Texas Council for Developmental Disabilities

Internal Audit Report over Grants Management
Report Date: April 17, 2017
Issued: May 5, 2017

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The Audit Committee
Texas Council for Developmental Disabilities
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This report presents the results of the internal audit procedures performed for the Texas Council for Developmental Disabilities (the Council) during the period March 20, 2017 through April 17, 2017 relating to the Council's grants management process.

The objectives of this internal audit were to evaluate the design and effectiveness of TCDD's grants management process. The objectives were organized as follows:

  A. Determine whether internal controls over Grants Management ensure that consistent processes are implemented and designed effectively to manage grant awards, grantee monitoring, sub-recipient monitoring, grant reporting and close-out.
  B. Ensure that controls over critical requirements within the Grants Management processes are operating efficiently and effectively.

Our procedures included interviewing key personnel to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from July 1, 2015 through January 31, 2017.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

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Austin, Texas
May 5, 2017

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Background

The mission of the Texas Council for Developmental Disabilities (TCDD) is to create change so that all people with disabilities are fully included in their communities and exercise control over their own lives. The guiding principles of TCDD demonstrate: the commitment to self-determination for individuals with disabilities and their families, efforts to ensure that cultural and disability diversity is represented, best practices in development and provision of services, and collaboration between TCDD, grantees, advocacy organizations and other groups are consistent with the mission.

To fulfil their mission and follow their guiding principles, TCDD awards grants and stipends that fund projects that align with TCDD's principles and help meet the goals and objectives in the agency's five year State Plan. Annually, the agency awards approximately $3.4 million through approximately 35-45 grants. To solicit applications for grants, TCDD issues Requests for Proposal (RFPs) for projects based on the State Plan objectives. All RFPs are reviewed and approved by the Executive Director prior to being posted on the TCDD website, Texas Registrar and communicated to entities on TCDD's Communications and Outreach listing.

Applicants submit proposals through TCDD's DD Suite application. Once the RFP has closed, TCDD's Planning Director performs a technical review of submitted proposals to ensure that all RFP requirements are met. Once the technical review is complete, proposals are reviewed by an independent panel using a standard review matrix. The panel members provide recommendations for funding for the proposals which have the top-rated scores. Funding recommendations are submitted to TCDD's Executive Committee for final review and approval.

Once grants have been awarded, in order to receive grant funds, grantees are required to submit Requests for Advance or Reimbursement (RARs) on a quarterly or a monthly basis. These RARs are reviewed for accuracy, completeness and appropriateness of expenses by the Grants Specialist and the Grants Management Director. Once reviewed and approved, reimbursements are submitted in the TEA system and approved by the Operations Director or the Grants Management Director. In addition to RARs, grantees are required to submit Quarterly Program Performance Reports (QPPRs) to demonstrate their progress towards achieving grant goals and objectives. QPPRs are reviewed by TCDD grants management staff, the Grants Management Director and the Executive Director.

To monitor the agency's grant recipients, TCDD performs a risk assessment and assigns risk rating to each grantee. On-site and desk compliance reviews are performed on grantees based on their assigned risk rating. TCDD staff utilize various checklists to ensure that all procedures are completed. All exceptions are reported to the Executive Director and the Council.

Upon conclusion of the grant, TCDD staff prepares a grant closure letter which contains a list of final documentation that must be submitted by the grantee. Once submitted, a Grants Management Specialist reviews the final documentation for accuracy and completeness, and the Grants Management Director reviews and approves the Final Report of Expenditures (FROE) to ensure compliance with grant requirements. Grantees whose project duration extends beyond one year must apply for a continuation at the end of each year for the subsequent year's funds. Continuation funding may be awarded, if approved by the Executive Committee and the Council.

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Audit Objective and Scope

The audit focused on TCDD's processes and procedures for the administration and management of grant programs. We reviewed the procedures in place for appropriate risk and regulatory coverage and compliance to ensure efficient and effective processes. Key functions and sub-processes within the Grants Management processes reviewed included:

- RFP Solicitation and Evaluation
- Grant Awards
- Grant Issuance
- Grantee Monitoring – Payments
- Grantee Monitoring – Compliance
- Sub-Recipient Monitoring
- Grant Reporting
- Grant Close-Out

Our procedures were designed to ensure relevant risks are covered and verify the following:

RFP Solicitation and Evaluation
- RFPs are reviewed for compliance with State requirements
- RFPs are restricted to the Council's State Plan goals
- Bidder's Conferences are scheduled and completed
- Solicitations are appropriately distributed
- Solicitations are adequately budgeted
- RFP solicitations are approved prior to issuance
- Proposals are evaluated based on appropriate criteria
- Non-Disclosure Agreements and Conflict of Interest disclosures are completed
- Technical reviews are completed by appropriate personnel

Grant Awards
- Applications are solicited and processed for appropriate qualifications and resources that meet requirements
- Awards are processed for eligible, qualified recipients based on independent panel and Council Executive Committee approval
- Recipients and denied applicants are notified timely of award decisions

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Grant Issuance
- Award commitments are appropriately authorized by the Council Executive Committee
- Standard contract templates are approved and utilized
- Deviations to standard and required contract terms are appropriate and approved
- Contracts clearly define compliance requirements and include State requirements
- Contract renewals are validated via the RFP process
- Required certifications and documentation are reviewed and approved prior to contract execution
- Contract amendments and revisions are appropriately reviewed and approved
- Proposals and supporting documentation are securely stored and maintained

Grantee Monitoring – Payments
- Reimbursement requests are reviewed and approved
- Costs charged to TCDD grants are monitored by TCDD personnel for allowability and cutoff
- Indirect costs are monitored
- Grant distributions are approved prior to disbursement
- Grant disbursements are made timely
- Periodic grant financial monitoring procedures regarding budgets, coding, and fixed assets are performed
- Use of matching funds is reviewed and validated for completeness and accuracy
- Financial reports and audits from grantees are reviewed and potential irregularities and exceptions are investigated
- Grant funds are disbursed in the appropriate period
- Grant funds are disbursed prior to expiration

Grantee Monitoring – Compliance
- Grantees receive onboarding and periodic compliance and management training
- Risk assessment is performed for all grantees
- Desk and field reviews are performed based on risk assessment results
- Grantee policies and procedures are reviewed by TCDD
- Grantee accounting systems are reviewed for sufficiency by TCDD
- Grantee segregation of duties is assessed by TCDD
- Grantee procurement practices are reviewed to ensure appropriate use of TCDD funds
- Agreements with subcontractors include all TCDD contractual requirements and administrative regulations
- Grantees comply with audit and AUP requirements
- Grantees have procedures in place to monitor subcontractors for compliance
- Follow-up reviews are performed over prior findings for grantees and sub-recipients with deficiencies
- Continuation applications are appropriately reviewed and approved

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<u>Sub-Recipient Monitoring</u>
- Compliance with contract requirements is monitored and managed on an ongoing basis
- Sub-recipients, vendors, and temporary contracts are appropriately identified and classified

<u>Grant Reporting</u>
- Reports submitted by grantees to TCDD are monitored for completeness, accuracy and timeliness
- Quarterly Program Performance Reports are reviewed and validated
- Reports are reviewed for compliance with contract terms
- Cost analysis of program progress is performed on grantee reported results
- Reports prepared by TCDD reflecting grantee activity are reviewed and approved
- TCDD reports are distributed timely

<u>Grant Close-Out</u>
- Services and fund expenditures are verified prior to closeout
- All open requests for reimbursement are validated and reconciled
- Grant and grantee documents are archived and retained
- Final grantee progress report evaluations are performed
- Final progress reports are verified prior to contract close-out
- Grant funds are reconciled by funding source prior to close-out
- Close-out final payments are approved

The scope of the audit did not include procedures for internal audit to perform on-site monitoring of grantees.

The objectives of this internal audit were as follows:

A. Determine whether internal controls over Grants Management ensure that consistent processes are implemented and designed effectively to manage grant awards, grantee monitoring, sub-recipient monitoring, grant reporting and close-out.
B. Ensure that controls over critical requirements within the Grants Management processes are operating efficiently and effectively.

Our procedures included interviewing key personnel to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from July 1, 2015 through January 31, 2017.

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Executive Summary

Through our interviews, evaluation of internal control design and testing of transactions we identified four findings. The listing of findings include those items that have been identified and are considered to be non-compliance issues with documented TCDD policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to TCDD. These issues could have financial or operational implications.

A summary of our results, by audit objective, is provided in the table below. *See the Appendix for an overview of the Assessment and Risk Ratings.*

Overall Assessment	STRONG

Scope Area	Result	Rating
Objective A: Determine whether internal controls over Grants Management ensure that consistent processes are implemented and designed effectively to manage grant awards, grantee monitoring, sub-recipient monitoring, grant reporting and close-out.	We identified 41 controls in place over the grants management process. There are opportunities to improve the process and control environment, including: • Formalize documentation of FRP approval • Document the personnel performing grant application technical reviews • Verify QPPR submissions are timely • Monitor the completeness of closeout documentation	**STRONG**
Objective B: Ensure that controls over critical requirements within the Grants Management processes are operating efficiently and effectively.	Controls in place were generally operating as designed. We identified the following opportunities for improvement: • Track and maintain the submission of closeout documentation for completeness	**STRONG**

One other opportunity for improvement was identified through our interviews, the evaluation of internal control design, and transactional testing. This observation includes the item that is not considered to be a non-compliance issue with documented agency policies and procedures. This is considered a process improvement observation and the intent for the recommendation is to strengthen current agency processes and controls. This observation was provided to management separately.

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Conclusion

Based on our evaluation, the Grants Management function has procedures and controls in place to conduct effective management of the significant process activities within TCDD. However, we identified opportunities to improve the processes and effectiveness of the controls within the Grants Management process.

Most significantly, TCDD should ensure that all grant closeout documentation is submitted by grantees in a timely manner. TCDD should implement a closeout checklist to document the receipt of the required final grant reports. The checklist should be completed by Grants Management staff prior to approving the disbursement of funds for the grantee's final reimbursement request.

Additionally, TCDD should ensure that Quarterly Program Performance Reports (QPPRs) are submitted timely by grantees. To ensure timeliness, the agency should implement procedures for Grant Specialists to verify that all grantees have submitted reports by the required deadline or have received an approved extension. This could be accomplished by creating a report that provides a complete listing of all grantees and the receipt date of their QPPR report. The report should be run one to two days after the report due date to identify delinquent reports. The report could be created in the DD Suite application or Access database used by TCDD to track the received dates of the reports.

Finally TCDD should formalize the documentation for the review and approval of RFPs and the technical review of grant applications. The approval of RFPs prior to their release should be formally documented either manually or electronically. The personnel responsible for performing the technical review of grant applications prior to their evaluation by the independent evaluation panel should also be formally documented to establish accountability for the quality and performance of the review.

Detailed Procedures Performed, Findings, Recommendations and Management Response

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Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel responsible for the grants management process to gain an understanding of the current processes in place, examining existing documentation, evaluating the internal controls over the process, and testing the effectiveness of the controls in place. We evaluated the existing policies, procedures and processes in their current state.

Objective A: Design of Internal Controls

Determine whether internal controls over Grants Management ensure that consistent processes are implemented and designed effectively to manage grant awards, grantee monitoring, sub-recipient monitoring, grant reporting and close-out.

Procedures Performed: We gained an understanding of the current grants management processes by conducting interviews with key personnel; reviewing existing procedures, standardized forms and documents used by TCDD's personnel; and assessing TCDD's administrative rules to identify key controls. We examined the following sub-processes:

- o RFP Solicitation and Evaluation
- o Grant Awards
- o Grant Issuance
- o Grantee Monitoring – Payments
- o Grantee Monitoring – Compliance
- o Sub-Recipient Monitoring
- o Grant Reporting
- o Grant Close-Out

We evaluated the controls identified against expected controls to determine whether the identified reoccurring content management procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the Grants Management process. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

Results: We identified 41 controls in place over the significant activities within the Grants Management function. We identified four findings where improvements in the processes, polices, and procedures can be made.

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Process Area	Identified Controls	Findings/ Observations
Grants Management Processes		
RFP Solicitation and Evaluation	7	Finding 1 Finding 2
Grant Awards	3	
Grant Issuance	5*	Finding 1
Grantee Monitoring - Payments	11*	
Grantee Monitoring - Compliance	9*	Finding 3
Sub-Recipient Monitoring	1*	
Grant Reporting	5	Finding 3
Grant Close-Out	4	Finding 4
Total	**41***	

* Duplicate Control: The total number of controls identified is 41. However, based on their design, controls address risks in multiple processes. We have mapped the 41 identified controls to the processes in which they mitigate the risks within the processes

Finding 1 – **LOW – Informal RFP Approval:** The final approval to issue a RFP is not documented and retained by TCDD. The Executive Director's reviews and approves the RFP solicitation document for compliance, accuracy and completeness prior to issuance. However the approval is informal and not supported by formal documentation.

Recommendation: TCDD should implement procedures to formally document the approval of RFP solicitations prior to issuance. The RFP solicitation should be reviewed and approved for accuracy and completeness by the Executive Director. The approval should be documented using approval methods such as annual signatures, email approval, or electronic signature and be maintained with other RFP documentation.

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TCDD Management Response: TCDD is in agreement with the finding. TCDD will save the email communication response by the Executive Director of the approval of the final posting of the RFP.

Responsible Party: Planning Director and Executive Director
Implementation Date: May, 2017

Finding 2 – **LOW** – **Technical Review of Grant Applications:** TCDD does not have a formal process in place to document who completed the technical review of grantee applications. Currently, TCDD staff utilize the "Workplan Technical Review Checklist" to review grant applications for accuracy and completeness. However, the technical review checklist is not signed off by the personnel completing the review. Therefore, the reviewer cannot be identified.

Recommendation: TCDD should implement procedures to document the personnel responsible for executing the technical review of grant applications. Upon completing the Workplan Technical Review Checklist, TCDD staff should sign off on the checklist to evidence their review and establish accountability for the accuracy and completeness of the review.

TCDD Management Response: TCDD is in agreement with the finding. TCDD will add a check-box to the existing form indicating which TCDD staff completed the Technical Review.

Responsible Party: Grants Management Director
Implementation Date: May 2017

Finding 3 – **MODERATE** – **Tracking of QPPR Submissions:** TCDD does not have a systematic method to verify that all QPPR reports are received on or before their due date. TCDD Grant Specialists are notified via email when a grantee submits their QPPR report through TCDD's DD Suite application and subsequently logs the receipt date of the QPPR into an Access database. If the Grant Specialists identifies that a grantee has not submitted their report, the Grant Specialist will contact the grantee. However, there are no procedures in place for Grant Specialists to verify that all QPPR reports have been received by the deadline in accordance with their grant agreement and the corresponding reporting requirements.

Recommendation: TCDD should implement procedures for Grant Specialists to verify that all grantees have submitted reports by the required deadline or have received an approved extension. This could be accomplished by creating a report that provides a complete listing of all grantees and the receipt date of their QPPR report. The report should be run one to two days after the report due date to identify delinquent reports. The report could be created in the DD Suite application or Access database used by TCDD to track the received dates of the reports.

TCDD Management Response: TCDD is in agreement with this finding. TCDD will add a procedure to query the Access database for a list of all grantee QPPRs and verify the dates received each quarter.

Responsible Party: Grants Management Director
Implementation Date: May 2017

Finding 4 – MODERATE – Submission of Closeout Documentation: TCDD Grants staff does not utilize a checklist or any other tracking tool to ensure that all closeout documentation is provided by the grantee prior to approving the final reimbursement payment. Currently, the Grants Management Specialist reviews the grantee documentation to ensure it is complete based on their experience and knowledge. However, there are not established tools or procedures to document that all required information has been received.

Further, through the testing, we determined that the Final Performance Report and the Final Equipment Purchase List were not in the grant files and able to be provided for one out of five tested grants.

Recommendation: TCDD should implement a closeout checklist to document the receipt of the required reports supporting information of final grantee reports. This checklist should be completed by Grants Management staff prior to approving the disbursement of funds for the grantees' final reimbursement request.

TCDD Management Response: TCDD is in agreement with the finding. A checklist will be created to track final reports and grant closeout.

Responsible Party: Grants Management Director
Implementation Date: May, 2017

Objective B: Effectiveness of Controls

Ensure that controls over critical requirements within the Grants Management processes are operating efficiently and effectively.

1. **Procedures Performed:** We tested five of 14 new grants during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

   - The Planning Director reviews the RFP response for completeness
   - The grant award recommendation is approved by the Council Executive Committee
   - The grant decision was communicated to the grantee within two weeks of the Executive Committee meeting
   - The grant packet was reviewed and approved by the Grants Management Director and the Executive Director

   Results: No findings identified.

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2. **Procedures Performed:** We tested 25 of 242 Requests for Advance or Reimbursement (RARs) submitted by grantees during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- The Grant Management Specialist or the Grant Management Director reviewed and approved the RAR
- The Grant Management Director or Operations Director gave final approval of the RAR
- Disbursements are approved by the COO or Grants Management Director in the TEA system
- The RAR was reviewed and approved in a timely manner

Results: No findings identified.

3. **Procedures Performed:** We tested 20 of 144 Quarterly Program Performance Reports (QPPRs) submitted by grantees during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- The report is reviewed and approved by the Grants Management Director and the Executive Director
- All documentation for quarterly reports are reviewed and approved in a timely manner

Results: No findings identified.

4. **Procedures Performed:** We tested four of 14 RFPs that were issued during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- RFPs are reviewed and approved by the Executive Director prior to issuance
- RFPs are posted on the Texas Registrar and TCDD's Communications and Outreach lists
- Independent evaluation panel members have been reviewed and approved by the Council Executive Committee
- Conflict of interest forms and NDA forms are signed by TCDD staff and the independent evaluation panel
- Grant applications are evaluated by the independent panel reviewers

Results: No findings identified.

5. **Procedures Performed:** We tested five of 19 grant closeouts that occurred during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- The closure letter containing the closeout requirements for the grantee has been reviewed and approved by the Grants Management Director prior to being sent to the grantee
- The Project Management Assistant reviews all close-out documentation submitted by the grantee for completeness and accuracy, including the following:
  - o Final Report of Expenditures (FROE)
  - o Final Equipment List
  - o Final Project Report
  - o Grant Product, if applicable
- The FROE is reviewed and approved for appropriateness by the Grants Specialist, Grants Management Director, and the Executive Director

Results: We determined that complete closeout documentation was not available for one out of five tested grants.

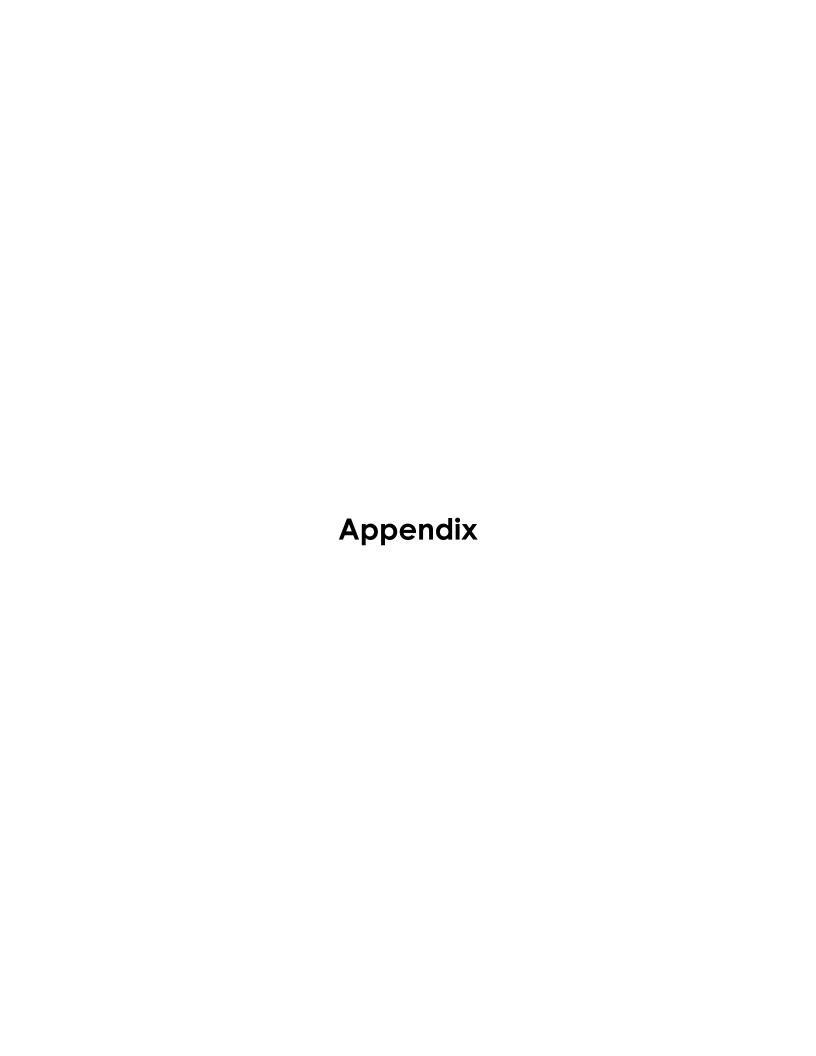**Finding 4 – MODERATE – Submission of Closeout Documentation**

6. **Procedures Performed:** We tested eight of 37 grant continuation applications that were submitted during the scope period of July 1, 2015 through January 31, 2017 and verified that the continuation application is reviewed and approved by the Council's Executive Committee for each continuation application included in the sample.

Results: No findings identified.

7. **Procedures Performed:** We tested eight of 29 stipends that were awarded during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- The "TCDD Assurances" have been accepted by the candidate
- The Consumer Stipend Proposal was reviewed and approved by the Executive Director or Operations Director
- The Grant Management Specialist or the Grants Management Director reviewed and approved the Stipend Reimbursement Report
- The Grants Management Director/Grant Management Specialist and Executive Director/Operations Director reviewed and approved the stipend award documents

Results: No findings identified.

8. **Procedures Performed:** We tested four of 28 onsite reviews and four of 18 desk reviews that were conducted during the scope period of July 1, 2015 through January 31, 2017 and verified the following:

- The grantee is risk rated using TCDD's grant risk assessment methodology
- The on-site compliance review is complete, accurate and adequately documented
- The desk compliance review was reviewed and accepted by TCDD audit desk reviewer
- Follow-up procedures were conducted, if applicable

Results: No findings identified.

Appendix

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The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:

    o Reliability and integrity of financial and operational information
    o Effectiveness and efficiency of operations and programs
    o Safeguarding of assets
    o Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

| **Strong** | The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified. |

| **Satisfactory** | The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment. |

| **Unsatisfactory** | The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct. |

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Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

| **High** | High risk findings have qualitative factors that include, but are not limited to: |

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department

- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency management
  .

| **Moderate** | Moderate risk findings have qualitative factors that include, but are not limited to: |

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency

- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

| **Low** | Low risk findings have qualitative factors that include, but are not limited to: |

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency

- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk