and report the results objectively can be affected by placement within the governmental organizational structure. Since the President of the Senate is acting Governor, the Executive Branch has

the ability to influence the initiation, scope, timing, and completion of any audit. The Executive Branch could also obstruct audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization's reports.

In our opinion, except for the noncompliance noted in the findings of this report, the DHHR complied, in all material respects, with the compliance requirements referred to above as they relate to DHHR's post award grant processes and grant program monitoring procedures for State fiscal year 2007.

Internal Control

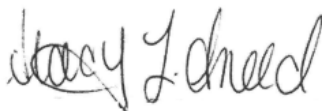
Management of DHHR is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the DHHR's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DHHR's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We consider the deficiencies in the DHHR's internal control in Finding 4 to be material weaknesses.

This communication is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, and management of the DHHR. However, once released by the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

May 05, 2011

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

EXECUTIVE SUMMARY

Finding 1: Lack of Adequate Grant Monitoring

The Department of Health and Human Resources (DHHR) was responsible for monitoring the use of approximately \$149.7 million in state and federal grant funds. Based on our audit, we concluded the DHHR did not adequately monitor the use of grant funds and ensure compliance with reporting requirements.

Auditor's Recommendation

We recommend the DHHR comply with W Va. Code §12-3-9, as amended, W.Va. Code §5A-8-9 and OMB Circular A-133.

Spending Unit's Response

See pages 29-32 in Appendix B for response.

Finding 2: Failure to Acquire or Maintain Reports

We tested 96 Grant Awards totaling approximately \$60.6 million. As part of our test, we determined if the grantee remitted all reports required by either the grant agreement, W.Va. Code §12-4-14 and, for federal pass-through grant funds, OMB Circular A-133. We noted 40 (42%) of the grantees in our sample of 96 grants either had not submitted, or the DHHR did not maintain, one or more of the grantee reports required by DHHR grant agreements.

Auditor's Recommendation

We recommend the DHHR comply with W Va. Code §5A-8-9. We also recommend the DHHR develop and initiate procedures to track whether or not grantees submitted all reports required by Exhibit G of their particular grant agreement(s).

Spending Unit's Response

See pages 32-35 in Appendix B for response.

Finding 3: Altering Grant Payment Invoices and Other Supporting Documents

We tested 143 such transactions totaling approximately \$11.3 million in grant funds disbursed to grantees for reimbursement. We noted one or more hand-written alterations were made to typed information completed by the grantee on 20 (14%) of these invoices totaling approximately \$5.2 million. The changes altered the amounts listed for reimbursement on the invoice coversheet.

Auditor’s Recommendation

We recommend the DHHR not alter invoices that have been prepared and signed by grantee representatives.

Spending Unit’s Response

See pages 35 and 36 in Appendix B for response.

Finding 4: Failure to Promptly Cancel Unused Grant Balances

We noted five advance payment grant recipients did not submit final reports reconciling grant funds received to total expenditures by the report due dates and, more importantly, the recipients did not return approximately \$1.4 million in unused grant funds during the period the final reports remained overdue. Also, we noted six reimbursement-of-costs grants had remaining encumbered balances totaling approximately \$1.8 million for periods ranging from 46 to 132 business days after the date the final invoices for the grants were due.

Auditor’s Recommendation

We believe it is incumbent upon DHHR to enact procedures to insure that final reconciling reports for advance payment grants are submitted in accordance with the due dates imposed by the grant agreement, and that unexpended grant funds, if any, are remitted by the grantees with these reports. We also recommend the DHHR develop and implement internal controls to mitigate the chance of not “cancelling” reimbursement-of-costs grant agreements.

Spending Unit’s Response

See pages 36-38 in Appendix B for response.

Finding 5: Failure to Validate Indirect Costs

We tested 30 grants that had associated indirect costs paid with grant funds during fiscal year 2007. The DHHR was unable to provide “Indirect Cost Proposals” for 25 (83%) of these grants that charged indirect costs totaling just over \$3.5 million to grant funded programs. Because DHHR did not request or receive an approved indirect cost rate for grant awards, we could not conduct

audit tests to determine if indirect cost allocations were appropriate and in accordance with the grant agreement.

Auditor's Recommendation

We recommend the DHHR initiate a policy and procedure to ensure compliance with section 6.03 of the grant agreements.

Spending Unit's Response

See page 38 in Appendix B for response.

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

INTRODUCTION

POST AUDIT AUTHORITY

This is a report on the post audit of the West Virginia Department of Health and Human Services (DHHR) disbursement and oversight of State and Federal grant funds. Our audit was limited to DHHR's grant monitoring processes and monitoring procedures after the awarding of grants and, therefore, did not include the methods employed by DHHR in selecting applicants for grant awards. This report was conducted pursuant to Chapter 4, Article 2 of the West Virginia Code, which requires the Legislative Auditor to "make post audits of the revenues and expenditures of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the state and of the organization and functions of the state and its spending units."

BACKGROUND

The DHHR is a cabinet-level department of state government, responsible for the state's health and welfare programs and many social services. The DHHR was created under Chapter 3, Acts of the Legislature, First Extraordinary Session, 1989, as one of seven departments in the Executive Branch of State Government.

The DHHR is among the very largest agencies of state government. The Bureau for Public Health works with local health departments. The bureau administers programs that range in scope from regulating hospitals and nursing homes to working to reduce tobacco use. The Bureau for Children and Families administers most of DHHR's major public assistance programs such as food stamps and Temporary Assistance for Needy Families, as well as Child Protective Services and Adult Protective Services. The "welfare agency" direction of the bureau changed in 1996 with the enactment of federal welfare reform during President Clinton's administration. These watershed reforms reduced welfare assistance by limiting the years of eligibility and encouraging welfare recipients to return to work. The Bureau for Behavioral Health and Health Facilities runs state health facilities and regulates private providers of behavioral health services.

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

SPENDING UNIT CONTACTS

Department of Health and Human Resources

Michael J. Lewis, M.D., Ph.D., Cabinet Secretary
Patsy A. Hardy FACHE, MSN, MBA,).....Cabinet Secretary
September 2009 – December 2010
Martha Yeager Walker Cabinet Secretary
January 2005 – August 2009
Warren KeeferDeputy Secretary for Administration
Tara Buckner, CPA, MBA,Chief Financial Officer
Julie Fato..... Executive Assistant

DHHR-DCAM

Brian Cassis... Director of Internal Control and Policy Development
Kimberly Merritt.....Accountant/Auditor III
Reathel Cottrell..... Accountant/Auditor II

DHHR Office of Grants Management

Larry EasterDirector of Grant Administration and Reporting

DHHR Office of Accounting

Teresa Cales Director, Office of Accounting
Maria Yoakum Director, Division of General Accounting and Reporting
Nancy Rollins.....Manager, Encumbrance/Grant Agreement Processing

Bureau for Children and Families

John J. Najmulski Commissioner
Doug Robinson Assistant Commissioner, Finance and Administration
Gail Totten Director, Grants and Contracts
Tammie Hoover-Jones Contract Specialist
Stacey Holley..... Contract Specialist

Bureau for Behavioral Health and Health Facilities

Victoria Jones Commissioner
Craig Richards..... Deputy Commissioner, Administration

Linda Adkins Chief Fiscal Officer, Fiscal Management
Donna Ramsell. Accounting Tech IV
Joseph Donchatz Behavioral Health Senior
December 2007—April 2010
Damon Iarossi Health and Human Resources Office Director II

Bureau for Public Health

Chris Curtis, M.P.H., Acting Commissioner
Janet Richards. Deputy Commissioner, Public Health Administration
Tim Whitener, CPA..... Chief Financial Officer
Debbie McGinnis..... Director, Monitoring, Compliance, and Grants
Marilynn Preston. Administration Service Manager
Tamara Kuhn. Accountant/Auditor IV

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

REPORT SCOPE

The scope of this audit report on the Department of Health and Human Resources (DHHR) Grant Disbursements is limited to reporting on the internal controls and the recording and monitoring processes over grant disbursement from July 1, 2006 through June 30, 2007. Our audit report scope excludes those methods employed by DHHR in selecting applicants for grant awards. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

OBJECTIVES AND METHODOLOGIES

The objectives of our audit were (1) to evaluate internal controls and the recording and monitoring processes over grant disbursement; and (2) to determine if the disbursements were made and monitored in accordance with W Va. Code §12-4-14, Title 148, Series 18 of the Legislative Rule, and other applicable Federal rules and regulations.

In order to achieve the objectives noted above, we reviewed applicable sections of the West Virginia Code, Legislative Rules, as well as other rules and regulations, policies and procedures; conducted interviews with Bureau employees and reviewed various documents related to grants disbursements.

The West Virginia DHHR awards more Federal grant funds to subrecipients than any other agency of the State. Based on information provided by DHHR, DHHR disbursed approximately \$65.4 million in Federal monies and approximately \$84.3 million in State funds to grant recipients in FY 2007.

We tested 96 grant awards for our audit period of July 1, 2006 thru June 30, 2007. The awards were made by three DHHR sub-divisions (Bureaus) as follows: (1) The Bureau for Children and Families (BCF); (2) The Bureau for Behavioral Health and Health Facilities (BHFF); and, (3) The Bureau for Public Health (BPH). The three bureaus are responsible for substantially all DHHR grants.

Our reports are designed to assist the Post Audit Subcommittee in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report is intended solely for the information and use of the Post Audit Subcommittee, the members of the WV Legislature, management of the spending unit and others within the spending unit. However, once released by the Post Audit Subcommittee, this report is a matter of public record and its distribution is not limited.

CONCLUSIONS

We noted internal control weaknesses and deficiencies in the Department of Health and Human Resources' (DHHR) oversight and monitoring activities related to the disbursement of grants. We believe these weaknesses and deficiencies increase the risk that errors and/or fraudulent activities could occur and not be detected by DHHR. In our opinion the weaknesses and deficiencies noted in our report warrant the immediate attention of DHHR management.

Our report includes findings regarding significant instances of noncompliance with applicable laws, rules or regulations. Other less significant findings were communicated to the DHHR that did not warrant inclusion in this report.

EXIT CONFERENCE

We held an exit conference with management of the DHHR on June 2, 2011. All findings and recommendations were reviewed and discussed. Management's responses have been included in Appendix B of this report.

**DEPARTMENT OF HEALTH AND HUMAN RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

**Material Weakness in Internal Control and Reportable
Compliance and Other Matters Findings**

Finding 1: Lack of Adequate Grant Monitoring

Condition: The Department of Health and Human Resources (DHHR) was responsible for monitoring the use of approximately \$149.7 million in state and federal grant funds it disbursed from July 1, 2006 through June 30, 2007 (FY 2007) as detailed below:

<u>Fiscal Year</u>	<u>State Funds (in millions)</u>	<u>Federal Funds (in millions)</u>	<u>Totals (in millions)</u>
2007	\$84.3	\$65.4	\$149.7

Based on our audit, we concluded the DHHR did not adequately monitor grantee activities and ensure compliance with reporting requirements as noted below:

- 1) Our audit revealed that DHHR did not conduct any on-site grantee visits during our audit period for any purpose—including on-site reviews of grantee activities and services provided with grant funds.
- 2) While DHHR reserves the right to review grantee agency accounting records and source documents (i.e., purchase receipts, timesheets and other source documents supporting the use of grant funds), DHHR was unable to provide any documentation indicating any such reviews were conducted during our audit period. However, we were told some desk reviews¹ were performed subsequent to the commencement of our audit by two of the three DHHR Bureaus principally responsible for awarding grants.
- 3) DHHR did not verify that grantees remitted all reports required by the DHHR grant agreement. We noted the recipients of 40 of the 96 grants in our sample failed to remit all reports to DHHR required by their grant agreements. Grant disbursements for these 40 grants by DHHR totaled approximately \$35 million in federal and state grant funds².
- 4) Although awarded, grant funds are not disbursed to grantees for reimbursement-of-costs grants until DHHR receives an itemized

¹ An examination of an entity's documents and records without conducting on-site fieldwork.

² See finding #2: **Failure to Acquire or Maintain Reports**.

invoice from the grantee listing grant applicable expenses incurred. We tested 143 such grant fund disbursements totaling approximately \$11.3 million and noted one or more hand-written alterations were made to typed information completed by the grantee on 20 (14%) of the invoices totaling approximately \$5.2 million.³

- 5) We noted five advance payment grant recipients did not submit final reports reconciling grant funds received to total expenditures by the dates these reports were due. More importantly, these recipients did not return approximately \$1.4 million in unused grant funds during the period the final reports remained overdue, which ranged from 16 to 469 business days. Also, we noted six reimbursement-of-costs grants had remaining encumbered balances totaling approximately \$1.8 million for periods ranging from 46 to 132 business days after the date the final invoices for the grants were due⁴.
- 6) We tested 30 grants that had associated indirect costs paid with grant funds during fiscal year 2007. The DHHR was unable to provide the grantee "Indirect Cost Proposals" for 25 (83%) of these grants that charged indirect costs totaling just over \$3.5 million to grant funded programs. We were told grantees were not required to submit these proposals to DHHR⁵.
- 7) Circular A-133 makes it quite clear that non-federal entities expending less than \$500,000 per year in federal funds are exempt from the Single Audit Act⁶. Similarly, W.Va. Code §12-4-14, as amended, exempts non-governmental grantees receiving less than \$50,000 in state grant funds during the state's fiscal year from certified public accountant (CPA) audits or other attestation engagements otherwise imposed by the statute. Moreover, the statute excludes state spending units and local government entities from such audit and attestation engagements imposed by the statute regardless of the amount of state funding received⁷. Therefore, there is little assurance that those grantees excluded from CPA audits are in compliance with DHHR's grant agreements and other grant governing instruments apart from the monitoring techniques employed by DHHR. However, as noted in numbers 1 through 6 above, we believe DHHR's grant monitoring methods are inadequate.

³ See finding #3: **Altering Grant Payment Invoices.**

⁴ See finding #4: **Failure to Promptly Closeout Expired Grants.**

⁵ See finding #5: **Failure to Validate Indirect Costs.**

⁶ subpart b .200 of the OMB A-133 Circular

⁷ W. Va. Code §12-4-14, subsections (a) (2) and (b) (1).

Criteria:

W. Va. Code §12-3-9, as amended, states:

“Every board or officer authorized by law to issue requisitions upon the auditor for payment of money out of the state treasury, shall, before any such money is paid out of the state treasury, certify to the auditor that the money for which such requisition is made is needed for present use for the purposes for which it was appropriated; and the auditor shall not issue his warrant to pay any money out of the state treasury unless he is satisfied that the same is needed for present use for such purposes.”

W. Va. Code §5A- 8-9, states in part:

“... The head of each agency shall:

(b) . . . **Make and maintain records** containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . .” **(Emphasis Added)**

OMB Circular A-133 and the *Single Audit Act Amendments of 1996* require states to monitor subrecipients to assure Federal funds are used appropriately. *OMB Circular A-133, Section .400(d)*, which discusses the various responsibilities of the pass-through entity (i.e., the state), is quoted, in part, as follows:

“(d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes:

...(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action....

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.”

Cause: We were told by DHHR management the DHHR is hampered by high turnover and staff shortages. Management added that contract monitoring positions require dedicated and professional personnel and that such qualified people are hard to find. We were also told by DHHR management employees that the DHHR does not offer enough compensation to attract and retain qualified applicants.

Effect: Considering the amount of funding disbursed and the vital link grantees play in delivering government services to the citizens of West Virginia, it is natural to expect the DHHR to have mechanisms to ensure that grantees are using grant funds appropriately and they are providing the desired services. However, we noted adequate internal controls over grants to be lacking. Failure to adequately monitor grant funds provides opportunities for such monies to be misused or stolen.

Recommendation: We recommend the DHHR comply with W Va. Code §12-3-9, as amended, W.Va. Code §5A-8-9 and OMB Circular A-133. We also recommend DHHR strengthen their internal controls over the use of grant funds by establishing more comprehensive procedures for on-site and desk reviews of subrecipient expenditures—including a consistent methodology for selecting representative samples of all significant types of subrecipient expenditures, and ensuring specific expenditures reviewed are adequately documented. DHHR should obtain and review grantee source documents (receipts, ledgers, etc) for the representative samples as evidence supporting the proper use of grant funds. Also, we recommend the DHHR perform follow-up procedures to ensure compliance when grantees fail to remit documents required by their grant agreements. We recommend the DHHR not alter grant recipient invoices after they have been signed by the grantee representative. We recommend the DHHR develop and implement internal controls to mitigate the risks of not “cancelling” grant agreements after submission of the final invoice. We recommend DHHR initiate a policy and procedure to ensure compliance with the grant agreements concerning the payment of indirect costs with grant monies.

**Spending Unit’s
Response:**

Response has been included in Appendix B of this report.

Finding 2: Failure to Acquire or Maintain Reports

Condition: Grant contracts may require grantees to submit various reports. The type and number of reports required varies, depending on the type of grant. Nevertheless, the required reports can generally be categorized into two broad categories as follows:

- (1) Program (Progress) Reports: Reports that document activities, outcomes and progress relating to the grantee’s work plan submitted with the grantee’s application; and
- (2) Expenditure Reports: Reports documenting the Grantee’s general line item expenditures of grant funds. The final expenditure reports should reconcile total grant payments received to grant expenditures incurred.

We tested 96 Grant Awards totaling approximately \$60.6 million. Most, but not all, of the disbursements related to these grants were made during our audit period of July 1, 2006 thru June 30, 2007. As part of our test, we determined if the grantee remitted all reports required by Exhibit G of the grant agreement. We noted 40 (42%) of the grantees in our sample of 96 grants either had not submitted, or the DHHR did not maintain, one or more of the grantee reports required by DHHR grant agreements. These exceptions and the related grant monies disbursed are summarized below:

<u>Files With Missing Reports/Documents</u>	<u>State Funded Grant Awards</u>	<u>Federal Funded Grant Awards</u>	<u>Total Grant Awards</u>
40	\$23,401,063	\$11,284,093	\$34,685,156

There was no documentation made available by DHHR indicating DHHR performed follow-up procedures in order to obtain the absent reports. Furthermore, there was nothing to indicate that the DHHR was aware that the required reports were either not remitted by grantees, or the reports had not been filed.

Criteria: The exceptions noted above are in noncompliance with W. Va. Code §5A- 8-9, which states in part:

- “ . . . The head of each agency shall:
 - (b) . . . **Make and maintain records** containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . .” **(Emphasis Added)**

We believe the DHHR has an obligation to ensure that grantees submit all reports required by Exhibit G of the grant agreement. Exhibit G – Required Reports, lists different report requirements for grants based upon the particular grant and the expected outcomes as presented the grant application. The required progress report is often requested as a narrative progress report with specific due dates (either quarterly or biannually). Financial reports are submitted generally in a report format provided by the Department, and follow the same reporting period as the progress reports; quarterly or biannually.

Cause: After we made inquiries of DHHR personnel about the missing documents, we were informed by the personnel that all grantee reports received by DHHR had been previously provided to us and no additional documents were available.

Effect: The results of our audit test show a lack of oversight related to the submission of reports required by grant agreements. Although the DHHR performed no desk reviews during our audit period, if such reviews had been performed on grants during this period, these missing reports would not have been available for review.

Recommendation: We recommend the DHHR comply with W Va. Code §5A-8-9. We also recommend the DHHR develop and initiate procedures to track whether or not grantees submitted all reports required by Exhibit G of their particular grant agreement(s). These procedures could include provisions for the DHHR to follow if grantees remain noncompliant with reporting requirements after reasonable attempts have been made to secure such reports. Failure of grantees to comply with reasonable attempts to encourage remittance of reports should be met with the DHHR's disbarment of noncompliant grantees, whereas grantees become ineligible to receive additional DHHR grants until noncompliance is remedied.

**Spending Unit's
Response:**

Response has been included in Appendix B of this report.

Finding 3: Altering Grant Payment Invoices

Condition: For reimbursement-of-costs grants, grantees prepare and submit to DHHR invoices for grant expenditures made during the grant period. If accepted for payment, the DHHR will reimburse the grantee with grant funds. Although awarded, grant funds are not disbursed to grantees for reimbursement grants until DHHR receives an itemized invoice from the grantee listing grant applicable expenses incurred. Generally, these invoices are submitted after the conclusion of each month within the grant period for covered expenses incurred during the month.

The invoices are submitted on forms customized by the DHHR and include lines for the grantee to enter their name, FEIN number, grant number, as well as other fundamental information associated with the grantee or their grant. The invoices are designed for the grantee to itemize covered expenses by State Account Number on an Invoice Coversheet. These invoice coversheets require the endorsement of a grantee representative. If necessary, the grantee will also submit detail invoices containing additional information for each itemized line of the summary invoice. If deemed legitimate, a DHHR representative assigned to approve the grantee invoices will sign the invoice coversheet and the requested grant funds will be disbursed to the grantee.

We tested 143 such transactions totaling approximately \$11.3 million in grant funds disbursed to grantees. We noted one or more hand-written alterations were made to typed information completed by the grantee on 20 (14%) invoices totaling approximately \$5.2 million. The changes altered the amounts listed for reimbursement on the grantee invoice coversheet. Although initialed, these changes were not dated; therefore, we were not able to determine the point in the reimbursement process these changes were made.

Criteria: All DHHR Invoice Cover Sheet requires the signature of a grantee representative. We believe this signature serves as an acknowledgement the invoice is accurate and, therefore, should not be altered subjectively by the DHHR without the documented authorization of the grantee agreeing to such alterations.

W. Va. Code §5A-8-9 states in part:

“The head of each agency shall:

(a) Establish and maintain an active, continuing program for the economical and efficient management of the records of the agency.

(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities....”

Cause: According to employees of the DHHR Bureau's, DHHR Contract specialists and Administrative Services Assistants would be authorized to make the aforementioned changes to the final invoices. DHHR personnel told us the handwritten changes were made after the submission of the invoices to DHHR. DHHR employees also said DHHR staff made the changes to correct errors made by the grantee on the invoices. We did note changes where detail invoices did not match the summary invoices and changes were made to the summary invoice so as to cause these invoices to agree.

Effect: The DHHR Summary invoice requires the signature of a grantee representative. We believe the signature requirement serves as an acknowledgement indicating the invoice is accurate. When DHHR alters information completed by the grantees on their invoices any assurance implied by the grantee's signature is rendered meaningless. Further, when DHHR employees reviewing invoices noted discrepancies, these employees made assumptions as to what was, and was not, correct. However, we believe these alterations were not sufficiently supported by the available grantee documentation. As a result, grantees may have been paid grant funds prior to incurring the costs.

Recommendation: We recommend the DHHR not alter invoices that have been prepared and signed by grantee representatives. When errors or discrepancies are noted in the amounts requested for reimbursement, we recommend the invoices be returned to the grantee for correction. DHHR changes to invoices circumvent the assurance provided by the grantee's signature which, we believe, serves as an acknowledgment that amounts invoiced for services have been received.

Spending Unit's Response: Response has been included in Appendix B of this report.

Finding 4: Failure to Promptly Closeout Expired Grants

Condition: Grant contract periods, which are generally one year in length, are set out in grant agreements. No expenses incurred by the grantee after the expiration of the grant agreement period should be paid with grant funds. For advance payment grants, grant recipients receive payments in advance of applicable grant program expenditures reported to DHHR. A final report is due to be submitted by the grantee within either 15, 30 or 45 days (depending on the grant agreement) following the end of the grant period. This report reconciles total grant funds received for particular grant to grant program expenditures incurred.

For our closeout of grant balances audit test, we selected 17 advance payment grants totaling approximately \$5.6 million in grant awards. We noted five of these grant recipients did not submit final reports reconciling grant funds received to total expenditures within the required time period stipulated by the grant agreement. More importantly, these recipients did not return approximately \$1.4 million in unused grant funds during the period the final reports remained overdue. The period from reconciling report due dates until the recovery of unused grant funds ranged from 16 to 469 business days, as noted in the following schedule:

Number of Grants	Range (min to max)*	Avg. * ^a	Outstanding Grant Funds
5	16 – 469	219	\$1,433,475.00
<p><i>*Range of days unused grant funds remained in possession of grant recipients after due dates of final reports reconciling total payments received by grantee to actual expenditures incurred. Stated in business days—weekends and holidays excluded.</i></p> <p><i>^a Although \$680,933.05 was returned for one advance payment grant 61 business days after the due date of final reconciling report , the grantee noted that an error had been made and returned an additional \$2,000.11 grant funds 240 business days after the due date of reconciling report. This later date when these monies were returned was ignored for purposes of calculating the average.</i></p>			

In one instance a grantee kept approximately \$434,000 in advance payment grant funds a total of 240 business days after the due date of the reconciling report. Only after the grantee was audited by an independent CPA firm did the grantee return the monies with interest at the recommendation of the auditor. Another grantee returned approximately \$297,000 in unused grant funds 310 business days after the due date of the reconciling report.

Although awarded, reimbursement grants are not disbursed until DHHR receives itemized invoices requesting reimbursement for applicable expenses incurred by the grant recipient. For each grantee, DHHR encumbers the amount of the grant award so as to ensure funds are available to pay these invoices. Depending on the particular grant agreement, final invoices are due either 15, 30, or 45 days following the expiration of the grant period.

For our closeout of grant balances audit test, we tested 20 reimbursement-of-costs grants totaling approximately \$27.7 million in grant awards. Our primary objective for this test was to determine if grant balances that remained after the end of the grant period were cancelled promptly after the due dates of the final invoices. We noted six grants in our sample of 20 had remaining balances totaling approximately \$1.8 million for periods ranging from 46 to 132 business days after the date the final invoices were due as shown below:

<u>Number of Grants</u>	<u>Range (min to max)</u>	<u>Avg.</u>	<u>Total Remaining Balances</u>
6	46 – 132	70	\$1,843,322.00

Since these balances related to reimbursement grants, the grantees were not in possession of the unexpended grant funds. However, since these balances remained encumbered, the accounting records would indicate these funds were not available for other applicable grants.

Criteria:

For advance payment grants, Exhibit D of the grant agreement states that a final report must be submitted by the grantee within either 15, 30 or 45 days (depending on the grant agreement) “...following the end of the grant agreement....” This report reconciles grant funds received to grant program expenditures. Exhibit D of each advance payment grant agreement also states in part:

“...payments received in excess of actual expenditures must be returned to the Department at the Department’s request...”

Similarly, Exhibit D for reimbursement-of-costs grant agreements specify that final invoices must be submitted for reimbursement within either 15, 30 or 45 days “...following the end of the grant agreement....”

Cause:

According to DHHR management, prior to cancelling a grant balance “...the spending unit must review all reports and related documentation submitted by the grantee, must submit a change order to the grantee for their approval and must look towards DHHR WVFIMS Procedure 23 for processing the change order. The DHHR utilizes change orders when it is necessary to change an end date, increase/decrease of funding, revise the scope, cancel a grant balance, etc. As the audit team is probably already aware, the processing of a change order goes through the Office of Accounting, the Office of Grants Management and the Deputy Secretary for Legal Services (General Counsel and Assistant Attorney General) to ensure completeness and accuracy....”

In regards to the procedure for canceling grant balances, DHHR management further stated that “...a final invoice is not accepted to cancel balance. A signed 190 form (or positive / negative confirmation letter in the absence of a grantee’s signature on the 190) are acceptable to cancel the balance. Therefore, utilizing the timeframe of report/final invoice due date is not necessarily the best measure for calculating promptness of cancelling unused grant balances....”

Effect: Failure of DHHR to secure the final reconciling report and recover unused grant monies increases the risk that grant monies may be misused or stolen. Also, failure of the accounting records to accurately reflect that reimbursement-of-costs grants balances have expired could prevent these funds from being made available, if otherwise appropriate, for other applicable DHHR grants.

Recommendation: We believe it is incumbent upon DHHR to enact procedures to insure that final reconciling reports for advance payment grants are submitted in accordance with the due dates imposed by Exhibit D of the grant agreement, and that unexpended grant funds, if any, are remitted by the grantees with these reports. We also recommend the DHHR develop and implement internal controls to mitigate the chance of not “cancelling” reimbursement-of-costs grant agreements after submission of the final invoice. Such cancelling should include removing commitments in WVFIMS for unused grant awards promptly after the grantee’s submission of the final invoice.

Spending Unit’s Response: Response has been included in Appendix B of this report.

Finding 5: Failure to Validate Indirect Costs

Condition: We tested 30 grants that had associated indirect costs paid with grant funds during fiscal year 2007. The DHHR was unable to provide “Indirect Cost Proposals” for 25 (83%) of these grants that charged indirect costs totaling just over \$3.5 million to grant funded programs. Because DHHR did not request or receive an approved indirect cost rate for grant awards, we could not conduct audit tests to determine if such allocations totaling \$3.5 million were appropriate and in accordance with the grant agreement.

Criteria: Section 6.03 of the DHHR grant agreement template (DHHR Finance-180 Grant Agreement), which is used for all DHHR grants, states in part:

“6.03 Indirect Costs and Allocation of Costs:

6.03 (a) If the Grantee charges indirect (overhead) cost to this Grant Agreement, an “Indirect Cost Proposal” must be prepared in accordance with the applicable cost principles referenced in this Grant Agreement.

6.03(b) The Grantee must comply with one of the three following criteria for payment of indirect costs by the Department.

6.03(b) (1) “Indirect cost negotiation agreement” from the cognizant federal agency if the Grantee is a direct recipient Federal Grants;

6.03(b) (2) an approved “Indirect Cost Negotiation Agreement” from another state or local government agency that has agreed to review and approve the Grantee’s indirect cost proposal; or

6.03(c)(3) A written statement from an independent certified public accounting firm attesting that the proposal complies with the requirements of OMB Circular A-122, OMB Circular A-21 or OMB Circular A-87 and provides the basis of the calculated rate.”

Cause: The Director of DHHR’s Office of Internal Control and Policy Development (OICPD) told us that Grantees are not required to provide copies of Indirect Cost Proposals to the DHHR⁸. The Director added that grantees must have proposals “available” for inspection if and when on-site visits are made. We learned, however, that no such on-site visits were made during our audit period.

⁸ The Director stated that the U.S. Department of Health and Human Services (HHS) approved this process via a conference call between the HHS, the DHHR and the independent auditing firm (Deloitte and Touche) that was performing fieldwork for the West Virginia Single Audit..

Effect: If the Grantee charges indirect (overhead) cost to the Grant Agreement, an Indirect Cost Proposal must be prepared in accordance with the applicable cost principles referenced in the Grant Agreement (the contract between the DHHR and the sub-recipient). By not being able to review the indirect proposals, we were unable to determine if grantee agencies prepared such proposals and that indirect costs were appropriately allocated. Moreover, DHHR reliance on audits as a means for verification of proper completion by grantees of indirect cost proposals is deficient, since only grantees that receive over \$500,000 in Federal funds are required to be audited and submit these audits to the DHHR.

Recommendation: We recommend the Department of Health and Human Resource initiate a policy and procedure to ensure compliance with section 6.03 of the grant agreements. One possible method would be to randomly select grant awards which designate indirect costs within Exhibit E – Grantee Budget of the grant agreement, for review of the required “Indirect Cost Proposal”. A review would verify that indirect costs proposals have been completed when required, that the proposals are appropriate and conform to the terms of the grant agreement.

Spending Unit’s Response: Response has been included in Appendix B of this report.

**DEPARTMENT OF HEALTH AND HEALTH RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

**APPENDIX A
Supplemental Information**

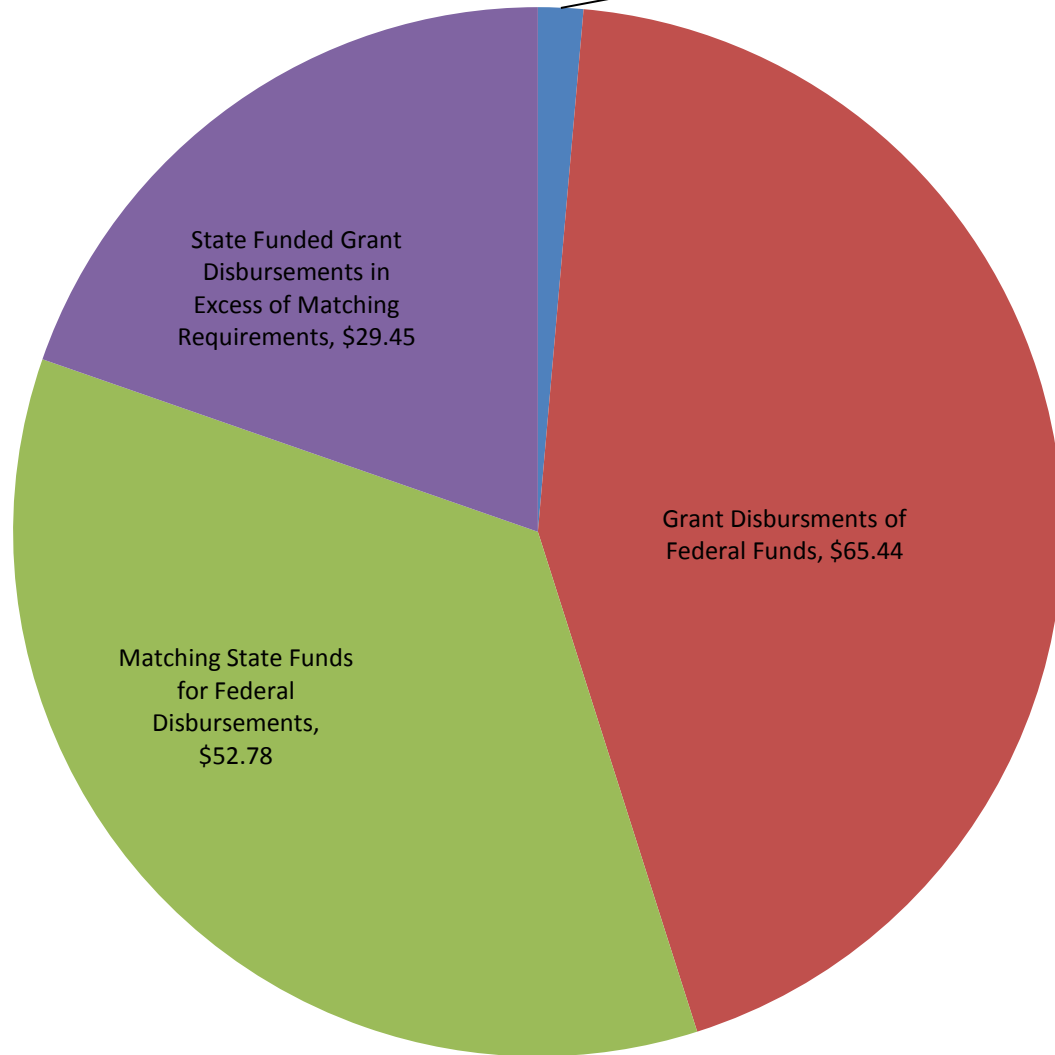
Grant Disbursements by Major Category

FY 2007*

In Millions

UNAUDITED

State Grants for
Emergency Service &
Health Maintenance
Activities, \$2.08



Total Disbursements: \$149.74 Million

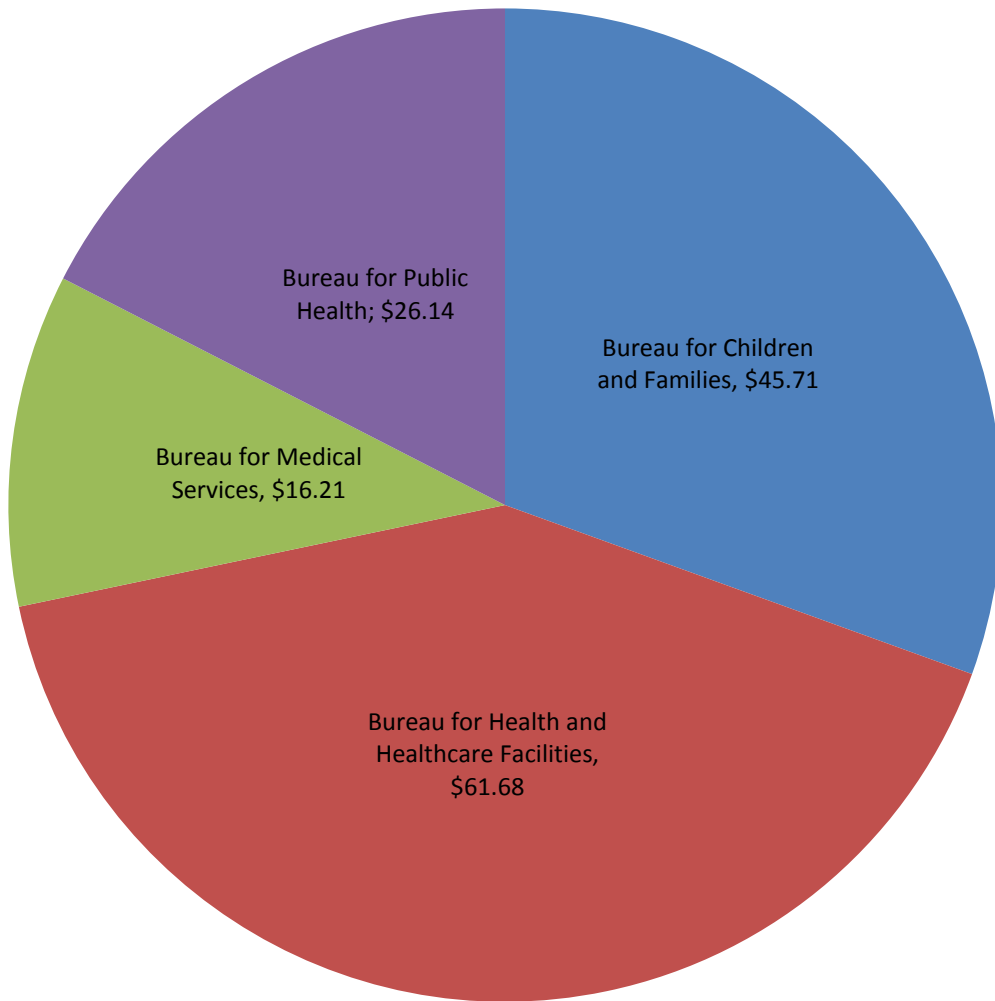
- State Grants for Emergency Service & Health Maintenance Activities
- Grant Disbursements of Federal Funds
- Matching State Funds for Federal Disbursements
- State Funded Grant Disbursements in Excess of Matching Requirements

*Chart compiled by auditors from DHHR ledgers. We performed no audit tests on the ledgers and offer no opinion on the accuracy of the information conveyed in either the charts or ledgers

Grant Disbursements by DHHR Bureaus

FY 2007*

In Millions



Total Disbursements: \$149.74 Million

- Bureau for Children and Families
- Bureau for Health and Healthcare Facilities
- Bureau for Medical Services
- Bureau for Public Health

*Chart compiled by auditors from DHHR ledgers. We performed no audit tests on the ledgers and offer no opinion on the accuracy of the information conveyed in either the charts or ledgers

**DEPARTMENT OF HEALTH AND HEALTH RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

**APPENDIX B
Supplemental Information**

**DEPARTMENT OF HEALTH AND HEALTH RESOURCES
GRANT DISBURSEMENTS**

July 1, 2006 – June 30, 2007

Spending Unit's Responses

Finding 1: Lack of Adequate Grant Monitoring

DHHR RESPONSE

While the DHHR recognizes that onsite monitoring reviews are a viable technique for monitoring grant awards, conducting onsite reviews is not mandatory per Federal and State regulations and it is not a mandatory component with respect to the overall grant monitoring strategy within the DHHR. The DHHR reinforces this matter within existing policy whereby we discuss the details surrounding our overall monitoring strategy, which includes multiple components involving a strictly defined centralized (uniform) approach combined with a decentralized element involving a number of discretionary monitoring procedures. Within the DHHR grant environment, onsite reviews are a discretionary component.

Effective for grant awards and related agreements with service periods beginning on or after July 1, 2007, which was subsequent to the grant period under audit, the DHHR implemented a detailed policy for the award and monitoring of grant funds. Although predicated on requirements and authoritative guidance related to Federal grants management and administrative rules and regulations, the DHHR also utilizes this administrative and monitoring policy when administering other grants or assistance programs, the source of which is non-Federal funds (e.g. state-appropriated general revenue and appropriated or non-appropriated special revenue funds). With that in mind, please note that the words "subrecipient" and "grantee" can be used interchangeably with respect to these procedures.

Federal Governing Requirements and Guidance towards the Monitoring of Grant Awards

As stated within Finding 1, Federal regulations require the DHHR to monitor the activities of subrecipients (grantees) as necessary to ensure that Federal awards are used for authorized purposes and in compliance with laws, regulations, and the provisions of contracts or grant agreements. However, the DHHR would like to note that currently, there is no detailed guidance from the Federal government regarding the specific level of activities deemed acceptable, required or appropriate for monitoring Federal subawards. There is simply a general directive that pass-through entities monitor the use of Federal funds provided to subrecipients. Each pass-through entity is responsible for developing its own monitoring strategy, whether explicitly written or implied, and for ensuring that such a strategy meets the fundamental objectives as set forth by the Federal government. These objectives are designed to provide reasonable assurance that Federal funds are used for their intended and authorized purposes and in compliance with applicable laws and regulations.

Underlying Objective within the DHHR for the Monitoring of Grant Awards

Existing DHHR policy surrounding the monitoring of grant awards attempts to satisfy the DHHR's responsibility to provide reasonable assurance that subrecipients are administering Federal subawards in compliance with applicable grant terms and conditions, while also providing consideration to the wide array of funding sources, multitude of assistance programs, and unique characteristics of the individual Spending Units within the DHHR under which those awards are administered.

Monitoring Strategy for the DHHR

Traditional monitoring strategies for subawards have focused on regulatory compliance, a systematic collection and analysis of data. However, the concept of monitoring has transformed as the Federal government has shifted its attention away from strict regulatory compliance and towards performance and results, which has been made ever apparent through various proclamations and decrees such as the Government Performance and Results Act. While it is still a necessary component of monitoring to ensure that public funds are spent properly and accounted for systematically, the DHHR has an equally important responsibility to spend its limited funds judiciously and allocate its resources in a proficient manner to deliver the maximum level of program benefits to the public and related stakeholders.

As such, the DHHR has elected to view monitoring as a continuous function, performed at various levels of the agency throughout the grant cycle, and emphasizing a proactive approach and related improvement strategy. The following list provides some equivocal stages during the grant cycle as an example of when [continuous] administrative and monitoring activities could occur:

- Outreach to potential subrecipients
- Formulation of specifications for selecting subrecipients
- Application review
- Pre-award negotiations
- Program startup and initial operations
- Ongoing operations and reporting
- Program review, evaluation and renewal

While a successful monitoring *plan* should include a number of strictly defined administrative processes and oversight procedures, a successful monitoring *strategy* cannot be fully realized through the mere performance of those activities. This is especially true for an organization with the size and diversity of the DHHR. Consequently, the DHHR views monitoring as something that evolves from administrative oversight and the performance of various activities throughout the grant cycle, the results of which we continuously analyze and utilize as necessary to improve the delivery of services (programmatic outcomes) and increase the overall level of assurance associated with subawards.

Although the primary strategy for the DHHR concerning its grants management and monitoring function is to ensure that a uniform and strictly defined (standard) level of administrative oversight and monitoring activities occur throughout the grant cycle, existing policy also provides individual Spending Units with the authority, ability and discretion (flexibility) to develop customized monitoring plans to satisfy their own needs and as may be necessary to effectively achieve program-related goals and objectives.

Centralized vs. Decentralized Approach

Due to the high volume and diversity of grants and related assistance programs, and distinct characteristics among the various Spending Units within the agency, the DHHR accomplishes its strategy and administers its operational plan for awarding and monitoring Federal subawards utilizing a combined centralized and decentralized approach.

- Centralized (Uniform) Approach

As previously discussed, the primary strategy for the DHHR in satisfying its grants management and monitoring responsibilities is to ensure that a standard level of administrative oversight and monitoring activities occur throughout the grant cycle, regardless of the Spending Unit or original source of Federal funds attached to the grant. The DHHR implements this strategy through a centralized grants management function, uniform administrative process, and by mandating a set of strictly defined activities and oversight procedures that are required when awarding and monitoring Federal subawards.

The specific activities mandated by the DHHR for all Federal subawards and subrecipient grant relationships are delineated in Section 400 of our existing policy; this serves to satisfy our regulatory responsibility and provide interested parties with reasonable assurance that subrecipients of the DHHR are administering Federal subawards in accordance with laws, regulations and the provisions of their grant agreements.

- Decentralized (Discretionary) Approach

While the centralized approach described above provides for a uniform, systematic and standard level of administrative oversight when awarding and monitoring Federal subawards, the DHHR utilizes a decentralized approach with respect to the actual application and performance of those activities, which includes the trust and participation of assorted organizational units within the DHHR to make appropriate and necessary decisions throughout the grant cycle.

Each Spending Unit within the DHHR is individually authorized to initiate Federal subawards, and has primary responsibility for administering and monitoring the grants, projects and programs associated with those awards. Additionally, various offices under the Deputy Secretary for Administration play a role in the monitoring process through their participation in and performance of various administrative oversight and grants management functions.

The DHHR realizes that due to the organizational characteristics, wide array of funding sources and multitude of assistance programs that flow through the agency, it is unreasonable to restrict monitoring activities to one rigid set of policies and procedures, and unrealistic to attempt to develop one comprehensive set of monitoring activities to encompass all subrecipients and related assistance programs. While it does mandate a set of uniform, strictly defined monitoring activities and oversight procedures, it is not by any means the intent of existing policy to restrict the Spending Unit, limit their administrative authority, or hinder their ability to perform discretionary (targeted) monitoring activities as necessary throughout the grant cycle.

The defined monitoring activities and oversight procedures mandated by the DHHR are intended to serve as a foundation and uniform process to ensure that a standard level of administrative oversight and monitoring occurs during the grant cycle. Spending Units are responsible for evaluating their internal capabilities; meeting programmatic goals and objectives; analyzing the results of existing monitoring activities; and utilizing existing policy as a tool, source of information and guidance if it is deemed necessary to develop program-specific monitoring plans or to customize their internal monitoring approach.

General Comments for Consideration

With respect to onsite reviews, the DHHR would like to note that with the current advancement of technology, onsite reviews are becoming less frequent and less necessary with respect to grant administration and monitoring activities. Prior to the days of email, quick copy machines and scanners, if an awarding agency such as the DHHR wanted to conduct a review of the policies and procedures of a grantee (for example) we would have to travel to the grantee location to review those policies. These days, we can simply ask the subject grantee to scan their policies and written procedures and email those to us. Furthermore, simply focusing on the words "onsite review" or "onsite visits", one could conduct onsite reviews on a continuous basis and simply limit the *scope* of their review to increase the total *number* of reviews, the focus being on the fact that it was an "onsite" review without consideration to the scope of the review.

Finding 2: Failure to Acquire or Maintain Reports

DHHR RESPONSE

Effective for grant awards and related agreements with service periods beginning on or after July 1, 2007, which was subsequent to the grant period under audit, the DHHR implemented a detailed policy for the award and monitoring of grant funds. Within that policy, the DHHR addresses the need to acquire, maintain and follow-up on reports submitted by the grantee as related to line item expenditures and programmatic objectives. The DHHR is confident that through the implementation of this policy, we have enhanced our internal controls and thus reduced the level of concern as referenced within this finding.

Although predicated on requirements and authoritative guidance related to Federal grants management and administrative rules and regulations, the DHHR also utilizes this administrative and monitoring policy when administering other grants or assistance programs, the source of which is non-Federal funds (e.g. state-appropriated general revenue and appropriated or non-appropriated special revenue funds). With that in mind, please note that the words "subrecipient" and "grantee" can be used interchangeably with respect to these procedures. Excerpts from that existing DHHR policy are as follows:

Reviewing Financial (Expenditure) Reports

Whether negotiated during the pre-award stage, or requested by the Spending Unit after the commencement of services or at closeout, subrecipients are required to prepare and submit certain financial reports (e.g. invoices, requests for payments, reconciliations, statements of expenditures, etc.) as an ongoing condition of receiving grant funds. Requiring the submission of these financial reports

and records provides the Spending Unit with a valuable tool to monitor the grant and related expenditures, confirm compliance with applicable cost principles, ensure compliance with cash management procedures, etc.

Therefore, a continuing focus of the Spending Unit shall be to verify, document and track the reports or other information required of the subrecipient in relation to their financial administration of the subaward. While there are no specific detailed procedures, the Spending Unit shall maintain a level of internal control sufficient to ensure that the subrecipient submits financial reports within prescribed timeframes and that the information is complete, accurate and presented in the prescribed format, if applicable.

Within a reasonable time after receipt, the Spending Unit shall perform some type of desk review, evaluation or analysis of every invoice, request for payment, reconciliation, statement of expenditures, or other financial report submitted by the subrecipient (as may be cited within this Policy or otherwise requested by the Spending Unit for discretionary monitoring purposes). The Spending Unit shall consider the following guidance when desk reviewing invoices (or other requests for payment, reconciliations, statements of expenditures, financial reports, etc.):

- Verify the invoice is an original and date stamp the invoice to document its receipt date;
- Verify the grant agreement / invoice number to ensure that only one payment is made for each period invoiced. If a revised invoice is received from the subrecipient, the reviewer should void the original invoice to prevent an incorrect or duplicate payment. A log or spreadsheet should be maintained by the reviewer to track the receipt, distribution, review and payment of invoices.
- Check the invoice for proper subrecipient authorization (original signature and date) and timely submission. If invoices are not being received timely, the reviewer should contact the subrecipient for an explanation.
- Verify whether the information provided to the DHHR is on the accrual basis, as it is the preferred (but not required) basis of accounting for grant funds.
- Recalculate the invoice amounts to ensure mathematical accuracy.
- Compare the actual invoiced cost to projections from the detailed line item budget or prior period invoices. For example, salaries, rent and other budget line items should remain fairly consistent over the period of the agreement while equipment purchases may cause large fluctuations in invoice totals.
- The reviewer should be alert for any new budgetary (or expenditure) line items on the invoice and ensure the appropriate parties have approved them.
- To avoid overspending, maintain and monitor a running total of year to date expenditures to ensure that the budget line items remain within agreed amounts. If there are any concerns, the reviewer should inform relevant parties within the Spending Unit or the DHHR, and/or contact the subrecipient for clarification.
- Obtain confirmation or certification from internal program staff or the subrecipient that the services being billed for were actually performed. If applicable, perform analytical procedures to determine if the expense is reasonable in relation to the results. For example, if a majority of the funds have been expended, have a majority of the program's outcomes, goals and objectives been realized?

- Verify that prior approval was obtained or documentation exists for any unusual or non-recurring expenditure(s).
- Review the invoice for property and equipment purchases, obtain confirmation or written documentation from the subrecipient to verify that such purchases were performed in accordance with applicable procurement procedures, and ensure that adequate records are maintained (e.g., what was purchased, for what purpose, where is it located, what is DHHR's interest, etc.?).
- To the extent practicable, verify that invoiced expenses were incurred during the period being billed.
- To the extent practicable, verify that costs are allowable in accordance with applicable cost principles.
- Prior to approving the invoice, the reviewer should verify or request additional information from the subrecipient as deemed necessary for processing the invoice.
- The reviewer should sign and date the invoice to indicate proper review and approval.
- Send the invoice to the applicable (preferably separate) parties for payment processing.
- If on an advanced payment basis, the reviewer should calculate and document any "deferred revenue" retained by the subrecipient. For situations where "deferred revenue" on hand exceeds what would be considered reasonable, the reviewer should inform relevant parties within the Spending Unit or the DHHR and contact the subrecipient for an explanation prior to processing the payment.
- If at any time during the grant period it appears the subrecipient is not on schedule to expend all grant funds, the reviewer should inform relevant parties and "red flag" the invoices for a possible attempt by the subrecipient to inflate end-of-the-grant expenses for the sole purpose of receiving the funds prior to the closeout of the grant. Additionally, the Spending Unit may determine that those excess funds would provide greater benefit if utilized elsewhere or reallocated to another organization that is more qualified to administer the subaward.

In order to provide consistent reporting and greater assurance that grant funds are spent appropriately, the Spending Unit should consider developing standard formats, documents or specific criteria to be included within financial (expenditure) reports, and standard checklists or other procedures for documenting the performance of desk reviews on those reports.

Reviewing Program (Progress) Reports

Whether negotiated during the pre-award stage, or requested by the Spending Unit after the commencement of services or at closeout, subrecipients may be required to prepare and submit program (progress) reports as an ongoing condition of receiving grant funds. Requiring the submission of these reports and other related information provides the Spending Unit with a valuable tool to monitor the overall progress of the program and to determine whether the subrecipient is accomplishing its stated goals and objectives.

Therefore, a continuing focus of the Spending Unit shall be to verify, document and track the reports or other information required of the subrecipient in relation to their programmatic administration of the subaward. While there are no specific detailed procedures, the Spending Unit shall maintain a level of internal control sufficient to ensure that the subrecipient submits program reports within prescribed

timeframes and that the information is complete, accurate and presented in the prescribed format, if applicable.

Within a reasonable time after receipt, the Spending Unit shall perform some type of desk review, evaluation or analysis of every performance, progress or programmatic report submitted by the subrecipient (as may be cited within this Policy or otherwise requested by the Spending Unit for discretionary monitoring purposes). While seeking to determine the overall programmatic impact, it is understood that there are many programs, variables that could be evaluated, and multiple evaluation methods. However, at a minimum, the Spending Unit's program evaluation or analysis should be able to meet the following criteria:

- Document what the program accomplished.
- Provide evidence of the programs impact and effectiveness in reaching its goals.
- Describe what participants benefited the most and least from program activities.
- Generate information on what strategies work best and how to structure the program.
- Document program costs and enable an assessment of the value of the program.

In order to provide consistent reporting and greater assurance that performance goals are achieved, the Spending Unit should consider developing standard formats, documents or specific criteria to be included within program (progress) reports, and standard checklists or other procedures for documenting the performance of desk reviews on those reports.

Finding 3: Altering Grant Payment Invoices

DHHR RESPONSE

The DHHR has many spending units that are individually authorized to initiate grant awards and have primary responsibility for administering and monitoring the grants, projects and programs associated with those awards. Additionally, various other offices within the DHHR play a role in the monitoring process through their participation in and performance of various administrative oversight and grants management functions. One of those functions is the responsibility to conduct a comprehensive review of all invoices submitted by grant recipients.

As stated within the Cause of this finding and as confirmed by the DHHR, spending units will sometimes alter a grantee's invoice due to errors on the part of the grantee. For example, the spending unit may discover upon their review of an invoice that the grantee invoiced an amount that does not agree with the terms and conditions of the grant agreement and/or the schedule of payments referenced therein. There are also issues with the Federal Cash Management Improvement Act, whereby the spending unit reviews the invoice against other supporting documentation and discovers that there is a need to reduce the invoiced amount to comply with applicable cash management standards (reduce the time elapsing between the transfer of funds to the grantee and disbursement by the grantee). However, some of the errors noted by spending units when reviewing invoices relate to non-monetary fields on the invoice (e.g. grant number, invoice number) and the fact that the grantee sometimes enters incorrect grant identifying information.

As a means to address this finding, the DHHR will inform its spending units that they are not permitted to alter invoices without the knowledge and express consent of the grantee in question. If a grantee submits an invoice in error, the spending unit will contact the grantee, inform them of the error(s) and ask the grantee to resubmit the invoice with corrections. However, there are occasions whereby the spending unit may determine that a delay in funding would hinder the project or program, perhaps to the point where the wait in financial support could be detrimental to the grantee organization. In such cases, the spending unit shall correct the invoice internally but will also inform the grantee of the corrections, ensure the grantee's consent and maintain documentation related thereto.

Finding 4: Failure to Promptly Closeout Expired Grants

DHHR RESPONSE

The finding indicates that the DHHR needs to develop and implement internal controls to mitigate the risk of not canceling grant agreements after submission of the final invoice. The DHHR recognizes the need to enhance our internal controls with respect to the timely receipt of reconciliation reports and the related cancellation of grant agreements, as there is always room for improvement. However, it is important to note that the DHHR did in fact perform closeout procedures for all of the grants included within the Condition statement of the finding and we did indeed cancel all grant agreements with remaining balances in accordance with applicable State rules and Federal regulations. The DHHR understands the audit team's concern but we believe that part of the cause of this finding is due to us not adequately explaining to the audit team (during the fieldwork stage of the audit) our process for closing out grants, requesting the return of unexpended funds, accounting for those unexpended funds and subsequently canceling any remaining balances.

The DHHR does have controls to mitigate the risks of not canceling grant agreements after submission of the final invoice and, although it is not *completely* detailed in writing, it is a process that the DHHR developed several years ago (prior to the period being audited) and which continues today. As referenced within the Cause statement of this finding, when canceling a grant balance, the spending unit must review all reports and related documentation submitted by the grantee, must submit a change order to the grantee for their approval and must look towards DHHR WVFIMS Procedure 23 for processing the change order. The DHHR utilizes change orders when it is necessary to change an end date, increase/decrease of funding, revise the scope, cancel a grant balance, etc. The processing of a change order goes through the Office of Accounting, the Office of Grants Management and the Deputy Secretary for Legal Services (General Counsel and Assistant Attorney General) to ensure completeness and accuracy.

The DHHR outlines the process referenced above as part of DHHR WVFIMS Procedure 23 and it is referenced within the DHHR Finance-190 form and related instructions. As stated within the instructions for completion of the Finance-190 form and as reiterated with the Cause statement of the finding, a final invoice is not acceptable documentation for canceling grant balances. Instead, if the spending unit needs to cancel a remaining grant balance, they must prepare a signed Finance-190 form and secure the signature of the grantee on that form before canceling a grant balance.

As an additional control at the central agency-wide level, the Office of Accounting generates an annual report that includes all grants having a balance with an end date prior to the current fiscal year. From

the results of that report, the Office of Accounting generates cancellation letters and provides those letters to the grantee and to the spending unit, whereby both parties have 30 days to respond with a request for delay of the cancellation. In the absence of a written request from the grantee or the spending unit asking for a delay, the Office of Accounting would proceed with the cancellation process.

The DHHR would also like to note that the Federal Government generally allows 90 days for closeout purposes. In order to close out a grant, the DHHR must prepare a Financial Status Report (FSR) for submission to the Federal Government and before an FSR can be prepared, the DHHR must close out all sub-grants. Accordingly, three of the grants causing this finding had balances cancelled within 60-90 days of the end of the grant period.

There are also several other grants listed as causing the finding that had balances after the end of the grant period, but it was because of deposits (refunds) made subsequent to the fiscal year end. For example, there are occasions whereby a grantee will draw down all of the funds against a grant. After receiving and reviewing the final reconciliation of expenditures from the grantee, the spending unit discovers that the grantee did not expend all of the funds and the spending unit instructs the grantee to return the remaining funds to the DHHR. Since we would receive those funds subsequent to year-end, the DHHR would deposit the funds back to the original funding source and we would disclose this refund/deposit via a comment on the associated commitment screen within FIMS. As related to the Condition statement of this finding and the issue with grantees not expending all of the funds and thus returning a portion of the grant to the DHHR, three of the grants causing this finding were invoiced by the grantee and paid in full prior to the end of the grant period. Therefore, a remaining balance did not exist at the end of the State fiscal year but since those grantees did not expend all of the funds, the DHHR instructed them to return those unspent funds to the DHHR, whereby we re-deposited those funds in accordance with the aforementioned process. Two other grants that caused this finding were appropriately cancelled by the DHHR but we received refunds at a later date for those as well.

Another grant that caused this finding relates to an overpayment that the DHHR discovered during a desk review of the grantee's independent audit, as reviewing auditor's reports from our grantees is one of our monitoring tools and a process by which is required by State rules and Federal regulations. In this particular instance, the grantee continued to invoice the DHHR even though the grantee had not expended the funds. As soon as the DHHR received the audit, we began the process of determining the actual amount (both principal and interest) for disallowance. Furthermore, the DHHR added the grantee to our internal list of high-risk organizations; we ceased issuing advanced payments and converted their payment methodology to a reimbursement of costs; and we required the grantee to send us monthly cash register reports as a means to verify expenditures. Financial offices at the agency-wide level has been meeting regularly with spending unit (bureau) staff since this overpayment occurred and we revised our policies to cease the payment of invoices until the grantee submits a related financial report.

Auditor's Comments on Response

The second part of our finding relates to the closeout of reimbursement-of-costs grants. The DHHR addresses "three" exceptions we noted for reimbursement-of-costs grants in the fifth paragraph of their response. One of the three grants addressed in this paragraph as causing the finding was not included as one of our exceptions. Although the other two grants were included as exceptions, in our opinion the basis for DHHR's argument, which appears to be that the closeout of these grants complied with the 90

days allowed by federal government for submission of a Financial Status Report (FSR) is not relevant to the circumstances of our finding. Generally, FSRs must be submitted within 90 days of the closeout of the federal grant awarded to the pass-through entity (i.e., DHHR). The fact that sub-grants need to be closed prior the submission of the FSR has no bearing on when the DHHR should close the sub-grants other than the fact they “must close out all sub-grants” prior to the submission of the FSR. Moreover, one of these two grants for \$999,763.00 was fully funded with state monies; while the other grant was funded with \$1,084,738 (93%) of state monies and only \$78,062 (7%) of federal monies.

The DHHR addresses our exceptions noted for advance payment grants in paragraph six of their written response. The primary effect in our finding was that DHHR did not secure final reconciling reports by their due dates and, more importantly, did not recover unused grant monies from the grantee for anywhere from 16 to 469 business days after the dates the final reconciling reports were due. The fact that deposits were “... made subsequent to the fiscal year end...” is merely a symptom of this effect. Their response does not address the effect of the finding. The fact “...a remaining balance did not exist at the end of the State fiscal year...” is not relevant to the effect of our finding. Further, we are not disputing that DHHR may have instructed three of the advance payment grantees in our finding “to return those unspent funds to the DHHR.” Rather, our position is grant monies were outstanding for excessive time periods after the date the final reconciliation report for these grants were due to be submitted to DHHR.

Finding 5: Failure to Validate Indirect Costs

DHHR RESPONSE

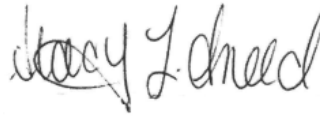
The DHHR plans to implement a procedure whereby we will randomly select a number of grantees, request a copy of their indirect cost proposal, and examine each proposal to ensure that the indirect cost rate expressed within the proposal agrees with the rate that the grantee applies towards the DHHR grant award(s).

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Stacy L. Sneed, CPA, CICA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 14th day of June 2011.



Stacy L. Sneed, CPA, CICA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Governor's Office; the Attorney General's Office; the State Auditor's Office; and the Department of Health & Human Resources.