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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

Department of Community Services Grants Management Follow-up Review

**Clark County Auditor's Office
Report #04-4**

June 16, 2004

Audit Services

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Clark County Auditor's Office
 Department of Community Services, Grants Management Follow-up
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EXECUTIVE SUMMARY

We have completed a review of grants management to follow-up on work done by Moss Adams Advisory Services at the Department of Community Services (the department, or DCS). As a result of state audit findings in 2001, coupled with the department's own awareness of their complex grant environment, DCS contracted with Moss Adams to assess existing financial management systems. The objective of their review was to identify opportunities in organization and management, where policies and procedures were needed, and other system improvements. The result was a report on conditions, recommendations, flowcharts for redesigned processes, and a plan for improvements. For our follow-up review, we categorized the improvement plan into 10 major work areas.

Objectives, Scope, and Methodology

The objectives of our review were to determine whether prior recommendations from the Moss Adams report (1) have been implemented and (2) have created the expected improvements. In performing this work, we reviewed the state audit report and Moss Adams report; interviewed employees; reviewed policies and procedures; and obtained documentation showing the new processes in action. These steps are described in Appendix A, page 16.

Summary of Findings and Recommendations

This is a progress report; as such, we did not expect that the recommendations would be fully implemented. Rather, we expected items to be prioritized and to have work progressing accordingly.

We found that the department has completed implementing recommendations in six of the 10 major work areas, and they have made progress in the other four areas. Management and staff were receptive to making improvements in their grant management controls.

We also found that some long-standing practices have been difficult to change, including a shift in emphasis from rewarding individual initiative to a new standard for teamwork.

We recommend that DCS continue implementation of the improvement work plan, with these priorities:

1. Complete the centralization of responsibility for tracking matching funds within the fiscal unit. This step has been partially done; full implementation will give the department assurance that matching fund requirements are consistently documented and complied with.
2. Finalize reports on subrecipient monitoring, and complete the remaining site visits and reports before June 30, 2004.
3. Complete work on policies and procedures. The department should put special emphasis on completing desk procedures for billing and reconciling revenue.
4. Continue to look for system efficiencies. The department may be able to gain efficiencies and ensure consistent data by combining or linking semi-redundant systems. Contracts and Fiscal have three “systems” that may be prime candidates to combine or link.

Commendation

We would like to thank the many staff members from DCS who cooperated and assisted with this review. Everyone was very open in discussing their operations. Managers were responsive during the course of the review and endeavored to resolve issues as they were raised.

Limited audit/review

Our review, performed in accordance with generally accepted government audit standards, is intended only to conclude on the stated objectives of this review. We conducted our work between February 10 and May 12, 2004.

Management Comments

Department management reviewed and commented on a draft of this report, and changes based upon those comments have been incorporated. The full text of management’s action plan in response to our report is Appendix C, page 18.

BACKGROUND
State Auditor's Office

The State Auditor's Office made recommendations resulting from their 2001 review of the Community Development Block Grant managed by the Department of Community Services. They recommended the department: (1) establish an accounts receivable system to track loans receivable by source, so loans can be distinguished from other grants or funding sources, (2) monitor more closely its First Home Loan Program administered by a private non-profit agency to ensure compliance with federal requirements, and (3) reconcile revenues, expenditures, and program income reported to the grantor with loan documentation and the county's general ledger.

Moss Adams Report

The state audit findings and the department's awareness of their complex grant environment resulted in DCS contracting with Moss Adams Advisory Services to assess existing financial management systems. The result was a report on conditions, recommendations, and flowcharts for redesigned processes. The recommendations included the three areas for improvement reported in the state audit. Moss Adams key observations were: inconsistent practices, fragmented efforts, redundant data sets, lack of policies/procedures, and no regular subcontractor reviews.

**ANALYSIS OF
CHANGES**

DCS and Moss Adams continued the work by developing a process improvement plan which we have categorized into 10 major work areas:

1. Cross-functional teams
2. Written policies and procedures
3. Subcontractor awards and monitoring
4. Receiving grant awards, adjustments, and reporting
5. Cost allocation methodology
6. Financial systems
7. Matching funds tracking and documentation
8. Internal financial reports
9. Document management and filing
10. Reconciling internal and external systems.

As we started our review, we found DCS had an environment providing some strengths and audit trails, including:

- A strong interest in having adequate controls, with managers setting the tone.
- Five written policies/procedures.
- Implementation of many of the recommendations made by Moss Adams.

We found the department fully implemented six of ten major work areas as summarized in the following table. Detailed descriptions follow on pages 7 through 14.

Major work area	Done	In progress	Comments
1. Cross-functional teams	X		Teams have been very effective in ensuring communication and consistent processes
2. Written policies and procedures		X	Five policies/procedures written; some desk procedures written
3. Subcontractor awards and monitoring		X	Policies and procedures are in place, but some reports are not being completed in a timely manner
4. Receiving grant awards, adjustments, and reporting	X		Policies are in place; communication appears to be taking place and documentation is consistent
5. Cost allocation methodology	X		Cost allocation methodology has been established and is understood within the department
6. Financial systems	X		Projects and grants module implemented within the county's new accounting system
7. Matching funds tracking and documentation		X	Most, but not all, of the tracking is done in the Finance unit
8. Internal financial reports	X		Managers can now view periodic reports on demand through their PC's
9. Document management and filing	X		Each grant binder is set up in a consistent manner and is in a central location; any items borrowed from the "cage" are signed out to a specific individual
10. Reconciling internal and external systems		X	Some but not all procedures are written; less spreadsheets being used; opportunities to further combine or link systems

Case Study

To observe the changes in place, and to evaluate the impact, we selected one grant for a detailed case study. This was in addition to interviews and reviews of procedures and documents. We selected a two-year grant from the state Department of Social and Health Services, Division of Alcohol and Substance Abuse (DSHS – DASA)¹. We chose the grant because it had most of the elements covered by the recommendations: it began after most of the changes had been made, and it included requirements for matching funds and for subrecipient monitoring.

As stated earlier, our review was limited to following up on the conditions cited by Moss Adams. We did not conduct a full audit, nor did we examine specific expenditures or assess the quality of services provided by contractors. A full audit could reveal other issues. Our use of this one grant is to illustrate the impact from making changes in grant practices.

The following narrative describes steps the department has taken, the impacts, and our recommendations for further changes.

1. Cross-functional teams

This area is complete. The department conducted a pilot project for cross-functional teams in the last half of 2002, with full implementation starting in February 2003. “Cross-functional” teams include staff from a program area², finance, contracts, quality assurance, and data. Teams meet for specific decision making, not for general information sharing; there are no standing meetings. Staff circulate materials at least 24 hours in advance; meeting time is limited to maintain the focus on the decision at hand.

In the DASA grant, we reviewed an example of a team meeting. We looked at the agenda and minutes for a risk assessment on a provider. The agenda was distributed before the meeting, the appropriate staff were included, an assignment with due date was made, and we confirmed that the follow-up was completed.

¹ For more information on the DASA grant, see Appendix B.

² Major program areas include mental health, housing, alcohol & drug (“A&D”), and children & families

In the mental health programs, we had another example of a team meeting. Again, cross-functional staff attended, this time to consider a grant renewal. The team agreed that they could not support the grant (no administrative dollars were provided), that the amount was very small, and that the match restrictions could not be met, so the renewal was not pursued.

The impact of these changes has been much better communication; everyone we interviewed confirmed this. Staff acknowledged they have sometimes held team meetings when they did not need one, and at other times failed to call a meeting when they should have. We consider those events isolated and part of the normal learning process.

We recognize this was a major change for the department's culture and in how they conduct business.

2. Written policies and procedures

This area is partially complete. Moss Adams cited 17 areas needing formal policies and procedures. Five have been completed and are well written, including requirements for timelines, responsibilities, and documentation. One is not related to grants management. Some others are not needed, either because the procedures are spelled out in other documentation (such as from federal grants or within the financial management system). **We recommend** the department put special emphasis on completing desk procedures for billing and reconciling revenue.

3. Subcontractor awards and monitoring

This is partially complete. In the area of subcontract awards and monitoring, the department's changes include:

- a. Policies were written for contract development, procurement of services, and subrecipient / contractor monitoring.
- b. Desk reviews (risk assessments) have been performed on subcontractor information to determine if on-site reviews are needed.
- c. Site reviews are on-going.

In the DASA grant, eight providers were subject to a risk assessment. The department must perform

annual on-site program monitoring³ on each provider. From the risk assessments, teams also identified two for fiscal on-site reviews.

Not all of the annual (July through June) on-site reviews have been completed. In the DASA grant, eight providers were to be scheduled, but one did not have a date set and another was “sliding.” Of four completed visits, no reports have been finalized as of May 12, 2004, even for a visit which took place four months earlier. **We recommend** that staff complete the reports in a timely manner, and that reports be prepared as a priority following future site visits.

The impact of these changes has generally been better control and a consistent procedure for handling subcontract awards and monitoring is being put in place.

4. Receiving grant awards, adjustments, reporting

This area is complete. Changes made by the department include:

- a. Policies were written for grant application approvals and grant awards.
- b. Cross-functional teams review reports to granting agencies before submitting.

In the DASA grant, the department has received three amendments; we observed that information on the amendments was with both the contracts and fiscal units.

The impact of these changes has been to resolve the prior conditions where the contracts or fiscal unit were not aware of new awards/amendments.

5. Cost allocation methodology

This area is complete. The cost allocation methodology had been changed three years in a row, but now has been stable for over two years.

The impact of these changes includes stability and managers understand how it works.

³ For more information on the annual monitoring of providers, see the footnote in Appendix B.

6. Financial systems

This area is complete. Changes in financial systems include:

- a. DCS is now using the FMS projects & grants module for tracking grant-related financial data.
- b. There are still policies and procedures to be written, including desk procedures within the Finance unit. During the course of our review, one of the accountants completed a desk procedure on a quarterly federal cash transactions report for the housing program; the procedure included examples of source documents. **We recommend** that this effort to write desk procedures continue throughout the fiscal unit.

We saw that the A&D manager receives an expenditure report from the projects and grants module, which uses the subcontract as the top level task and the statements of work as the mid-level. We also saw a similar report for the housing program.

The impact of the change by implementing the projects & grants module has been the reduction of many spreadsheets and work steps. In addition, each project & grants module “task” aligns with each contract’s “statement of work.” That structure, combined with on-demand reports, gives managers a timely and useful tool for monitoring their programs.

The completion of desk procedures will help ensure critical work entries, reports, and reconciliations can be completed in a consistent and organized manner. Other staff will be able to step in if an individual is out of the office.

7. Matching funds tracking and documentation

This is partially complete. The department has modified their subcontracts to clearly state matching fund requirements, restrictions, and reporting. We observed examples of this strengthened language in subcontracts under the DASA grant.

The Finance Manager maintains a spreadsheet of the **requirements** to provide matching funds, with well over 100 line items as match sources or items to be matched. Most matching fund requirements are in three programs: mental health, youth, and alcohol &

drug (A&D). As part of the tracking to show matching funds in the mental health and youth programs only (not for A&D), the finance unit stamps original documents "Match" to avoid double-counting an item as match for more than one grant; this is a good control. Other sources of match documentation may come in the form of certification letters from subrecipients that they have spent local dollars in support of the grant.

Matching funds, however, are not yet consistently tracked across programs. The fiscal unit tracks mental health and youth programs matching fund requirements, and they are starting to gather the alcohol & drug program information, which has been tracked by the program manager.

We recommend that the fiscal unit track all program matching funds, including the alcohol & drug program, to ensure complete and consistent compliance throughout the department.

Also related to match documentation: In our review of the DASA grant, the drug court portion of the grant has a schedule of where the department expects to show matching funds (salaries from a judge, prosecutor, defense, etc.). During our discussions, **we recommended** that the actual drug court match be certified from the county financial records, including statements that the source of the match was local funds, not federal, and that the amounts had not and would not be used as match towards any other grants. The department will need to get a similar certification for partial salary costs from Washington Department of Corrections and the City of Vancouver. The fiscal unit is in the process of getting those reports.

The impact of these changes for all programs has been a clear communication to subcontractors / providers on their responsibility to provide match, the dollar amount, and what is allowable under federal guidelines. For youth and mental health programs, there is an audit trail and documentation for matching funds.

8. Internal financial reports

This area is complete. Changes in internal financial reports include:

- a. Program managers can now view financial reports from their desktop PC. This change was put in place during our review, and included training for the managers and further defining printed report content and timing to facilitate the use and value of the reports.
- b. The official record for revenue and expenditures is the accounting system. Previously, some reports were based on spreadsheets and not reconciled to the general ledger. Less spreadsheets are used now, and those that remain are reconciled.

The impact of the change by providing on-demand report viewing is that managers have access to timely information. Using the accounting system as the official record ensures consistency, accuracy, and reliability.

9. Document management and filing

This area is complete. A grant binder is set up for each grant in a consistent manner and in a central location. Any items borrowed from the “cage” are signed out to a specific individual.

We reviewed the DASA grant binder. It followed the format DCS has set up, with sections that are particular to the grant. There were some papers filed in different sections than we would expect them to be, but they were in the binder. We also found it to be a “living” document, with periodic amendments, reports, and correspondence included.

The impact of these changes has been a consistent way to handle paperwork. Even if individuals have copies, official documents – including legal paperwork – are in one place, are easy to access, and can be located even if one individual is not available to locate, unlock, or decipher a personal filing system.

10. Reconciling internal and external systems

This is partially complete. To date, one desk procedure has been written for reconciling a federal report. This was an important procedure to complete, as the information comes from two federal systems, plus the accounting system, plus a spreadsheet. Although the information from the federal systems

cannot yet be downloaded for a more automated reconciliation, **we recommend** the department remain vigilant in seeking such an opportunity. **We also recommend** continuing the efforts to write other needed desk procedures.

For the DASA grant, the finance unit reconciles revenue between the general ledger and the DASA system “spending plan” every six months. We also observed a monthly reconciliation between the DASA billing and the general ledger.

The department may be able to gain efficiencies and ensure consistent data by consolidating still-divergent systems. Contracts and Fiscal have three “systems” that may be prime candidates to combine or link. Fiscal uses a spreadsheet to track matching funds, Contracts has two databases for “fund sources” and “fund uses”, and a contract analyst has a “master budget” for alcohol & drug programs. Staff are currently looking at eliminating the “master budget” spreadsheet and using the elements already set up in the accounting system’s projects & grants module.

The impact of these changes has been timely reconciliations, which helps identify any needed corrections or adjustments to expenditure or billing data. The county’s conversion to a new accounting system has eliminated some of the prior reconciliation work (such as the old work order system).

Additional Changes Identified and Implemented by DCS

The department found other areas which could be improved, beyond those noted by Moss Adams:

Compliance Officer

The department has created a compliance officer position. This person reports directly to the department director, and is the department’s internal consultant on grants to ensure compliance with grant requirements. Their responsibilities include budget and the indirect cost allocation plan.

Program Integrity Plan

During the process of making changes, retraining, and aligning practices with grant requirements, staff

became aware they needed a program integrity plan (also known as a fraud and abuse compliance plan), required by the Centers for Medicare and Medicaid Services. They now have prepared a program integrity plan with all the required elements.

Change Authorization
Form

Leadership is reviewing a proposed “award change authorization form.” Adopting this form will provide consistent documentation as DCS receives additional funding through amendments, passes through funds to providers, or changes statements of work on subcontracts to reflect changing priorities in the community. This ensures that all appropriate staff – program, contracts, finance – are aware of the changes.

Six-month Reconciliation

A reconciliation is now performed every six-months of the DSHS Spending Plan system records (SPAR) to the general ledger. This should provide more timely corrections than only reconciling once a year, and corrections will be easier to identify within a shorter time frame, ensuring the records are aligned with the granting agency.

Contract Payment
Efficiencies

Although not resolved yet, the department has been working with other county departments to find efficiencies for processing payments on contracts. County procedures and systems currently require a purchase order to be created, even when a contract is already in place. Several options are being evaluated to eliminate this extra step.

***Less Immediate Change
to be Completed***

Time Tracking System

A lower priority for the department is to replace the “Time Track” system. Timekeeping staff currently have to enter the same information in two systems: Time Track and Banner. The county will be implementing a new payroll module this year, and DCS staff have been involved in the “time & labor” group meetings to determine a best course of action.

RECAP OF RECOMMENDATIONS

We found the department made significant progress in implementing changes. Six of the ten major work areas are complete, and progress has been made in the other four areas.

We have pointed out areas to emphasize as the change process continues:

- written policies and procedures;
- subrecipient monitoring and reports;
- matching funds tracking; and
- combining into efficient, non-redundant systems.

The full text of DCS management comments and plans is in Appendix C, page 18.

APPENDIX A: Objectives, Scope, and Methodology

The objectives of this review were to determine whether changes recommended in prior reviews:

1. Have been implemented and
2. Have created the expected improvements.

To meet these objectives, we:

- Reviewed and summarized prior reports, including the Moss Adams report and prior State Auditor's Office reports.
- Interviewed 12 staff and managers to discuss process changes.
- Reviewed policies and procedures.
- Obtained documentation showing the new processes in action, including
 - Cross-functional team meeting agendas and minutes.
 - Centralized document management in "the cage."
 - Subrecipient monitoring.
 - Billings, including reconciliations.
 - Payments, including reconciliations.
 - The current cost allocation methodology.
 - Matching funds.
 - Program income.
 - Internal financial reports.
 - External reports.

Our review, performed in accordance with generally accepted government audit standards, is intended only to conclude on the stated objectives of this review. Our review differs from an examination of financial statements and records for the purpose of expressing an opinion thereon, and accordingly we do not express such an opinion.

We conducted our work between February 10 and May 12, 2004.

APPENDIX B: DASA Grant, Case Study

The DASA grant is a combination of state and federal funding, with more than a dozen services to be administered, varying match requirements, and varying allowances towards administrative costs.

In turn, DCS has contracted 77% of the first year funds with five major providers, and the rest of the funds are in various smaller contracts or for administration. The providers deliver various statements of work – from three to sixteen areas of service – and also have varying requirements to provide matching funds. DASA requires the department to perform program reviews⁴ annually, and the department also must fulfill federal requirements for subrecipient monitoring. The monitoring starts with desk reviews of information, which then determines whether an on-site review is needed in management, financial, or information systems areas.

⁴Generally the reviews include the overall facility, certifications, and training as well as case file reviews. The case file reviews include sampling for client eligibility, initial assessment, treatment plan, and progress notes.

APPENDIX C: Department Comments

June 10, 2004

Greg Kimsey, County Auditor
Clark County Auditor
P.O. Box 5000
Vancouver, WA 98666

Dear Mr. Kimsey:

The Department of Community Services appreciates the professionalism and thoroughness of the Auditor's Office in its Grants Management Follow-up Report. As reflected in the report, a number of changes have been made within the department to increase the efficiency and effectiveness of the department. The recommended changes in your report have been given serious consideration. Several of the recommendations were already in process at the time of your report others have been recently implemented based on your recommendation.

- The department is in its final stages of integrating the Alcohol & Drug program, including Drug Court, match documentation into its new Match Documentation process. All other programs with external match requirements have already been converted to the new process.
- The current sub-recipient monitoring process is in its first year of implementation. Monitoring is now being done on an agency basis rather than on a programmatic basis as in the past. This method has required a higher degree of coordination and cooperation between program areas during the review since many sub-recipients may have more than one funding source or multiple programs funded by the department.

The department will begin development of a 12 month monitoring schedule for the year 2005. The calendar will be used to schedule all monitoring activities and establish timelines for completion of each project. The department is confident that with the increased knowledge gained over the past year and the utilization of the new monitoring tool it will be able to complete timely monitoring and reporting in the next year.

- The department will evaluate the need for the remaining policies and procedures recommended by the Moss Adams report. Those that are no longer applicable will be discarded and the remaining recommended policies and procedures will be prioritized. As the opportunity arises Desk Procedures will be developed for the billing and reconciling process and other areas which may benefit from documented processes.

- The department has made steps to merge the separate processes in contracting and financial areas with the roll out of a trial consolidated tool that combines the Master Budget and Projects and Grants budget processes. The department will continue to pursue ways to integrate federal systems data into the reconciliation process.

As we continue with our planned improvements we will take into consideration the helpful recommendations suggested in this report. The department will continue to consult with your staff on an on-going basis as we develop and implement these improvements. The professional and helpful approach of the Auditor's staff has been appreciated and we thank you for your assistance.

Sincerely,

Michael Piper, Director
Clark County Department of Community Services

cc: Dawna Bynum-Boyd, Compliance Officer, Department of Community Services
Julie Jackson, Clark County Auditor's Office