

STATE OF NEVADA

Audit Report

Division of Mental Health
and Developmental Services
Substance Abuse Prevention
and Treatment Agency

2012



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of Legislative Auditor report on the Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (SAPTA) issued on April 17, 2012. Report # LA12-15.

Background

SAPTA's mission is to reduce the impact of substance abuse in Nevada by identifying and responding to the alcohol and drug concerns of Nevadans, and providing regulatory oversight and funding for community-based public and nonprofit organizations to facilitate a continuum of care through quality education, prevention, and treatment services.

In fiscal year 2011, SAPTA had 29.5 legislatively approved FTE's. The legislatively approved budget for FY's 2012 and 2013 reduced the number of FTE's to 23. There were 20 positions filled as of January 2012. SAPTA is funded primarily with federal grants and General Fund appropriations.

SAPTA expenditures were about \$25.5 million in FY 2011. SAPTA does not provide prevention and treatment services directly. Instead, it awards grant funds to community-based public and nonprofit organizations which develop programs to provide prevention and treatment services to the public. In fiscal year 2011, SAPTA paid these organizations (coalitions and treatment providers) about \$22.6 million.

Purpose of Audit

The purpose of this audit was to determine if SAPTA provided adequate fiscal oversight of subrecipients awarded federal and state grants for the prevention and treatment of substance abuse. Our audit focused on SAPTA's activities in fiscal years 2010 and 2011, but included fiscal year 2012 and prior years in some instances.

Audit Recommendations

This audit report contains nine recommendations to help ensure grant subrecipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contains seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds.

The Agency accepted the 16 recommendations.

Recommendation Status

The Agency's 60-day plan for corrective action is due on July 12, 2012. In addition, the six-month report on the status of audit recommendations is due on January 14, 2013.

Substance Abuse Prevention and Treatment Agency

Department of Health and Human Services

Summary

SAPTA has not provided adequate fiscal oversight of subrecipients awarded grants for the prevention and treatment of substance abuse. In fiscal years 2010 and 2011, these subrecipients received over \$46 million to provide prevention and treatment services to Nevada citizens. Without adequate fiscal oversight, there is undue risk that subrecipients will not use grant funds for intended purposes.

We found SAPTA needs to improve its oversight of subrecipients to ensure audit requirements are met. Independent audits are one of the primary means SAPTA uses to ensure subrecipients spend grant funds for their intended purposes. SAPTA accepted audit reports on subrecipients that did not include procedures to determine whether funds were spent in accordance with grant requirements. In addition, some reports were not submitted timely. Furthermore, SAPTA did not always verify subrecipients corrected problems noted in audit reports. In one instance, SAPTA continued to fund a subrecipient despite no audit report submissions for 3 years. SAPTA subsequently cut off funding and notified federal and state authorities of concerns the subrecipient misused funds.

We also found SAPTA's direct fiscal monitoring of subrecipients was inadequate. The agency visits subrecipients periodically to determine whether they comply with grant requirements. The fiscal monitoring visits, along with audits, are the primary means to provide fiscal oversight of subrecipients. Problems noted included untimely monitoring visits of subrecipients, not documenting steps performed on visits, and untimely follow-up on problems found at subrecipients.

Key Findings

We examined the last two years' audit reports on the 5 coalitions and 10 treatment providers that were awarded the most funds from SAPTA in fiscal years 2010 and 2011. The 15 subrecipients were awarded nearly \$34 million in those years, which was 73% of the total awarded by SAPTA. Eight of 30 (27%) audit reports did not examine whether funds were used for the grants' intended purposes or indicate compliance with other grant requirements. (page 6)

Subrecipients submitted audit reports late in over half of the reports we tested. In 11 of 16 (69%) late reports, SAPTA did not follow up after the audit report was late, or waited more than 30 days to contact them. Furthermore, SAPTA imposed sanctions on only one subrecipient, and only after the subrecipient did not submit audit reports for 3 consecutive years. (page 8)

For 9 of the 14 (64%) audit reports that reported findings, the subrecipients did not comply with SAPTA's requirement to submit corrective action for audit findings. Further, SAPTA did not request the subrecipients provide documentation of corrective action for 7 of the 9 reports. (page 9)

SAPTA did not detect that a subrecipient provided forged audit reports for several years. Forged reports were submitted for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, we contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. As required by NRS 218G.140(2), we reported this information to the Governor, each legislator, and the Attorney General. (page 11)

None of the five coalitions tested had timely fiscal monitoring visits. Monitoring visits were late from 6 months to over 3 years, and averaged 20 months past due. Half of the 10 treatment providers had untimely fiscal monitoring site visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly \$7.1 million in fiscal years 2010 and 2011. (page 16)

Documentation of procedures performed on monitoring visits was not sufficient to verify that staff properly performed important steps. Two of five fiscal monitoring forms for coalitions, and four of nine treatment providers, had insufficient documentation to support conclusions the reviewer reached. (page 17)

Three of the subrecipients' fiscal monitoring forms we tested reported problems that required follow-up. Follow-up to make sure the coalitions took timely, appropriate corrective action was insufficient in all cases. For example, a monitoring visit in April 2011 noted significant concerns about a subrecipient's use of funds, yet SAPTA continued making payments through September 2011. (page 19)

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This report contains the findings, conclusions, and recommendations from our completed audit of the Department of Health and Human Services, Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 16 recommendations to improve SAPTA's fiscal oversight of subrecipients awarded federal and state grants for the prevention and treatment of substance abuse. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

April 3, 2012
Carson City, Nevada

Division of Mental Health and Developmental Services

Substance Abuse Prevention and Treatment Agency

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Division of Mental Health and Developmental Services

Substance Abuse Prevention and Treatment Agency

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Introduction

Background

The Substance Abuse Prevention and Treatment Agency's (SAPTA) mission is to reduce the impact of substance abuse in Nevada by identifying and responding to the alcohol and drug concerns of Nevadans, and providing regulatory oversight and funding for community-based public and nonprofit organizations to facilitate a continuum of care through quality education, prevention, and treatment services. To accomplish this, SAPTA is responsible for developing and implementing the state plan for substance abuse prevention and treatment, coordinating federal and state funding for community-based organizations, developing standards and certifying prevention and treatment programs, and establishing mechanisms to provide alcohol and drug abuse education and training for professionals.

SAPTA is within the Department of Health and Human Services (Department) under the Division of Mental Health and Developmental Services (MHDS). An advisory board, consisting of 15 members chosen by organizations that receive SAPTA funding, advises SAPTA concerning substance abuse issues to enhance the quality of services it provides.

Staffing and Budget

SAPTA has offices in Carson City and Las Vegas. In fiscal year 2011, SAPTA had 29.5 legislatively approved FTE's. The legislatively approved budget for fiscal years 2012 and 2013 reduced the number of FTE's to 23. There were 20 positions filled as of January 2012. SAPTA is funded primarily with federal grants and General Fund appropriations. Exhibit 1 summarizes the agency's revenues by funding source for fiscal year 2011.

**SAPTA Revenues by Source
Fiscal Year 2011**

Exhibit 1

Source	Amount
Federal Grants	\$14,704,685
State Appropriations ⁽¹⁾	9,546,002
State Liquor Tax	845,418
Transfer from DCFS	397,252
Certificate Fees	21,200
Total	\$25,514,557

Source: State accounting system.

⁽¹⁾ Net of reversions of \$821,539.

SAPTA expenditures were about \$25.5 million in FY 2011. Exhibit 2 provides more detail on the types of expenditures incurred.

**SAPTA Expenditures
Fiscal Year 2011**

Exhibit 2

Description	Amount
Federal Block Grant	\$11,837,997
State Alcohol Grants	4,933,313
Prevention Grants	2,422,658
Personnel	1,666,741
Co-Occurring Disorder Grants	1,403,237
Federal Strategic Prevention Framework	1,082,965
Alcohol Tax Program	845,418
Meth Education Grants	521,912
Meth Regional Partnership Grant	397,252
Operating	307,309
Federal Drug Free Schools	95,755
Total	\$25,514,557

Source: State accounting system.

Distribution of Federal and State Grant Funds

SAPTA serves as the single state authority for the federal Substance Abuse Prevention and Treatment Block Grant, but does not provide direct services. Instead, SAPTA awards grant funds to community-based public and nonprofit organizations which develop programs to provide prevention and treatment services directly to the public. In fiscal years 2010 and 2011,

SAPTA distributed over \$46 million in federal and state grant funds to these organizations. See Appendix A for a list of subrecipients that received grant funds from SAPTA in fiscal years 2010 and 2011.

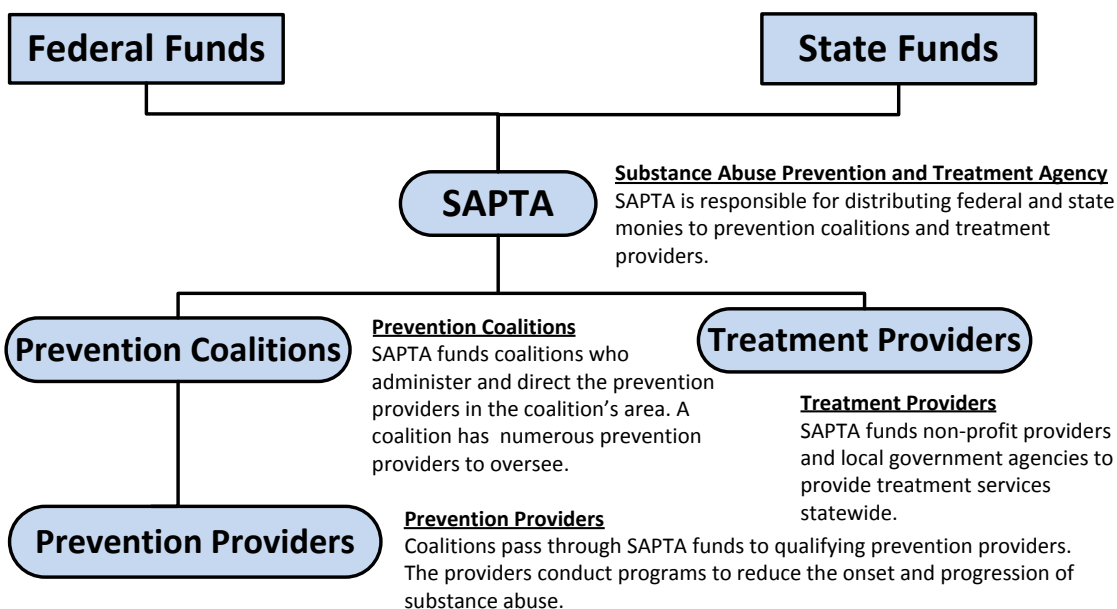
For substance abuse prevention programs, SAPTA funds prevention coalitions and oversees them to implement strategies recommended by the federal government. The prevention coalitions distribute the funds to prevention providers and are responsible for oversight of prevention providers that provide services.

For substance abuse treatment programs, SAPTA provides funds to and oversees treatment providers for services to adults and adolescents including comprehensive evaluations, interventions, detoxification, outpatient, intensive outpatient, residential, transitional housing, and opioid maintenance.

Exhibit 3 shows the flow of federal and state substance abuse prevention and treatment funds to SAPTA and on to other entities.

Distribution of Substance Abuse Treatment and Prevention Funds

Exhibit 3



Source: Auditor compilation of SAPTA literature.

In fiscal year 2011, SAPTA paid out over \$22.6 million in federal and state funds to organizations for substance abuse prevention, treatment, and administrative programs. Appendix A lists each of the organizations that received grant funds from SAPTA in fiscal year 2011 and the amount received. Exhibit 4 summarizes the grants SAPTA awarded by type of award.

**SAPTA Grant Payments by Type
Fiscal Year 2011**

Exhibit 4

Type of Award	Description	FY 2011 Amount Paid
Substance abuse prevention	Coalitions receive and provide funding to community-based direct service providers.	\$ 5,529,134
Substance abuse treatment	Private nonprofit treatment and government agencies receive funding to provide substance abuse treatment.	16,366,526
Administrative	Includes funding to a university-based entity to certify and train substance abuse providers and an entity to conduct peer reviews of treatment programs.	734,155
Total		\$22,629,815

Source: SAPTA records.

Subrecipients of federal and state funds provided by SAPTA (prevention coalitions and providers and treatment providers) must be certified by SAPTA to receive grant funding and are monitored for compliance with fiscal and program requirements of the subgrants. Oversight to ensure fiscal requirements are met is primarily achieved through independent audits of subrecipients and site visits performed by SAPTA fiscal staff. The site visits of subrecipients performed by SAPTA are called fiscal monitoring site visits. In addition, SAPTA program staff conduct program monitoring site visits of subrecipients to ensure subrecipients meet program requirements.

**Scope and
Objective**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's

oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of SAPTA's subrecipient oversight activities conducted in fiscal years 2010 and 2011, but included fiscal year 2012 and prior years in some instances. The objective of our audit was to evaluate whether SAPTA provided adequate fiscal oversight of subrecipients awarded federal and state grants for the prevention and treatment of substance abuse.

Subrecipient Audit Requirements Not Always Met

SAPTA needs to improve its oversight of subrecipients to ensure audit requirements are met. Independent audits are one of the primary means SAPTA uses to ensure subrecipients spend grant funds for their intended purposes. We found SAPTA accepted audit reports on subrecipients that did not include procedures to determine whether grant funds were spent in accordance with grant requirements. In addition, some reports were not submitted timely. Furthermore, SAPTA did not always verify subrecipients corrected problems noted in audit reports. In one instance, SAPTA continued to provide funds to a subrecipient despite no audit report submissions for 3 years. SAPTA subsequently cut off funding and notified federal and state authorities of their concerns the subrecipient misused grant funds. Due to the large amount of grant funds distributed by SAPTA (over \$46 million in fiscal years 2010 and 2011), ensuring audit requirements are met is critical to prevent, or detect early the misuse of grant funds.

Audit Reports Did Not Provide Assurance How Grant Funds Were Spent

SAPTA accepted audit reports on subrecipients that did not include procedures to give assurance how grant funds were spent. About one in four audit reports on subrecipients we reviewed did not test whether grant funds were used in accordance with grant requirements. By accepting audit reports on subrecipients that did not provide assurance that (1) grant funds were used for their intended purposes, and (2) the subrecipient complied with other grant requirements, SAPTA did not have information critical for providing oversight of subrecipients' grant expenditures.

We examined the last two years' audit reports on the 5 coalitions and 10 treatment providers that were awarded the most grant funds from SAPTA in fiscal years 2010 and 2011. Awards to the 15 subrecipients were nearly \$34 million in those years, which was 73% of the total grants awarded. Eight of 30 (27%) audit

reports did not examine whether grant funds were used for the grants' intended purposes or indicate compliance with other grant requirements.

In six of eight exceptions, SAPTA accepted audited financial statements from subrecipients. This type of audit does not include procedures to provide assurance how grant funds were used or test for compliance with other grant requirements. In the other two instances, SAPTA accepted limited scope audits that did not include procedures needed to provide assurance about grant compliance. For example, the limited scope audits did not review the subrecipient's internal controls over grant funds. SAPTA's subgrant agreements include audit reporting requirements and specify that failure to comply will result in disqualification of future funding and/or termination of current funding.

Audit Requirements in Subgrant Agreements

The audit reports did not provide assurance how grant funds were spent, in part, because SAPTA did not properly communicate to subrecipients the minimum requirements of limited scope audits. SAPTA's subgrant agreements require subrecipients have an annual audit by an independent auditor. When subrecipients spend less than \$500,000 of federal funds, SAPTA requires a limited scope audit on agreed-upon procedures. As a pass-through entity of federal grant funds, SAPTA is required to establish the agreed-upon procedures the independent auditor will perform and define compliance areas to test. However, SAPTA did not establish the agreed-upon procedures for independent auditors to perform until July 2011, and did not inform subrecipients of these new procedures until November 2011.

Another reason for the inappropriate audit reports is SAPTA did not ensure subrecipients submitted audit engagement letters required by the subgrant agreements. Specifically, SAPTA was unable to provide audit engagement letters for 13 of 15 entities we tested. Engagement letters identify the type of audit services and fees prior to the work being performed. Requiring subrecipients to submit audit engagement letters prior to the auditor commencing work and reviewing them timely reduces the risk that subrecipients

Untimely Audit Reports Hindered Oversight

will submit incorrect audit reports that do not provide assurance on grant compliance.

Audit reports of subrecipients were often not submitted timely to SAPTA, in accordance with federal and state requirements. By not ensuring subrecipients submit audit reports timely, SAPTA delays the detection of potential problems with subrecipients not using funds for their intended purposes. SAPTA needs to develop procedures to help ensure audit reports are submitted timely and specify actions to take when subrecipients do not comply.

Subrecipients submitted audit reports late in 16 of 30 (53%) audit reports tested. We examined the last two audit reports submitted by 15 subrecipients in our sample. Eight of the reports were received more than 60 days late, with the average of these being over 6 months late. Federal requirements (OMB Circular A-133) and SAPTA's agreements with its subrecipients require that audit reports be submitted within 9 months of the end of the subrecipient's year-end.

SAPTA took little action to follow up on late audit reports. In 11 of 16 instances of late reports, SAPTA did not follow up with the subrecipient after the audit report was late, or waited more than 30 days to contact them. Furthermore, SAPTA imposed sanctions on only one subrecipient, and only after the subrecipient did not submit audit reports for 3 consecutive years. The importance of timely audit reports is apparent by reviewing problems with this subrecipient, explained further below:

- The subrecipient did not provide required audit reports for 2006, 2007, and 2008 until May 2010. Although SAPTA requested the audits on numerous occasions, it did not impose sanctions on the subrecipient until March 2010, when funding was cut off. SAPTA subsequently notified federal and state authorities of its suspicion that the subrecipient intentionally misused or misappropriated federal and state funds so they could be investigated further. SAPTA paid the subrecipient about \$6.8 million in fiscal years 2006 through 2010, of which a significant amount was designated for and passed through to other subrecipients. Because the subrecipient spent more than \$500,000 in federal funds annually, it violated federal

requirements under OMB Circular A-133 in addition to requirements under the agreement with SAPTA.

Lack of Procedures Contributed to Untimely Reports

SAPTA does not have procedures defining specific action to take when subrecipients fail to submit required annual audits. Federal regulations provide for the imposition of sanctions in cases of continued inability or unwillingness to have an audit conducted in accordance with federal requirements, including:

- Withholding a percentage of federal awards until the audit is completed satisfactorily,
- Withholding or disallowing overhead costs,
- Suspending federal awards until the audit is conducted, or
- Terminating the federal award.

Furthermore, SAPTA did not establish procedures for notifying subrecipients of audit due dates until August 2011. The new procedures provide for periodic e-mail reminders of audit report due dates with additional e-mails as necessary when subrecipients' audits are late. However, the new procedures do not specify actions to take when subrecipients fail to submit audit reports.

Finally, SAPTA's process for tracking audit reports submitted was not adequate. When staff updates the tracking spreadsheet, the current submission information overwrites the prior submission dates. Consequently, SAPTA does not maintain history on audit report submission dates. Maintaining this historical information would enable SAPTA to more easily identify subrecipients that habitually submit audit reports late.

Corrective Action on Audit Findings Not Verified

SAPTA often did not verify that subrecipients took appropriate corrective action to remedy material weaknesses and other findings noted in subrecipients' audit reports. The usefulness of audit reports for fiscal oversight is diminished when SAPTA does not verify problems are corrected. SAPTA needs to develop audit report review procedures to ensure subrecipients take timely, appropriate corrective action on audit report findings.

For 9 of the 14 (64%) audit reports we tested that reported material weaknesses or other findings, the subrecipients did not comply with SAPTA's requirement to submit corrective action for audit findings. Further, SAPTA did not request the subrecipients provide documentation of corrective action for audit findings for seven of the nine reports.

Some examples of audit report findings in which SAPTA did not verify corrective action was taken include:

- Inadequate accounting records to indicate the expenditures applied to the grant,
- Inadequate bank account reconciliations, and
- Deficiencies with the reconciliation and retention of payroll records.

SAPTA's agreement requires subrecipients provide a copy of any corrective action resulting from discrepancies identified in audits within 10 days of the report's acceptance by the subrecipient's governing authority (e.g. Board of Directors). Furthermore, Section 3022 of the State Administrative Manual (SAM) requires state agencies awarding grant funds to ensure findings noted in audit reports are corrected.

Findings in audit reports are important for pointing out internal control weaknesses and financial vulnerabilities that need to be corrected. When SAPTA does not follow up with subrecipients to ensure corrective action has been taken, there is increased risk problems will not be corrected, thus putting grant funds at risk of not being used for intended purposes. For example, a 2008 audit report for a subrecipient had a finding that the accounting records needed improvement to indicate which grant that expenditures were being applied to. The audit finding was repeated in the subsequent audit report for 2009, which reported the subrecipient only partially implemented the recommendation. SAPTA commented on an internal document that the 2009 recommendation was not fully implemented, but did not request further information or corrective action from the subrecipient. In addition, SAPTA did not take action to ensure the subrecipient

took corrective action after the finding was repeated in the 2010 audit report.

SAPTA's procedures to verify corrective action for findings reported in subrecipient audit reports need improvement. SAPTA uses a form to route subrecipients' audit reports to key personnel for review and sign off. Management and staff use this form to document questions, concerns, and comments on the audit reports and findings. However, the form is not sufficient for documenting the status of audit findings or whether the subrecipient provided corrective action. Further, SAPTA has not developed audit report review procedures that address how to track whether subrecipients take timely, appropriate corrective action for audit findings.

Forged Audit Reports Were Not Detected

SAPTA did not detect that a subrecipient provided forged audit reports for several years. Forged limited scope audit reports were submitted to SAPTA for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, we contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. As required by NRS 218G.140(2), we reported this information to the Governor, each legislator, and the Attorney General. See Appendix B for a copy of the report.

Without authentic audit reports on a subrecipient, SAPTA cannot be assured that the subrecipient used grant funds for their intended purposes. Moreover, because audit reports were forged, there is significant risk that some grant funds were not spent appropriately. The subrecipient received over \$1.1 million from SAPTA during the 4 years it submitted forged reports. A portion of the payments were designated for and passed through to other subrecipients. Exhibit 5 shows the amount of payments to the subrecipient for each of the 4 years.

**Amounts Paid to Subrecipient
Fiscal Years 2007 through 2010**

Exhibit 5

Fiscal Year	Payments
2007	\$ 204,195
2008	305,290
2009	361,480
2010	292,299
Total	\$1,163,264

Source: State accounting system.

The payments SAPTA made to the subrecipient included reimbursements totaling \$8,800 for fees the subrecipient claimed were paid to a CPA firm for audits of fiscal years 2007 through 2010. The subrecipient has since reimbursed SAPTA the \$8,800. In addition, the subrecipient is working with an independent auditor to have limited scope audits performed for the past 4 years for submission to SAPTA.

The subrecipient's forged audit reports likely were not detected because SAPTA accepted photocopies of audit reports, instead of requiring originals. Furthermore, SAPTA did not require the subrecipients to provide documentation that their governing board approved the audit reports when presented by independent auditors.

**Not Ensuring
Subrecipients
of Coalitions
Submit Audit
Reports**

SAPTA did not ensure subrecipients of coalitions (prevention providers) complied with requirements to submit audit reports. Consequently, half of the prevention providers we tested either did not submit audit reports in fiscal year 2011 or submitted audits that did not include procedures to give assurance how grant funds were spent. Audits of prevention providers are important for coalitions to provide effective oversight of their subrecipients' grant expenditures. SAPTA expects coalitions to provide fiscal oversight of subrecipients, in much the same way SAPTA oversees coalitions. Coalitions passed through nearly \$2.5 million of SAPTA funds to about 50 prevention providers in fiscal year 2011. Therefore, SAPTA needs to ensure subrecipients of coalitions comply with requirements to submit appropriate, timely audit reports.

Subgrant agreements between coalitions and prevention providers have the same audit requirements that SAPTA has with its subrecipients. Prevention providers must submit a limited scope audit on agreed-upon procedures when they spend less than \$500,000 of federal funds annually. The audit must be performed by an independent, licensed CPA and be provided to the coalition within 9 months of the provider's year-end.

Of 36 audit reports we tested that prevention providers were required to submit to coalitions in fiscal year 2011, 18 (50%) were not properly performed, as noted below:

- In 5 instances, coalitions were unable to provide audit reports of prevention providers due in fiscal year 2011.
- In 12 instances, prevention providers had audits that did not include procedures needed to provide assurance on grant compliance. These reports were either audited financial statements of the prevention provider or unaudited financial statements (compilations or reviews).
- In one instance, the audit was not performed by a licensed CPA.

By not requiring prevention providers comply with audit requirements, coalitions do not receive information needed to provide effective fiscal oversight of prevention providers. Since SAPTA has delegated responsibility for monitoring prevention providers to coalitions, it is important coalitions obtain the proper audit reports from prevention providers and review them to detect problems early to reduce the risk grant funds are misused.

Several factors contributed to the problem with prevention providers not complying with audit requirements. We found SAPTA's subgrant agreements with coalitions do not require the coalitions to: (1) ensure that prevention providers that receive pass-through funds have the appropriate audit performed annually, and (2) verify prevention providers take corrective action on audit findings. In addition, coalitions need training to understand the importance of receiving the proper audit reports from prevention providers, and how to review them to detect problems early. SAPTA last provided comprehensive training to

coalitions in this area in 2008, and conducted refresher training in January 2010. Further, as mentioned previously, SAPTA did not properly communicate to subrecipients (coalitions, treatment and prevention providers) the minimum requirements of limited scope audits.

Recommendations

1. Incorporate the minimum requirements for limited scope audits into the subgrant agreements with subrecipients.
2. Develop procedures to help ensure audit reports that subrecipients submit meet requirements in the subgrant agreements, including actions to take when the requirements are not met.
3. Develop procedures to ensure subrecipients submit audit engagement letters timely to help ensure audit reports meet requirements.
4. Develop procedures to ensure subrecipients submit audit reports timely, including a process for imposing sanctions on subrecipients that do not comply.
5. Develop audit report review procedures to ensure subrecipients take timely, appropriate corrective action on findings noted in audit reports.
6. Revise procedures to ensure subrecipients submit original audit reports with documentation the subrecipients' governing boards approved the reports presented by independent auditors.
7. Review audit reports, once completed, on the subrecipient who submitted forged audit reports to determine if additional grant funds were misused and if so, determine what action to take, including obtaining repayment of misused funds.
8. Revise subgrant agreements with coalitions to include requirements for coalitions to ensure prevention providers submit the appropriate audit reports timely and for coalitions to verify audit findings are corrected.

9. Provide periodic training to coalitions to help ensure compliance with requirements to obtain and review audit reports of prevention providers and verify corrective action on audit findings.

Inadequate Fiscal Monitoring of Subrecipients

SAPTA's direct fiscal monitoring of subrecipients that received substance abuse prevention and treatment funds was inadequate. The agency established a grants oversight process that includes periodic visits to subrecipients to determine whether they comply with grant requirements, including verifying that federal and state grant funds are used for intended purposes. These fiscal monitoring visits, along with audits by independent auditors, are the primary means SAPTA uses to provide fiscal oversight of subrecipients. Problems with the fiscal monitoring process included untimely monitoring visits of subrecipients, not documenting steps performed on visits, and untimely follow-up on problems found at subrecipients.

Monitoring Visits Not Conducted Timely

SAPTA did not perform required fiscal monitoring site visits of subrecipients timely. Overall, 67% (10 of 15) of the coalitions and treatment providers we tested had untimely site visits. When fiscal monitoring site visits are untimely, there is increased risk that subrecipients will not use federal and state funds for their intended purposes and that fraud, waste, or abuse of funds could occur.

In accordance with OMB Circular A-133, SAPTA conducts fiscal monitoring activities to provide reasonable assurance that subrecipients properly oversee the federal funds that are passed through to coalitions and treatment providers. SAPTA's policy indicates fiscal monitoring site visits are important for determining whether subrecipients have financial management systems capable of meeting federal and state requirements. Further, SAPTA relies upon the fiscal monitoring site visits, along with audits by independent auditors, to provide assurance subrecipients comply with federal and state grant requirements.

SAPTA's policy requires staff conduct fiscal monitoring site visits of coalitions annually and treatment providers every 2 years. Subrecipients must participate in the fiscal monitoring process as a condition of funding. Of the 5 coalitions and 10 treatment providers that were awarded the most funding in fiscal years 2010 and 2011, we found:

- None of the five coalitions had timely fiscal monitoring site visits. Site visits were late from 6 months to over 3 years, and averaged 20 months past due.
- Half of the 10 treatment providers had untimely fiscal monitoring site visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly \$7.1 million in fiscal years 2010 and 2011. In another instance, SAPTA conducted a fiscal monitoring site visit 19 months late.

The problem of untimely fiscal monitoring was caused primarily by two factors. First, SAPTA did not use a risk-based approach for selecting subrecipients to monitor. SAM 3022 requires granting agencies to use a risk assessment to determine the extent of monitoring procedures performed for each subrecipient. Factors to consider include program complexity, amount funded, and experience with subrecipients (e.g. history of non-compliance). SAPTA's fiscal monitoring policy describes using a risk assessment for selecting programs to monitor. However, the policy was not followed. The second factor that contributed to untimely monitoring is that staff performed the same steps for all subrecipients, regardless of the risks associated with the entity.

Monitoring Procedures Not Properly Documented

Documentation of procedures performed on fiscal monitoring visits was not sufficient to verify that staff properly performed important steps during site visits. Two of five fiscal monitoring forms for coalitions, and four of nine for treatment providers had insufficient documentation to support conclusions the reviewer reached. In general, these fiscal monitoring forms showed affirmative responses to steps without explanation or reference to documentation. This included the fiscal monitoring form for the July 2009 site visit to the subrecipient that SAPTA stopped

funding in 2010 and subsequently referred to federal and state authorities due to concerns about misuse of grant funds.

Key steps on SAPTA's fiscal monitoring form that staff used for site visits of subrecipients included:

- Examining supporting documentation, such as invoices, contracts, and payroll reports, for a sample of expenditures the subrecipient claimed for reimbursement to verify funds were used for grant purposes.
- Reviewing internal control policies and procedures for proper segregation of duties over the receipt and expenditure of grant funds.
- Verifying a sample of SAPTA's payments to the subrecipient were deposited to the correct bank account.
- Verifying the subrecipient made timely payroll tax deposits.
- Determining the propriety of the subrecipient's method for allocating payroll costs to subgrants.

To properly perform the steps, staff needs to examine supporting documentation. For each step on the fiscal monitoring form, there are columns for staff to explain what was reviewed and enter comments. We noted some recent fiscal monitoring forms in our sample contained sufficient, appropriate documentation of steps performed. This included listing items selected for testing on spreadsheets and clearly documenting findings. In addition, staff put explanations on the fiscal monitoring form of the time period for transactions tested and identified the source documents reviewed. However, this type of documentation was not often available.

When monitoring steps are not properly documented, there is less assurance SAPTA's monitoring activities accomplish their objectives. Therefore, there is increased risk that subrecipients could misuse federal and state funds and go undetected. Furthermore, insufficient documentation of the steps performed on site visits makes it more difficult for SAPTA to demonstrate to the federal agency providing funds that it complied with grant requirements to oversee subrecipients. This could potentially put

SAPTA at risk of losing federal funds for substance abuse prevention and treatment.

Inadequate Fiscal Monitoring Procedures

The lack of documentation of monitoring activities performed was caused by inadequate written procedures. Although SAPTA revised its written procedures in 2011 to improve upon the previous fiscal monitoring policy, staff does not have clear guidance on how to properly document performance of monitoring steps. For example, staff needs guidelines for types of source documents to review, proper sample size, how to document test results, and performing proper follow-up on problems found during site visits.

Untimely Follow-Up on Problems Found

SAPTA did not always ensure subrecipients corrected problems noted during fiscal monitoring site visits timely. Three of the subrecipients' fiscal monitoring forms we tested reported problems that required follow-up. Follow-up to make sure the coalitions took timely, appropriate corrective action was insufficient in all cases. SAPTA delayed handling problems staff noted during site visits of these subrecipients for months to wait for them to respond to questions and provide information that should have been available during the site visit.

Allowing subrecipients extended time to answer questions and gather documents conflicts with subgrant requirements, as well as SAPTA's policy to report monitoring results promptly. SAPTA's agreement with its subrecipients requires them to retain accounting records and related original supporting documentation to substantiate all costs charged to their subgrants. Further, SAPTA gives subrecipients 30 days advance notice of the documentation they will need to provide for the fiscal monitoring site visit. SAPTA's policy is to conduct an exit interview at the end of a site visit to discuss fiscal monitoring results, problems, and any corrective action plans. The fiscal monitoring form indicates SAPTA will provide the fiscal monitoring report to the entity, with corrective action plans that impose deadlines on receiving information, within 20 working days of the site visit.

Examples of untimely follow-up on site visit problems include the following:

- Problems noted during an April 2011 site visit to a coalition included reimbursements that exceeded actual payroll costs, unsupported consulting and training fees, and unsupported expenses reimbursed to a prevention provider in the coalition. The exceptions totaled about \$65,000 out of a sample of about \$281,000 (23%). These and other problems (e.g. irregularities with travel claims) went unresolved after SAPTA made numerous requests for information. The coalition's responses to repeated requests failed to answer SAPTA's questions. SAPTA continued making payments to the coalition through September 2011. A second site visit in December 2011 was unsuccessful in resolving the questioned expenses. SAPTA then referred the matter to the Department Director's Office to determine the next course of action, including whether to require the subrecipient to repay SAPTA for unsupported costs.
- A coalition failed to provide support for reimbursements to two prevention providers that SAPTA requested in advance of the May 2011 site visit. In October 2011, we learned the fiscal monitoring report was still in draft form because SAPTA was waiting on documentation from the coalition. SAPTA issued the fiscal monitoring report to the coalition in December 2011, over 7 months after the site visit. The coalition eventually provided the documentation to SAPTA in February 2012.
- During a site visit to a coalition in June 2011, SAPTA learned the coalition had not performed the required annual fiscal monitoring site visit of one of its prevention providers. Staff completed the fiscal monitoring report timely in July 2011, but did not mention the unresolved requirement for the coalition to monitor a prevention provider. After our inquiry in October 2011, the coalition submitted documentation that it eventually performed the site visit.

The untimely follow-up on problems noted during monitoring visits was caused primarily by three factors:

- First, SAPTA did not follow its guidelines to issue fiscal monitoring reports with corrective action plans and recommendations, within 20 working days of the site visit. In some cases, when subrecipients did not have required

documentation for the site visit, instead of giving them corrective action plans for submitting the information according to specific timeframes, SAPTA held the monitor report open, thereby allowing subrecipients extended periods of time to provide the documents. Supervision of fiscal personnel was not sufficient to detect staff not following this policy.

- Second, staff has not been provided guidance for the length of time to allow subrecipients to provide missing documentation. This is not addressed in SAPTA's policies.
- Third, SAPTA does not have guidelines on when to impose special conditions or sanctions on subrecipients that fail to comply with fiscal requirements. Federal regulations provide for imposing special conditions; such as requiring more detailed financial reports, additional monitoring, or requiring the subrecipient to obtain technical assistance. Sanctions, mentioned previously, include suspending funds until corrective action is taken or terminating funding.

The problems described above demonstrate the need for SAPTA to follow-up timely on problems noted on fiscal monitoring visits, including imposing sanctions or special conditions to mitigate the risk of fraud, waste, or abuse of federal and state funds.

Not Ensuring Coalitions Properly Monitor Subrecipients

SAPTA did not ensure coalitions complied with requirements to monitor prevention providers. We examined fiscal monitoring reports of prevention providers that were prepared by the four largest coalitions and found 5 of 10 had insufficient documentation to support conclusions the coalition reached. In general, these monitoring forms showed affirmative responses to steps but insufficient documentation that key steps were properly performed.

Nearly \$2.5 million that SAPTA paid to coalitions in fiscal year 2011 was passed through to prevention providers. Without adequate oversight of prevention providers, there is increased risk the providers will not use federal and state funds for their intended purposes and that fraud, waste, or abuse could occur.

SAPTA delegated responsibility for fiscal monitoring activities of prevention providers to the coalitions that fund them. Subgrant agreements require coalitions to perform annual fiscal monitoring

site visits of each prevention provider in the coalition. SAPTA provided a fiscal monitoring form to coalitions which contains the same monitoring steps that SAPTA performs. However, SAPTA has not provided coalitions with guidance for properly documenting how they perform key fiscal monitoring steps. For example, coalitions need guidelines to help ensure proper source documents are examined, an appropriate number of transactions is tested, testing procedures are sufficiently documented, and timely follow-up is performed on problems noted during site visits.

In addition, SAPTA does not require coalitions track their fiscal monitoring activities or report on them. Therefore, except for inquiries during site visits of coalitions, SAPTA does not know the extent that coalitions comply with monitoring requirements, or which prevention providers had problems.

Recommendations

10. Develop and implement a risk-based approach to determine the nature, extent, and timing of fiscal monitoring activities performed on subrecipients.
11. Develop desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance of monitoring steps.
12. Provide greater supervisory oversight to ensure sufficient, timely follow-up of problems noted on fiscal monitoring reports in accordance with policy.
13. Revise written procedures over fiscal monitoring to provide clear guidance for the length of time to allow subrecipients to provide documentation and respond to questions.
14. Develop procedures to address subrecipients who fail to correct problems timely, including imposing sanctions or special conditions for high-risk subrecipients.
15. Modify written procedures to require coalitions submit reports on fiscal monitoring of prevention providers with corrective action plans and follow-up performed.

16. Develop procedures to guide coalitions performing fiscal monitoring activities, including how to document work performed and following up on problems found during site visits of prevention providers.

Appendix A

List of Subrecipients Receiving Grant Funds – FY 2010 and 2011

Entity		FY 2010 Amount	FY 2011 Amount
Treatment Programs			
1	WestCare Nevada, Inc.	\$ 3,531,949	\$ 3,548,246
2	Community Counseling Center - Las Vegas	1,422,323	1,340,599
3	Vitality Unlimited	1,373,396	1,231,411
4	Community Counseling Center - Carson City	1,146,569	1,247,600
5	Bristlecone Family Resources	1,033,315	1,093,097
6	New Frontier	1,024,335	1,063,300
7	Bridge Counseling Associates	729,855	893,649
8	Step 2	722,887	672,800
9	Nevada Treatment Center	624,500	595,800
10	Quest Counseling	578,320	550,210
11	Southern Nevada Health District	448,238	448,238
12	Ridge House	432,994	468,703
13	Family Counseling Service of Northern Nevada	420,249	408,135
14	Salvation Army - Las Vegas	405,124	461,727
15	Adelson Clinic	357,052	399,000
16	Sierra Recovery Center	321,732	339,214
17	Lyon Council on Alcohol and Other Drugs	280,440	252,480
18	Tahoe Youth & Family Services	250,000	202,625
19	HELP of Southern Nevada	216,755	198,900
20	China Spring Youth Camp	210,000	217,400
21	Las Vegas Indian Center	175,500	157,930
22	Family and Child Treatment	139,250	120,039
23	Northern Nevada H.O.P.E.S.	136,519	132,975
24	Frontier and Rural Health	111,254	83,093
25	Step 1, Inc.	104,060	94,500
26	Washoe County Sheriff's Office	97,262	93,100
27	Carson City Health & Human Services	37,430	51,755
Total Treatment Programs		\$16,331,308	\$16,366,526

Appendix A

List of Subrecipients Receiving Grant Funds – FY 2010 and 2011 (continued)

Entity		FY 2010 Amount	FY 2011 Amount
Prevention Programs			
1	Goshen Community Development Coalition	\$ 1,554,133	\$ 0
2	Luz Community Development Coalition	1,065,227	1,259,798
3	Join Together Northern Nevada	1,051,053	641,929
4	Healthy Communities Coalition of Lyon & Storey	523,274	893,123
5	Partnership Carson City	459,116	605,956
6	Nye Communities Coalition	362,086	467,076
7	Partners Allied for Community Excellence	355,790	365,080
8	Frontier Community Coalition	347,170	237,379
9	Partnership of Community Resources	346,529	218,243
10	Statewide Native American Coalition	323,337	233,653
11	Churchill Community Coalition	292,299	229,647
12	Department of Education	13,188	0
13	Nevada Statewide Coalition Partnership	0	318,669
14	Richard Steele Health and Wellness Center	(a)	15,000
15	Quannah McCall Elementary School	(a)	12,992
16	UNLV	(a)	12,500
17	Committed 100 Men Helping Boys	(a)	10,000
18	Clark County Department of Family Services	(a)	8,089
Total Prevention Programs		\$ 6,693,202	\$ 5,529,134
Administrative Programs			
1	CASAT ^(b) / UNR (provider certification)	\$ 537,142	\$ 641,896
2	AADAPTS ^(c) (peer review)	48,000	48,000
3	Crisis Call Center Hotline	44,376	44,259
Total Administrative Programs		\$ 629,518	\$ 734,155
Grand Total		\$23,654,028	\$22,629,815

Source: SAPTA records.

(a) Included in amount received by Goshen Community Development Coalition in FY 2010.

(b) Center for the Application of Substance Abuse Technology.

(c) Nevada Alliance for Addictive Disorders, Advocacy, Prevention and Treatment Services.

Appendix B

NRS 218G.140 Report

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

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PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD G. WILLIAMS, *Research Director* (775) 684-6825

December 7, 2011

Members of the Nevada State Legislature
Legislative Building
Carson City, Nevada 89701

This report is issued in accordance with NRS 218G.140(2) which requires the Legislative Auditor to report evidence of illegal transactions to the Governor, each Legislator, and the Attorney General.

The Substance Abuse Prevention and Treatment Agency (SAPTA), within the Division of Mental Health and Disability Services, Department of Health and Human Services, awards grants to substance abuse and treatment providers. The grant agreement requires the provider to have an annual audit. If the provider expends less than \$500,000 in federal funds, then it must have *Agreed Upon Procedures* conducted by an independent, licensed Certified Public Accountant (CPA). SAPTA also refers to these as Limited Scope Audits, which are intended to determine if a provider has properly accounted for and used grant funds in accordance with the grant. The provider must submit the Limited Scope Audit report to SAPTA and the cost of the audits is reimbursable under the grant.

During our audit, we found a provider, the Churchill Community Coalition (CCC), submitted forged Limited Scope Audit reports for fiscal years 2007, 2008, 2009, and 2010 to SAPTA. We contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm had not prepared the reports. For the forged reports submitted to SAPTA, CCC was paid a total of \$8,800. To date, CCC has repaid \$3,975 to SAPTA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

PVT:dww

cc: Governor Brian Sandoval
Attorney General Catherine Cortez Masto
Mike Willden, Director, Department of Health and Human Services

Appendix C

Audit Methodology

To gain an understanding of the Substance Abuse Prevention and Treatment Agency (SAPTA), we interviewed staff and reviewed statutes, regulations, policies, and procedures. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the agency. Furthermore, we documented and assessed SAPTA's internal controls over fiscal monitoring of subrecipients.

To determine whether SAPTA ensured that providers met audit requirements under OMB Circular A-133, and policies and procedures, we selected the last 2 years' audit reports on the 5 coalitions and 10 treatment providers that were awarded the most grant funds in fiscal years 2010 and 2011. We examined the audit reports to verify subrecipients submitted the appropriate audit reports timely, and to determine if SAPTA verified subrecipients took corrective action for material weaknesses and other audit findings reported by independent auditors.

When we determined a subrecipient submitted forged audit reports for 4 years, we held discussions with management and staff, interviewed personnel at the subrecipient's CPA firm, and reviewed documentation in SAPTA's subrecipient files. We also determined whether SAPTA reported this information to external parties specified in law or regulation and took timely and appropriate steps to respond.

To determine if SAPTA ensured subrecipients of coalitions submitted annual audit reports, we selected all 36 prevention providers of the four largest coalitions and tested if all required audits were submitted to coalitions in fiscal year 2011.

To determine whether SAPTA performed the required fiscal monitoring site visits of subrecipients, we selected all fiscal

monitoring reports completed in fiscal years 2010 and 2011 for the 5 coalitions and 10 treatment providers that were awarded the most grant funds. We reviewed the reports for timely site visits, sufficient documentation of monitoring steps, and follow-up to ensure problems were corrected timely.

To determine if SAPTA ensured coalitions complied with monitoring requirements, we randomly selected 10 fiscal monitoring reports of prevention providers prepared by the 4 largest coalitions and reviewed them for sufficient documentation to support the conclusions the coalitions reached.

Our audit work was conducted from March 2011 to January 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division of Mental Health and Developmental Services. On March 23, 2012, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D which begins on page 29.

Contributors to this report included:

Diana Giovannoni, CPA
Deputy Legislative Auditor

Richard A. Neil, CPA
Audit Supervisor

Jill Silva, CPA, CIA
Deputy Legislative Auditor

David Steele, CPA
Deputy Legislative Auditor

Appendix D

Response From Agency



STATE OF NEVADA
 DEPARTMENT OF HEALTH AND HUMAN SERVICES
 DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES
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 Carson City, Nevada 89706
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BRIAN SANDOVAL
Governor
 MICHAEL J. WILLDEN
Director

RICHARD WHITLEY
Acting Administrator
 JANE GRUNER
Deputy Administrator

April 02, 2012

Paul V. Townsend, CPA
 Legislative Auditor
 Legislative Counsel Bureau
 401 S. Carson Street
 Carson City, Nevada 89701-4747

Dear Mr. Townsend:

Below is the written statement of explanation to the audit report recommendations that you requested. The Division of Mental Health and Developmental Services (MHDS) and the Substance Abuse Prevention and Treatment Agency (SAPTA) accept the 16 recommendations to improve controls over the administration of fiscal monitoring and audits for subrecipients awarded grants for the prevention and treatment of substance abuse. Please find detailed responses to each recommendation below.

Recommendations:

1. Incorporate the minimum requirements for limited scope audits into the subgrant agreements with subrecipients.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

The Agency is in the process of revising the subgrant assurances that each subrecipient receives and will include specific language referring to Appendix G10 of the SAPTA Administrative Manual "Standard Procedures for a SAPTA-Required Agreed-Upon Procedures (Limited Scope) Audit." The SAPTA subgrant agreement requires that subgrantees comply with the policies and procedures of SAPTA, but a specific line has now been added to include the SAPTA Administrative Manual.

2. Develop procedures to help ensure audit reports that subrecipients submit meet requirements in the subgrant agreements, including actions to take when the requirements are not met.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA developed limited scope audit procedures in July 2011 as part of the Administrative Services Manual. The Agency will add procedures to withhold funding from subrecipients that do not meet the Appendix G10 of the SAPTA Administrative Manual requirements and deadlines established in the revised subgrant assurances.

3. Develop procedures to ensure subrecipients submit audit engagement letters timely to help ensure audit reports meet requirements.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will add procedures to withhold funding from subgrantees that do not meet the deadlines established in the revised assurances for submitting audit engagement letters. Other actions include:

- A tracking mechanism will be developed to ensure that engagement letters are received timely.
- If an engagement letter is not received timely the supervisor or appropriate designee will be notified.
- Action steps to be taken when audit engagement letters are not submitted timely.

4. Develop procedures to ensure subrecipients submit audit reports timely, including a process for imposing sanctions on subrecipients that do not comply.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will add procedures to withhold funding from subgrantees that do not meet the deadlines established in the revised assurances. Additional steps include:

- A monitoring tool will be improved and followed for tracking due dates;
- Historical data will be maintained on audit report submission dates;
- If an audit report is not received timely the supervisor or appropriate designee will be notified; and
- Procedures will specify actions to take when subrecipients fail to submit audit reports.

5. Develop audit report review procedures to ensure subrecipients take timely, appropriate corrective action on findings noted in audit reports.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA is developing more robust audit tracking reports that will include mandatory response times to any audit findings and require subgrantees to meet timelines for corrective action or have funding withheld. Non-compliance with timelines will result in immediate withholding of funding.

6. Revise procedures to ensure sub recipients submit original audit reports with documentation the subrecipients' governing boards approved the reports presented by independent auditors.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA is completing the final revisions to their subgrant assurances. The revisions include specific language requiring original copies of audit reports and a copy of Board minutes detailing the review and acceptance of audit findings. SAPTA has already sent a letter to subrecipients requiring original copies of audit reports and will request documentation that the subrecipient's governing Boards approve the reports presented by independent auditors.

7. Review audit reports, once completed, on the subrecipient who submitted forged audit reports to determine if additional grant funds were misused and if so, determine what action to take, including obtaining repayment of misused funds.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

The subrecipient reimbursed SAPTA for the forged audit reports and immediately engaged an independent auditor to perform an agreed-upon procedures report for the period from July 01, 2007, through June 30, 2011, in accordance with SAPTA requirements.

SAPTA received the Independent Accountant's Report on Applying Agreed-upon Procedures during its fiscal monitor of the subrecipient on March 28, 2012. The report from Kafoury, Armstrong & Co. covered the four-year period July 1, 2007, to June 30, 2011. SAPTA requested a corrective action plan from the subrecipient by April 06, 2012, due to findings noted in the audit. A decision to address further audit needs will be made once the corrective action plan is received and reviewed. Any expenses that cannot be justified will be required to be reimbursed to SAPTA.

8. Revise subgrant agreements with coalitions to include requirements for coalitions to ensure prevention providers submit the appropriate audit reports timely and for coalitions to verify audit findings are corrected.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

The Agency is in the process of revising the subgrant assurances that each subrecipient receives and will include specific language referring to Appendix G10 of the SAPTA Administrative Manual “Standard Procedures for a SAPTA-Required Agreed-Upon Procedures (Limited Scope) Audit.” The SAPTA subgrant agreement requires that subgrantees comply with the policies and procedures of SAPTA, but a specific line has now been added to include the SAPTA Administrative Manual. The SAPTA subgrant agreement requires that “Subgrantees are required to pass through these requirements to any subrecipients.” Other actions include:

- SAPTA will add procedures to track coalition compliance with timely audit follow up of their prevention providers.
- Non-compliance will result in immediate withholding of coalition and prevention provider funding.

9. Provide periodic training to coalitions to help ensure compliance with requirements to obtain and review audit reports of prevention providers and verify corrective action on audit findings.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will review its periodic fiscal training of coalitions and include additional training on audit requirements and on procedures for handling audit reports, conducting fiscal monitors, and complying with assurances.

10. Develop and implement a risk-based approach to determine the nature, extent, and timing of fiscal monitoring activities performed on subrecipients.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will implement a process to adopt a risk-based approach for selecting subrecipients to monitor. SAM 3022, Monitoring Subrecipients, will be used as one guidance tool. Factors to consider as recommended will include:

- Program complexity;

- Amount funded;
- Experience with subrecipients; and
- History of non-compliance.

11. Develop desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance of monitoring steps.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will develop desk procedures as recommended. Administrative manual guidelines will be updated and guidance on how to properly document performance of monitoring steps will be included. Steps will include at a minimum:

- Types of source documents to review;
- Proper sample size;
- How to document procedures performed and test results; and
- Performing proper follow-up on problems found during site visits.

12. Provide greater supervisory oversight to ensure sufficient, timely follow-up of problems noted on fiscal monitoring reports in accordance with policy.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA understands the importance of timely follow-up of problems noted on the fiscal monitor reports and will implement new procedures. This has been discussed with staff already, work performance standards reviewed, and steps are taking place to oversee and verify that sufficient, timely follow-up is being conducted. Written procedures for staff will be developed to ensure there is sufficient, timely follow-up of problems noted on fiscal monitoring reports. Regular reports of compliance will be submitted for increased supervisory oversight.

13. Revise written procedures over fiscal monitoring to provide clear guidance for the length of time to allow subrecipients to provide documentation and respond to questions.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will revise written procedures regarding fiscal monitoring. Clear written guidance for the length of time to allow subrecipients to provide documentation and respond to questions will be developed.

14. Develop procedures to address subrecipients who fail to correct problems timely, including imposing sanctions or special conditions for high-risk subrecipients.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

SAPTA will continue to develop and implement procedures and sanctions for subrecipients that fail to correct problems timely. The Agency has a draft policy in development that mirrors 45 CFR Part 92.12, Special grant or subgrant conditions for 'high-risk' grantees. An initial tracking process has already been developed to ensure timely follow-up for correction of problems.

- Procedures will be developed to ensure that corrections are submitted timely;
- A tracking spreadsheet will be developed to document and ensure follow-up on timely submission of corrections to problems identified in the fiscal monitors;
- Procedures will be written for imposing sanctions or special conditions on high-risk subrecipients who fail to correct problems timely; and
- SAPTA will be developing a specific list of items of non-compliance that will result in the IMMEDIATE withholding of funding until the non-compliance problem is cured. For example, the failure to submit an independent auditor's report by the due date or the failure to submit clear documentation of expenditures for which the subgrantee is seeking reimbursement.

15. Modify written procedures to require coalitions submit reports on fiscal monitoring of prevention providers with corrective action plans and follow-up performed.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

Written procedures will be modified to require the coalitions to submit fiscal monitoring reports of prevention providers to SAPTA. The subgrant assurances have already been modified to require coalitions to submit reports on fiscal monitoring of prevention providers to SAPTA, including the corrective action plans, and to document that follow-up is performed.

Written procedures will also be developed to guide SAPTA staff in their review of monitoring reports submitted by coalitions. Those procedures will include how to follow-up on the full resolution of findings included in the reports.

16. Develop procedures to guide coalitions performing fiscal monitoring activities, including how to document work performed and following up on problems found during site visits of prevention providers.

Response:

The Division of Mental Health and Developmental Services, SAPTA, accepts the recommendation.

7

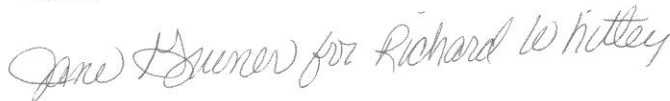
SAPTA will develop procedures to guide the coalitions in performing the fiscal monitoring activities. Additional guidance will be given on how to document work performed and how to follow up on problems found during their site visits. In early 2008, SAPTA provided coalitions with an extensive two-day training from Management Concepts Incorporated on subawards, monitoring, recordkeeping, accountability, etc. SAPTA is looking at providing a mandatory training refresher again for all the coalitions. Training will include:

- Development of guidelines to ensure proper source documents are examined;
- The appropriate number of transactions are tested;
- Sufficient documentation of testing and other procedures performed; and
- Need for timely follow-up on problems noted during the site visits.

SAPTA will also explore the option of funding coalition auditors to expand the scope of their work to include agreed upon procedure engagements on the coalition's subrecipients.

If any further information or detail is required, please do not hesitate to contact me.

Regards,



Richard Whitley, Acting Administrator
Mental Health and Developmental Services

Division of Mental Health and Developmental Services Substance Abuse Prevention and Treatment Agency's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Incorporate the minimum requirements for limited scope audits into the subgrant agreements with subrecipients.....	<u>X</u>	<u> </u>
2. Develop procedures to help ensure audit reports that subrecipients submit meet requirements in the subgrant agreements, including actions to take when the requirements are not met.	<u>X</u>	<u> </u>
3. Develop procedures to ensure subrecipients submit audit engagement letters timely to help ensure audit reports meet requirements.	<u>X</u>	<u> </u>
4. Develop procedures to ensure subrecipients submit audit reports timely, including a process for imposing sanctions on subrecipients that do not comply.	<u>X</u>	<u> </u>
5. Develop audit report review procedures to ensure subrecipients take timely, appropriate corrective action on findings noted in audit reports.....	<u>X</u>	<u> </u>
6. Revise procedures to ensure subrecipients submit original audit reports with documentation the subrecipients' governing boards approved the reports presented by independent auditors.....	<u>X</u>	<u> </u>
7. Review audit reports, once completed, on the subrecipient who submitted forged audit reports to determine if additional grant funds were misused and if so, determine what action to take, including obtaining repayment of misused funds.....	<u>X</u>	<u> </u>
8. Revise subgrant agreements with coalitions to include requirements for coalitions to ensure prevention providers submit the appropriate audit reports timely and for coalitions to verify audit findings are corrected.	<u>X</u>	<u> </u>
9. Provide periodic training to coalitions to help ensure compliance with requirements to obtain and review audit reports of prevention providers and verify corrective action on audit findings.	<u>X</u>	<u> </u>
10. Develop and implement a risk-based approach to determine the nature, extent, and timing of fiscal monitoring activities performed on subrecipients.	<u>X</u>	<u> </u>
11. Develop desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance of monitoring steps.	<u>X</u>	<u> </u>

Division of Mental Health and Developmental Services
 Substance Abuse Prevention and Treatment Agency's
 Response to Audit Recommendations
 (continued)

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
12. Provide greater supervisory oversight to ensure sufficient, timely follow-up of problems noted on fiscal monitoring reports in accordance with policy.	<u> X </u>	<u> </u>
13. Revise written procedures over fiscal monitoring to provide clear guidance for the length of time to allow subrecipients to provide documentation and respond to questions.....	<u> X </u>	<u> </u>
14. Develop procedures to address subrecipients who fail to correct problems timely, including imposing sanctions or special conditions for high-risk subrecipients.....	<u> X </u>	<u> </u>
15. Modify written procedures to require coalitions submit reports on fiscal monitoring of prevention providers with corrective action plans and follow-up performed.....	<u> X </u>	<u> </u>
16. Develop procedures to guide coalitions performing fiscal monitoring activities, including how to document work performed and following up on problems found during site visits of prevention providers..	<u> X </u>	<u> </u>
TOTALS	<u> 16 </u>	<u> 0 </u>