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We have completed an audit of the Division of Welfare and Supportive Services. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Division of Welfare and Supportive Services for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA
Legislative Auditor

May 4, 2007
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF WELFARE AND SUPPORTIVE SERVICES

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIVISION OF WELFARE AND SUPPORTIVE SERVICES

Background

The Welfare Division was created in 1937. During the 2005 Legislative Session, the Division was renamed the Division of Welfare and Supportive Services, a Division of the Department of Health and Human Services. The Division's mission is to provide quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency.

The Division has a central office in Carson City, and additional offices in 10 other cities and towns throughout the State. Programs administered by the Division include the following: Temporary Assistance for Needy Families (TANF), Food Stamps, Employment and Support Services, Child Support Enforcement, Child Care and Development, and Energy Assistance.

As of June 30, 2006, the Division had 1,247 authorized full-time equivalent positions. During fiscal year 2006, the Division's total revenue was \$394.3 million, including \$195.7 million recorded in the Child Support, Collection, and Distribution; Child Support Federal Reimbursement; and Universal Energy Charges pass through accounts.

Purpose

This audit included a review of the Division's Investigations and Recovery Unit, Child Care and Development Program, and certain personnel functions for the 18 months ending June 30, 2006. In addition, we reviewed some activities for the Child Care and Development Program through October 2006. The objectives of the audit were to assess: the Investigations and Recovery Unit's efforts to ensure the recovery and

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monitoring of identified benefit errors and overpayments; the Child Care and Development Program's monitoring of child care contractors; and the Division's compliance with certain personnel laws, rules, regulations, and guidelines.

Results in Brief

The Division of Welfare and Supportive Services could improve its identification and collection of overpayments of benefits. Timely identification and collection actions could result in increased collections and fewer write-offs of uncollectible overpayments. The Division's procedures include timeframes for completing investigations and taking collection actions, but not all Investigation and Recovery Unit offices consistently followed the procedures. In addition, the Division can improve its controls over reporting outstanding debt and writing off uncollectible debt.

The Division also needs to improve oversight of the Child Care and Development Program. During fiscal year 2006, the Program spent over \$41 million and served more than 3,900 families per month. Contractors were responsible for processing payments to the businesses that provided child care services to families. However, the Division could do more to ensure the Program's objectives are met and funds are used efficiently by strengthening its review of contractor expenditures.

Principal Findings

- The Division did not ensure investigations were completed timely. Division policy requires investigations be completed within 10 working days of being assigned to an investigator. Our review of 27 investigations found that 16 were not completed within 10 working days. Not meeting the 10 working

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day policy causes delays in the debt recovery process. (page 13)

- Benefit overpayments are not being calculated timely in all Division offices because different procedures were used by different offices. Division procedure requires benefit overpayments be calculated within 90 days after the calendar quarter in which the overpayment was discovered by Investigations and Recovery Unit staff. Our review of 10 investigations resulting in benefit overpayments at the Carson City and Reno offices found all overpayments were calculated within 90 days. Our review of 10 investigations from the Las Vegas office found 9 had been completed for more than 6 months and an overpayment had not been calculated. Delays in calculating overpayments reduces the probability of recovering the debt and increases the risk benefits may continue to be paid to a client not meeting program requirements. (page 13)
- The Division lacks comprehensive procedures for writing off uncollectible debt. This resulted in debt write-offs not receiving approvals from the appropriate level in Division management. In addition, the Division does not adequately prepare or retain monthly uncollectible debt reports. During fiscal year 2006, the Division wrote off nearly \$920,000 in uncollectible benefit overpayments. Improved procedures will provide the Division with greater assurance that debts are written off in compliance with Division policy and management receives accurate information on the amount of debt written off each year. (page 15)
- Although the Division reported individuals owe over \$7 million in benefit overpayments, the Division lacks adequate reports for monitoring these debts. The current Investigations and Recovery process for preparing the monthly caseload report has not been documented, is time consuming, and results in errors.

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In addition, the Division lacks reports on the age of debts. (page 18)

- The Division can improve oversight of child care contractors by ensuring adequate review of contractor expenditures. The Division uses contractors for certain administrative functions of the Child Care and Development Program. However, the Division's procedures do not include documented processes for reviewing and verifying the accuracy of the contractors' reported expenditures. In addition, the Division's internal audit function could work with management to develop audit steps for audits of child care contractors, including tests of expenditures. In April 2006, the Division terminated its contract with one child care contractor because the contractor's financial problems led to its inability to fulfill the terms of the contract. At the time the contract was terminated, the contractor owed the State \$53,000. The Division has since collected most of this amount through the State Controller's Office. (page 20)
- The Division's Program Review and Evaluation Unit provides important oversight to the Child Care and Development Program through quality control reviews. During fiscal year 2006, approximately 21% of the reviews required in Division policy were completed. This was caused by the Division redesigning the review program and management changing the duties of the employee assigned to complete child care quality control reviews. Of the 50 reviews completed, 11 (22%) had errors averaging over \$370 per error. The identification of errors through quality control reviews assists the Division in the identification and recovery of misused program funds. (page 22)
- The Division has made efforts to strengthen controls over some personnel functions through improved reporting and documentation. However, 21 of the 30 employees included in our review either had not

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received an evaluation during fiscal year 2006, or received their evaluation late. Although the Division's Personnel Unit prepares reminder reports for performance evaluations, the Division lacks procedures for holding supervisors accountable for evaluations. (page 24)

Recommendations

This report contains 12 recommendations to improve the Division's processes, including 8 recommendations to strengthen the Investigations and Recovery Unit's functions. In addition, we made three recommendations to help improve the Division's oversight of child care contractors and clients. Finally, we have included one recommendation to assist the Division in improving compliance with state personnel laws relating to employee performance evaluations and work performance standards. (page 33)

Agency Response

The Division, in response to our report, accepted the 12 recommendations. (page 29)

Introduction

Background

The Welfare Division was created in 1937. During the 2005 Legislative Session, the Division was renamed the Division of Welfare and Supportive Services, a Division of the Department of Health and Human Services. The Division's mission is to provide quality, timely, and temporary services enabling Nevada families, the disabled and elderly to achieve their highest levels of self-sufficiency.

Facilities and Organization of Division

The Division has a central office in Carson City, and additional offices in 10 other cities and towns throughout the State. As of June 30, 2006, the Division had 1,247 authorized full-time equivalent positions. The Division administers the following programs:

- **Temporary Assistance for Needy Families (TANF)**: provides time-limited assistance for the care of dependent children in their homes or in the homes of relatives, and furnishes financial, medical, and self-sufficiency services.
- **Food Stamps**: raises the nutritional level of low-income households where additional food is needed to eliminate hunger and malnutrition by providing debit cards for food purchases.
- **Employment and Support Services**: provides assistance to TANF participants and unemployed or underemployed non-custodial parents to move toward independence or self-sufficiency.
- **Child Support Enforcement**: serves to help strengthen families and reduce welfare dependency by ensuring parents support their children. State staff and county staff in the district attorneys' offices work in partnership to locate non-custodial parents, establish parentage, establish financial and medical support obligations, and enforce and distribute court ordered child support.
- **Child Care and Development**: provides child care subsidies to low-income families so they may obtain training and become employed.
- **Energy Assistance**: assists low-income Nevadans with the cost of home energy. Funding is provided from the Low Income Home Energy Assistance Program block grant through the U.S. Department of Health and Human Services, and from Universal Energy Charge monies distributed through the Nevada Fund for Energy Assistance and Conservation.

In addition, the Division is responsible for determining Medicaid eligibility. Medicaid programs include benefits to TANF-Related Medical Only, Child Health Assurance

Program, Medical Assistance for the Aged, Blind and Disabled, and Medicare Savings Programs.

Exhibit 1 shows the average number of households and the amount of benefits paid during fiscal year 2006.

Exhibit 1

**Benefits Paid
Fiscal Year 2006**

Program	Monthly Average		Total Benefits Paid
	Qualified Households	Benefits Paid	
Temporary Assistance for Needy Families	8,063	\$331	\$ 32,015,344
Food Stamps	54,450	\$191	\$124,486,526 ⁽¹⁾
Child Care and Development	3,915	\$593	\$ 27,812,610
Energy Assistance ⁽³⁾	17,446 ⁽²⁾	\$822 ⁽²⁾	\$ 14,338,264

Source: Agency records.

Note: Employment and Support Services and the Child Support Enforcement programs were not included in the table above due to the nature of these programs.

⁽¹⁾ Food stamp benefits are paid directly by the federal government and do not pass through the Division's budget accounts.

⁽²⁾ Energy assistance participants receive a one-time annual benefit, therefore, these numbers are for the entire fiscal year.

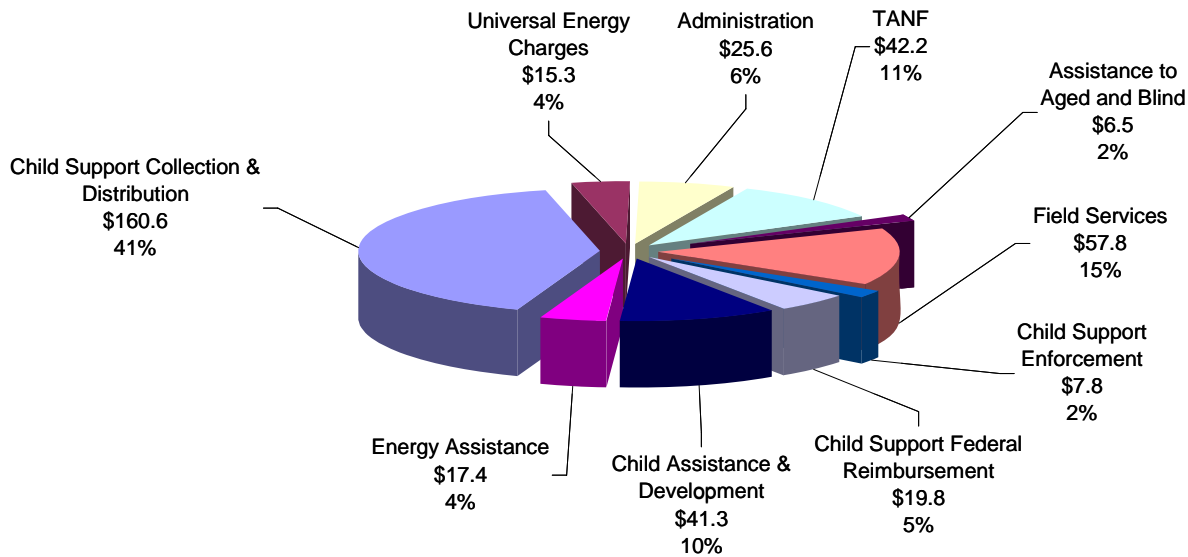
⁽³⁾ Energy assistance does not include arrearage payment information.

Expenditures and Funding

In fiscal year 2006, the Division's total revenue was \$394.3 million, including \$195.7 million recorded in the Child Support, Collection, and Distribution; Child Support Federal Reimbursement; and Universal Energy Charges pass through accounts. Exhibit 2 shows the Division's expenditures for each budget account in fiscal year 2006.

Exhibit 2

Expenditures (Millions) Fiscal Year 2006



Source: State Accounting System.

Scope and Objectives

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provision of NRS 218.737 to 218.893. 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 the Division's Investigations and Recovery Unit, Child Care and Development Program, and certain personnel functions for the 18 months ending June 30, 2006. In addition, we reviewed some activities for Child Care and Development Program through October 2006. The objectives of the audit were to assess:

- the Investigations and Recovery Unit's efforts to ensure the recovery and monitoring of identified benefit errors and overpayments,

- the Child Care and Development Program's monitoring of child care contractors, and
- the Division's compliance with certain personnel laws, rules, regulations, and guidelines.

Findings and Recommendations

The Division of Welfare and Supportive Services could improve its identification and collection of overpayments of benefits. Timely identification and collection actions could result in increased collections and fewer write-offs of uncollectible overpayments. The Division's procedures include timeframes for completing investigations and taking collection actions, but not all Investigations and Recovery Unit offices consistently followed the procedures. In addition, the Division can improve its controls over reporting outstanding debt and writing off uncollectible debt.

The Division also needs to improve oversight of the Child Care and Development Program. During fiscal year 2006, the Program spent over \$41 million and served more than 3,900 families per month. Contractors were responsible for processing payments to the businesses that provided child care services to families. However, the Division could do more to ensure the Program's objectives are met and funds are used efficiently by strengthening its review of contractor expenditures.

Better Oversight of Investigations and Recovery of Debt Needed

During fiscal year 2006, the Division wrote off nearly \$920,000 in uncollectible benefit overpayments. Benefit overpayments can occur when clients do not provide accurate information or do not timely report changes in circumstances to the Division. Although benefit overpayments may be difficult to collect, the Division's processes could be improved and procedures followed to provide greater assurance of the collection of debt. For example, the Division did not follow established procedures for the investigation, identification, and collection of overpayment debt. In addition, the Division does not effectively use management reports for monitoring the investigation and recovery function. Finally, the Division lacks comprehensive procedures for writing off uncollectible debt.

Efforts to Establish and Recover Debt Could Be Improved

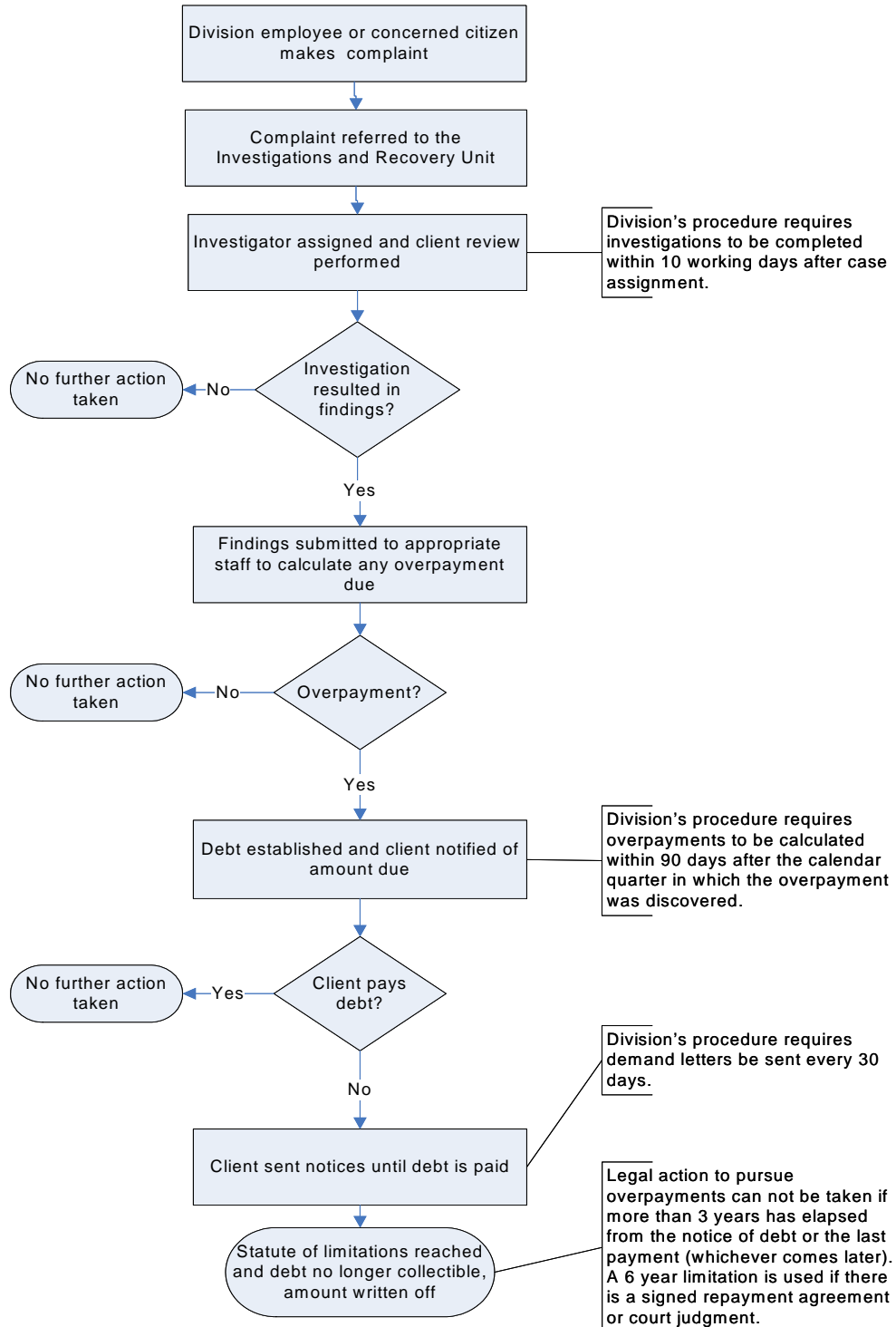
The Division could improve its collection of debt by consistently applying procedures in each of its Investigations and Recovery offices. As of June 30, 2006, the

Division reported having 9,025 ongoing debts totaling over \$7.3 million. During fiscal year 2006, the Division collected a total of \$690,000 in repayments and benefit reductions. Collections resulted from overpayments associated with Temporary Assistance for Needy Families, Food Stamps, Child Care, Energy Assistance, and other programs.

During fiscal year 2006, the Investigations and Recovery Unit had 53 positions in its Carson City, Reno, and Las Vegas offices. The Carson City and Reno offices are responsible for both the investigation of welfare fraud allegations and the recovery of incorrectly paid benefits. Las Vegas has two separate offices, one for investigations and the other for debt collection.

The Division has adopted procedures for the identification and recovery of benefit overpayments. Exhibit 3 shows the investigation and recovery process.

Investigation and Recovery Process



Source: Division of Welfare and Supportive Services policies and procedures.

Investigation Policy Not Followed

The Division did not ensure investigations were completed timely. Division policy requires investigations be completed within 10 working days of cases being assigned to an investigator. Division employees and concerned citizens provide referrals to the Investigations and Recovery Unit identifying potential fraud or misuse of benefits. Upon receipt of referrals, a unit supervisor is responsible for assigning the case to an investigator. To complete the investigation, an informal case plan is developed to consider pertinent information, including: eligibility and payments case files, school records, employment records, interviews with landlords and neighbors, and utility information.

Our review of 27 investigations found that only 11 were completed in compliance with the Division's 10 working day requirement. Of the 16 investigations not completed within Division policy, 12 were fewer than 30 days late. The remaining four were more than 30 days late, with one investigation taking over 10 months to complete. Although the Division's policy allows supervisors to grant exceptions, none of the cases we reviewed contained documentation of exceptions being granted. Not meeting the 10 working day policy results in the Division taking longer to begin the debt recovery process. In addition, Division resources are not available for investigating other potential benefit overpayment cases.

Delays Exist in Benefit Overpayment Calculation Processes

Benefit overpayments are not being calculated timely in all Division offices because different procedures are used by different offices. When an investigation finds benefits have been overpaid, the amount of the overpayment must be calculated. Division procedure requires Investigations and Recovery staff to calculate overpayments for cases not currently eligible for program benefits. In cases where participants are eligible for benefits, the clients' caseworkers are responsible for calculating overpayments.

Our review of overpayment calculations found different procedures were used by offices responsible for the calculation of benefit overpayments. Investigations and Recovery staff at the Carson City and Reno offices calculate all benefit overpayments. Of 10 investigations resulting in a benefit overpayment at these offices, all were

calculated within 90 days after the calendar quarter in which the overpayment was discovered as required by Division policy. The Las Vegas office refers all overpayment calculations to the caseworkers located in the Division's district offices. Sending files out of the Investigations and Recovery office for calculating overpayments caused a delay in the recovery process. We reviewed 10 investigations from the Las Vegas office; 9 had been completed for more than 6 months and an overpayment had not been calculated.

By not promptly calculating the overpayment, the client will not be notified of the amount due in a timely manner, and the probability of recovering the debt may be greatly reduced. The Division is also at risk of continuing to provide benefits to a client not meeting program requirements.

Collection Actions Not Always Timely

Investigations and Recovery offices have not consistently followed Division policies requiring action every 30 days on active debts and sending demand letters when debtors fail to make payments. Division policy requires Investigations and Recovery staff to routinely pursue recovery for debts. In addition, state guidelines recommend monthly billings be sent to assist in the collection of debt. For the period included in our review, the Division's policy required 30, 60, and 90 day notices be sent to debtors unresponsive to the initial notification of debt letter. In August 2006, Division management decided to reduce the number of delinquent notifications to one sent after 45 days if the client did not respond to the initial notification of debt letter. If the client does not respond within 45 days of the delinquent notice, additional steps may be taken, including filing a court order for wage garnishment or using a collection agency.

Our review of 40 debtors found 22 (55%) were not consistently mailed delinquency notices. Of the Investigations and Recovery offices, the Reno office was the most consistent in sending delinquency notices. Of the 10 debtors included in our sample from the Reno office, only 2 debtors were not consistently sent notices. Office staff attributed the use of the "future action" screen in the Division's computer system for helping ensure notices were sent. The screen reminds Investigations and Recovery staff of actions needing to be taken. The other offices did not actively use the screen as

a daily reminder. At the Carson City and Las Vegas offices, 20 of the 30 debtors we reviewed were not consistently sent delinquency notices.

These notices are important in moving the case forward to other collection efforts, such as court filings. Although the Division changed its policy to only sending 45 and 90 day notices, the inconsistent sending of notices was not in compliance with the new policy either. Without consistently sending payment notices, the Division's ability to collect unpaid debt is limited.

Some Debt Recovery Activities Lack Procedures

Although the Division has established policies and procedures for many of its debt recovery activities, the policies and procedures are not comprehensive. For example, the Division lacks adequate procedures to ensure debt write-offs are properly tracked and receive approval from an appropriate level of management. In addition, hardship waiver procedures lack steps to ensure consultation with the Investigations and Recovery Unit prior to being processed. Finally, procedures have not been coordinated between the Investigations and Recovery Unit and the State Collection and Distribution Unit for collecting debt resulting from non-sufficient funds checks.

Debt Write-Off Procedures Are Needed

During fiscal year 2006, the Division wrote off nearly \$920,000 in uncollectible debt for more than 800 debtors. Debts are written off for a variety of reasons, including inability to locate the debtor, the debtor claiming bankruptcy, or the age of the debt exceeding the statute of limitations. The statute of limitations is 3 years from the date of the debt notification or the last payment received. Although the Division has policies describing when debt should be written off, procedures do not exist describing the write-off process. Procedures should include the approval process, preparation and retention of debt write-off reports, and removal of debt from the Division's computer system. Improved procedures will provide the Division with greater assurance debt is written off in accordance with Division policy and management receives accurate information on the amount of debt written off each year. In addition, new personnel need guidance to ensure the write-off process is completed in compliance with Division policy. This is particularly important because the Division recently experienced high turnover in the supervisory positions responsible for approving debt write-offs.

Debt write-offs are not receiving approval from an appropriate level within the Division. Currently, Investigations and Recovery office supervisors write off debts. Debts written off are then listed in a monthly uncollectible debt report submitted to the Chief of Investigations and Recovery. With over 800 debtors and nearly \$920,000 in debt written off during fiscal year 2006, a higher level of approval should be obtained prior to these debts actually being written off in the computer system. Division management is not involved in the review of write-offs and may not be aware of the amount and number of debts that have been written off.

Our review of the debt write-off process found that monthly uncollectible debt reports were not adequately prepared or retained. Currently, Investigations and Recovery office supervisors e-mail reports of debts written off to the Chief of Investigations and Recovery. The format of these reports varies by office and is not compiled into a single Division report. The e-mails are saved on the Chief's computer hard drive. However, fiscal year 2006 reports were not readily available due to a computer malfunction and needed to be obtained from the individual office supervisors. In addition, reports sometimes included debts previously reported. Proper monitoring of debt write-offs should include the compilation and retention of monthly and yearly reports.

Improvements Needed in Hardship Waiver Process

The hardship waiver process is not adequately documented in the Division's policies and procedures. The policies explain the circumstances which may constitute a hardship, although the process for reviewing hardship requests is not documented. In addition, procedures do not exist for writing off debt in the Division's computer system, NOMADS, once a hardship waiver has been granted.

The Division's Administrator has the authority to grant hardship waivers to individuals demonstrating the inability to make restitution for benefit overpayments. Division policies and procedures state the following circumstances constitute an undue hardship:

- **Medical hardship which compromises the client's ability to repay the debt.**
- **Collection would jeopardize the client's ability to provide shelter/housing and other basic necessities for immediate family members (dependents).**

- **Gross income is less than 100% of the federal poverty income guidelines.**

According to Division policies, all requests for hardship waivers are submitted, in writing, to the Division's Administrator. The Administrator reviews these requests and makes a decision whether to approve or disapprove the waiver. Information is obtained through NOMADS to make this decision. During fiscal year 2006, two hardship waivers totaling over \$5,300 were granted.

Procedures do not include contacting the Investigations and Recovery Unit. By not consulting with the Investigations and Recovery Unit before a waiver is granted, the Administrator may not have all the information needed to make an informed decision. For instance, certain client information resulting from an investigation may not be included in NOMADS due to the confidential nature of the information. Therefore, using only documentation recorded in NOMADS to make a waiver decision may not give a complete picture of the debtor's history. During fiscal year 2006, one of the two hardship waivers was granted without consultation with the Investigations and Recovery Unit. For this case, the Unit had information that may have resulted in the Division Administrator not granting the hardship waiver.

Additional Procedures Needed for Non-Sufficient Funds Checks

Division management recently made the decision to have the Investigations and Recovery Unit work with the State Collection and Distribution Unit (SCaDU) in the collection of non-sufficient funds (NSF) checks. During fiscal year 2006, SCaDU received 380 NSF checks totaling nearly \$180,000. Of the 380 checks, SCaDU was able to recover \$143,000 for 298 of the checks. However, SCaDU staff did not have adequate procedures to address the remaining 82 checks. At the time of our review, the 82 outstanding checks had been held for at least 60 days. In addition, 28 of the outstanding checks had been held for at least 8 months.

In response to our audit, the Division developed procedures for processing NSF checks. The new procedures require SCaDU staff to turn outstanding NSF checks over to the Investigations and Recovery Unit after 60 days. Although SCaDU has adopted procedures to address outstanding checks, the Investigations and Recovery Unit has not yet developed procedures for processing checks received from SCaDU.

Procedures will assist Investigations and Recovery in avoiding any duplication of collection activities already taken by SCaDU for NSF checks.

Better Reporting of Investigations and Recovery Activities Needed

Even though the Division reported individuals owe over \$7 million in benefit overpayments, the Division lacks adequate reports for monitoring these debts. For example, the current process for compiling the monthly Investigations and Recovery caseload report has not been documented, is prone to errors and inconsistencies, and is time consuming. In addition, the current report used by the Division lacks detail on the age of debts. Management reports have the potential to provide valuable information for determining program effectiveness and making resource decisions. Information used to make management decisions should be reliable and accurate.

Each month, the Chief of the Investigations and Recovery Unit compiles a caseload report showing information on the Unit's activities for the current fiscal year. The process of compiling this report has not been documented to ensure consistent and accurate information is included in the report. During our review of the reports for October 2005 and March 2006, we noted several errors. For example, we found the total debts and the total value of debts included duplicate information. As a result, the number of debtors and the amount of outstanding debt was overstated in reports.

The report is also time consuming to create. The Chief reported it takes up to 1½ weeks each month to compile the necessary data for the report. When so much of the Chief's time is spent preparing this report, other Investigations and Recovery activities may be neglected. Time saved in the creation of the caseload report could be used to address other areas needing improvement in the Investigations and Recovery Unit. The caseload report should be reviewed with Division management to identify the most important information. In addition, documenting procedures for the report may increase the efficiency of the process.

The State Administrative Manual encourages agencies to monitor the age of debt. The caseload report does not contain information on the age of debt. Division management reported having the capability to create an ad hoc report from NOMADS. However, reports of this nature should be created on a regular basis and reviewed by appropriate agency management.

Recommendations

1. Monitor timeliness of investigations and debt calculations to ensure compliance with Division policies and procedures.
2. Evaluate the process of gathering information needed to calculate an overpayment and establish procedures to ensure debt is promptly calculated and clients are notified in a timely manner.
3. Use the NOMADS tracking screen to help ensure Division policies and procedures over debt collections are consistently applied at each Investigations and Recovery office.
4. Develop written procedures over the process of writing off uncollectible debt.
5. Review and document procedures for the Division Administrator's granting of hardship waivers. Procedures should include:
 - a. gathering pertinent information from the Investigations and Recovery Unit; and
 - b. completing the write-off of debt in NOMADS.
6. Develop procedures for the Investigations and Recovery Unit's collection of NSF checks from the State Collection and Distribution Unit. Ensure procedures do not duplicate efforts already completed by the State Collection and Distribution Unit.
7. Review the monthly Investigations and Recovery caseload report to identify the most useful information. Based on the review, develop procedures for preparing the report and ensure supporting documentation is complete, accurate, and retained for future reference.
8. Ensure Investigations and Recovery debt reports contain reliable information and include the age of debts owed.

Improvements Needed for Child Care and Development Program

Although the Division has implemented processes to help ensure child care funds are used appropriately, more can be done to provide greater assurance that the objectives of the Program are met and funds are used as intended. The Division can improve its oversight of the Child Care and Development Program through improved policies and procedures, greater use of its internal audit function, and increased priority of quality control reviews.

The Division's Child Care and Development Program is designed to assist Nevada's low-income families as they become employed and exit or avoid the welfare system. During fiscal year 2006, this Program served an average of nearly 6,500 children and more than 3,900 families per month and had total expenditures over \$41 million. For much of fiscal year 2006, three contractors were used for certain administrative functions of the Program: the Children's Cabinet in northern Nevada, the Economic Opportunity Board Community Action Partnership (EOB) in southern Nevada, and the United Way of Southern Nevada. These contractors were responsible for processing payments to businesses that provide child care services to families.

Contractor Oversight Could Be Improved

The Division can improve oversight of child care contractors by ensuring adequate review of contractor expenditures. During fiscal year 2006, EOB was unable to meet the terms of its contract. This required the Division to use other means to continue the Child Care and Development Program in southern Nevada. Although the Division addressed these concerns, more can be done to strengthen controls over the Program and reduce the likelihood of a similar situation happening with other child care contractors.

Cash Reconciliation Policies and Procedures

Each month, the Division provides cash advances to child care contractors for a portion of the anticipated expenses for the current month. At the conclusion of each month, child care contractors submit cash reconciliations reporting actual expenditures. During fiscal year 2006, the Division processed cash reconciliations totaling \$36 million without a documented process in place to provide reasonable assurance reconciliations were properly reviewed and approved. Without procedures, the Division lacks

assurance Program resources have been used in accordance with Program requirements.

The cash reconciliation review and approval process relies on the efforts of both the Child Care and Development Unit and the Finance and Accounting Section. Child Care staff are responsible for receiving and reviewing the monthly cash reconciliations from the contractors. Although the Unit has procedures in place for the administration of the Child Care and Development Program, these procedures do not include documented procedures for reviewing and verifying the accuracy of the contractor's cash reconciliations.

After child care staff review, cash reconciliations are forwarded to the Finance and Accounting Section for recording and preparing the next month's advance. During fiscal year 2006, procedures consisted of an e-mail outlining what needed to be done. In response to our inquiries, the Division drafted steps for the Finance and Accounting Section to complete its processing responsibilities.

Documented procedures are important to ensure reviews are consistently completed for all child care contractors. In addition, when turnover in key positions occurs, procedures help agencies carry out controls as designed. During August and September of 2006, two Finance and Accounting Section employees in key positions left employment with the Division.

Better Use of Internal Audit Function Needed

The Division's internal audit function could help provide reasonable assurance child care funds are properly used. Internal audit staff reported attempting to audit each child care contractor every other year. However, for the past several years, audits of the contractors have not been conducted in accordance with this schedule. In addition, prior audits have not included steps for verifying contractor reported expenditures. In the past, audits have focused on comparing the records of child care providers with information submitted to contractors for payments.

We contacted five other states to identify potential best practices for conducting audits of child care contractors. Two of the states we contacted, Pennsylvania and Colorado, included expenditure testing as part of their child care contractor audits. Pennsylvania provides guidance on audit procedures to trace reported expenditures to

supporting documentation to ensure the validity of the expenditures. Internal audit could work with Division management to develop audit steps for audits of child care contractors including tests of expenditures.

Child Care Contractor Failed to Meet Terms of Contract

Weaknesses in the child care contractor review and approval process limited the Division's ability to effectively monitor contractors. At the end of fiscal year 2005, the Economic Opportunity Board (EOB) owed the Division \$550,000 because it had spent funds provided by the Division for child care on other programs. To collect this debt, the Division reduced EOB's monthly reimbursements during fiscal year 2006. However, the Division terminated the contract in April 2006, because financial problems resulted in EOB's inability to fulfill the terms of the contract. Upon the termination of the contract with EOB, a balance of \$53,000 was due the State. The Division has since collected most of this amount through the State Controller's Office.

To address the need for a contractor in southern Nevada, the Division entered into a temporary agreement with Clark County to manage the Program. After several months, the Division was unable to find a suitable replacement for EOB. Therefore, the Division entered into an inter-local agreement with the University of Nevada, Las Vegas to provide for employment of childcare employees in the southern Nevada area. The Division hopes to create a stable workforce by providing a benefit package to the employees as University employees. In addition, Division management indicated they will review the Program over the next 2 years to determine if all Program activities should be administered and managed directly by the Division.

Child Care Quality Control Reviews Vital to Oversight

The Division's Program Review and Evaluation Unit provides important oversight to the Child Care and Development Program through quality control reviews. Because child care reviews were not required by federal regulations during fiscal year 2006, the reviews did not receive the same priority as other programs reviewed by the Unit. Program Review and Evaluation policies call for 240 child care reviews to be completed each year. This is subject to change based on staff availability, other assigned duties, and at the discretion of the Chief of Program Review and Evaluation.

During fiscal year 2006, a total of 62 child care quality control reviews were completed. Of the 62 child care clients selected for review, 12 clients were dropped because of failure to cooperate on the part of the client or employer. Therefore, only 50 reviews were completed, approximately 21% of the total required by Division policy during the fiscal year. Of the 50 reviews completed, 11 (22%) had errors averaging over \$370 per error. The identification of errors through quality control reviews assists the Division in the identification and recovery of misused program funds. In addition, the reviews serve as a deterrent to intentional misuse of services.

Program Review and Evaluation staff reported the low number of reviews completed was primarily caused by redesigning the review program and Division management's decision to change the duties of the employee assigned to complete child care quality control reviews. For a portion of fiscal year 2006, the employee spent 75% of her time working in an administrative function for the Child Care and Development Program, and only 25% of her time actually completing reviews. The Chief of Program Review and Evaluation reported that, starting in fiscal year 2007, 100% of the employee's time is allocated to completing child care reviews.

The decision to limit the number of child care reviews during fiscal year 2006 was not documented. The number of child care reviews is a management decision; therefore, any deviations from Division policy should be documented and approved by management.

Recommendations

9. Develop control procedures for the Child Care and Development Unit and the Finance and Accounting Section for the review and approval of contractor cash reconciliations.
10. Develop procedures to guide the Division's internal auditors in conducting audits of child care contractors. Procedures should include the frequency of audits and detailed steps for reviewing financial transactions.

11. Ensure an adequate number of child care quality reviews are completed and document decisions concerning the number of child care reviews to be completed.

Controls Over Certain Personnel Functions Can Be Improved

The Division has made efforts to strengthen controls over some personnel functions through improved reporting and documentation. However, additional efforts are needed to provide greater assurance of compliance with state laws and guidelines. For example, the Division has implemented a database for tracking employee performance evaluations. However, we noted most evaluations were either not completed or were not completed timely, and some work performance standards were missing or inaccurate.

Specifically, 21 of 30 employees included in our sample either did not receive an evaluation or received a late evaluation during fiscal year 2006. For these 30 employees, 21 annual and 15 probationary evaluations should have been completed. Exhibit 4 provides detail on the evaluations tested by budget account.

Exhibit 4

Evaluations Tested By Budget Account

Account Title	Employees Tested	Evaluations Required ⁽¹⁾	Completed Timely	Not Completed	Not Timely	Untimely Evaluations	
						Less than one month late	30 to 100 days late
Field Services	15	16	5	4	7	4	3
Administration	7	8	3	2	3	2	1
Child Support	6	8	2	3	3	1	2
Child Assistance	1	3	1	2	0	0	0
Energy Assistance	1	1	0	1	0	0	0
Totals	30	36	11	12	13	7	6

Source: Auditor review of Division records.

⁽¹⁾ Includes probationary and annual evaluations.

Additionally, 4 of 30 employees did not have work performance standards or their performance standards were inaccurate. One employee's work performance standards were dated March 1996. Two employees had been in their positions for 4 months before receiving work performance standards. The fourth employee had been in her position for more than a year with no work performance standards.

NRS 284.340 requires evaluations of probationary and permanent employees. To ensure this requirement is met, the Division's Personnel Unit prepares 30, 60, and 90 day reminder reports for supervisors listing evaluations coming due. NRS 284.335 requires agencies to establish standards of work performance for each class of position and to provide each of its employees with a copy of the standards for his position. In addition, NAC 284.468 requires work performance standards be reviewed annually and amended when appropriate.

Although the Division's Personnel Unit prepares reminder reports for performance evaluations, the Division lacks procedures for holding supervisors accountable for evaluations. There is also a lack of follow-up to ensure employees receive copies of their position's current work performance standards. Division management plays an important role in making evaluations and performance standards a priority and holding supervisors accountable.

Recommendation

12. Develop procedures to follow up and report supervisor non-compliance with requirements to complete evaluations and update work performance standards.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Division of Welfare and Supportive Services, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Division's operations. We also reviewed the Division's financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division.

To further our understanding of the Division's operations, we reviewed the following Division units in greater detail: Investigations and Recovery Unit, Child Care and Development Program, State Collection and Disbursement Unit, Employment Support Services, and Information Services. We reviewed and identified relevant internal controls and assessed the adequacy of the control design.

To assess the Division's efforts to ensure the recovery of identified benefit errors and overpayments, we inquired on the existence of managerial reports including reports identifying the total number of debts, amount of debt owed, and the age of these debts.

To determine if benefit overpayments resulting from an investigation were calculated and pursued in a timely manner, we judgmentally selected 27 investigation files from Investigations and Recovery offices. Our sample included investigations completed during the 18 months ended June 30, 2006. In addition, we ensured our sample included at least 20 cases requiring the calculation of a benefit overpayment. We conducted tests to determine if Division policies and procedures were followed for completing an investigation, calculating the debt, and notifying the debtor within a timely manner. We then determined if debts were properly tracked and collected by judgmentally selecting 20 debtors listed on the Division's monthly payment report and tracing the balance and amount collected to supporting documentation. Debtors were selected from individuals who made a payment in March 2006. In addition, we included payments for food stamps, TANF, Medicaid, energy assistance, and child care. Next, we judgmentally selected 20 debtor files and traced the balance and amount collected

from supporting documentation to the Division's information system, NOMADS. This sample only included individuals who had made at least one payment on their debt. All 40 debtors were then reviewed to determine if collection letters were sent timely and consistently, delinquent amounts were pursued, debt write-offs complied with state law, and any penalties and interest were properly assessed. From these 40 debtors' files, we randomly selected 20 payments and determined if deposits were made in accordance with Nevada law.

Additionally, we calculated the total amount of debt written off during fiscal year 2006 and reviewed hardship waivers to determine if Division policies and procedures were followed and amounts were appropriately waived. We also determined the accuracy of the Investigations and Recovery caseload report by judgmentally selecting specific caseload amounts from two monthly reports in fiscal year 2006 and tracing the amount reported to supporting documentation. Caseload amounts were selected for verification based on availability of supporting documentation and areas significant to our audit objectives. Furthermore, we determined the adequacy of the State Collection and Disbursement Unit's (SCaDU) procedures for collecting non-sufficient funds checks, by judgmentally selecting 10 returned checks and analyzing SCaDU's collection efforts. Returned checks were selected with an emphasis on the second half of fiscal year 2006.

To assess the Division's efforts to ensure the Child Care and Development Unit has developed adequate procedures to monitor contractors, we documented the current procedures directing Division staff on the process of payments to child care contractors. We randomly selected 5 months and reviewed cash reconciliations for each child care contractor to determine compliance with Division policies. We also reviewed the Division's methodology and plan for collecting overpayments to contractors and Division efforts to prevent future overpayments. In addition, we determined the effectiveness of the Division's internal audit reviews of child care contractors, including using best practices in other states for guidance.

Next, we documented and compared the results of the Division's child care quality control reviews. We calculated and compared the error rate by contractor for the 18 months ending June 30, 2006. We also compared error rates of child care recipients

with food stamp error rates. Additionally, we randomly selected 10 cases where errors were identified and verified recovery efforts have been made using Investigations and Recovery.

Furthermore, we randomly selected 30 employee files to determine Division compliance with pertinent state and federal laws, rules, regulations, and guidelines for personnel. We determined if work performance standards were established, performance evaluations were received, and overtime agreements were prepared. We also determined whether compensatory time balances were within statutorily defined limits. Additionally, we determined if supervisors had received performance evaluation training in accordance with Nevada law.

Our audit work was conducted from February to December 2006 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Health and Human Services and the Administrator of the Division of Welfare and Supportive Services. On April 23, 2007, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 29.

Contributors to this report included:

Shawn Heusser
Deputy Legislative Auditor

Jane Bailey
Audit Supervisor

Tammy A. Goetze, CPA
Deputy Legislative Auditor

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Chief Deputy Legislative Auditor

Appendix B

Response From the Division of Welfare and Supportive Services



JIM GIBBONS
Governor

STATE OF NEVADA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF WELFARE AND SUPPORTIVE SERVICES
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MICHAEL J. WILLDEN
Director
NANCY KATHRYN FORD
Administrator

April 30, 2007

Paul Townsend, C.P.A.
Legislative Counsel Bureau, Audit Division
401 South Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

The Division of Welfare and Supportive Services (DWSS) has reviewed the recommendations from the Legislative Audit of the DWSS and concurs with your findings. The recommendations and the Division's responses follow:

Recommendation 1:

Monitor timeliness of investigations and debt calculations to ensure compliance with Division policies and procedures.

Response:

The Division is in the process of reviewing unit business practices to advance the quality of the investigative product and ensure full policy adherence. This objective could be aided if the Division obtains Legislative approval of funding for an Investigations and Review (I&R) Case Management System. The Division is confident through use of this new system pending investigations can be easily monitored and the supervisor can be alerted when the case has exceeded the expected time limit. Until the system is realized, spreadsheets will be developed and employed to monitor timeliness.

The Division is in the process of reviewing current policy which requires the ongoing case manager to calculate debts for open cases and an I&R worker to calculate debt for closed cases. I & R continually struggles with timely debt calculation due to the small number of assigned staff (five) devoted to this activity. Currently there are approximately 7,000 allegations of potential over-issuances awaiting overpayment calculation. To cure this concern the Division is considering returning overpayment calculation responsibilities back to District Office staff to maximize resource availability for timely completion of this business responsibility.

Recommendation 2:

Evaluate the process of gathering information needed to calculate an overpayment and establish procedures to ensure debt is promptly calculated and clients are notified in a timely manner.

Response:

The Division is evaluating the difficult and time consuming process of gathering information from all available sources to calculate an overpayment as required by Federal regulations. The Division

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anticipates the creation of an I&R Case Management System that will support our efforts in addressing debt calculation in a more timely fashion. Debtors are consistently notified of an overpayment the same date the debt is established. An I&R Case Management System will allow for the automatic generation of recovery notices and a future action system to alert workers of the next required action.

Recommendation 3:

Use the NOMADS tracking screen to help ensure Division policies and procedures over debt collections are consistently applied at each Investigations and Recovery office.

Response:

All I&R offices *consistently* use the tracking system for recovery actions. However, each office has a different business operation in place for its use. The Division is in the process of implementing uniform statewide procedures that will require the Supervisor to pull the actions and distribute them to the recovery specialists; thus permitting closer supervisory scrutiny. The Division expects that the I&R Case Management System will be instrumental in assisting the supervisor in monitoring and tracking recovery actions to a more timely conclusion.

Recommendation 4:

Develop written procedures for the process of writing off uncollectible debt.

Response:

The Division is in the process of developing step by step procedures to address the write off of Divisional debt. The I&R Case Management System will allow this process to be automated and present reports of the actions.

Recommendation 5:

Review and document procedures for the Division Administrator's granting of hardship waivers.

Response:

The Division's administrative office is in the process of documenting procedures regarding hardship waivers in conjunction with the I & R unit. Procedures will include the review process through the completion of writing off the debt in NOMADS.

Recommendation 6:

Develop procedures for the Investigation and Recovery Unit's collection of NSF checks referred from the State Collection and Distribution Unit (SCaDU) ensuring procedures do not duplicate those already completed by SCaDU.

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Response:

Recovery of NSF checks are now processed consistent with all other debt recovery actions. The I&R Case Management System will accommodate referrals from SCaDU for process by recovery personnel. Procedures will be revised to reflect additional processes.

Recommendation 7:

Review the monthly Investigations and Recovery caseload report for most useful information and develop procedures for preparing the report to ensure supporting documentation is complete, accurate and retained for future reference.

Response:

The Division has submitted work items to Information Technology staff to address the inaccuracy of certain reports generated by the NOMADS system. If approved, the I&R Case Management System will retire this business concern by allowing for data input, case tracking and informational reporting of all I & R actions.

Recommendation 8:

Ensure Investigations and Recovery debt reports contain reliable information and include the age of debts owed.

Response:

The Division anticipates that the I&R Case Management System will age debt as it flows through the system and produce regular reports. Until the system is developed, the Division has the ability to produce ad-hoc reports to assist the recovery specialist in timely collection actions.

Recommendation 9:

Develop control procedures for the Child Care and Development Unit and the Finance and Accounting Section for the review and approval of contractor cash reconciliations.

Response:

Division staff in Child Care and Accounting will meet to develop step by step procedures for review and approval of contractor cash reconciliations, including expenditure validity and any pertinent backup documentation. This will ensure reconciliations are correct before processing by the Accounting Section.

Recommendation 10:

Develop procedures to guide the Division's Internal Auditors in conducting audits of child care contractors including the frequency of audits and detailed steps for reviewing financial transactions.

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Response:

Division staff is in the process of revising current program review procedures to include the frequency of the audits, as well as the review process of financial transactions and expenditure testing of the child care contractors.

Recommendation 11:

Ensure an adequate number of child care quality reviews are completed and document decisions concerning the number of reviews to be completed.

Response:

The Division is in the process of developing procedures to ensure an adequate number of child care quality reviews are completed and decisions are documented. The Division anticipates the new Child Care Eligibility System will include mechanisms to ensure statistically valid monthly sampling. Future adjustments to Child Care sampling will be documented to all concerned parties and tracked accordingly.

Recommendation 12:

Develop procedures to follow up and report supervisor non-compliance with requirements to complete evaluations and update work performance standards.

Response:

Division Personnel staff is in the process of revising current policy and developing a check list and evaluation due report to better track past due appraisals and standards.

The Division would like to extend our thanks and appreciation for the professional manner in which your staff conducted the audit. Please let me know if you have any additional questions or concerns regarding our response.

Sincerely,



Nancy Kathryn Ford
Administrator

cc: Roger Mowbray, Deputy Administrator, Administrative Services
Gary Stagliano, Deputy Administrator, Program and Field Operations
Jeanne Gregg, DWSS Internal Auditor

Division of Welfare and Supportive Services Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Monitor timeliness of investigations and debt calculations to ensure compliance with Division policies and procedures	<u> X </u>	<u> </u>
2	Evaluate the process of gathering information needed to calculate an overpayment and establish procedures to ensure debt is promptly calculated and clients are notified in a timely manner	<u> X </u>	<u> </u>
3	Use the NOMADS tracking screen to help ensure Division policies and procedures over debt collections are consistently applied at each Investigations and Recovery office	<u> X </u>	<u> </u>
4	Develop written procedures over the process of writing off uncollectible debt.....	<u> X </u>	<u> </u>
5	Review and document procedures for the Division Administrator's granting of hardship waivers. Procedures should include: a. gathering pertinent information from the Investigations and Recovery Unit; and b. completing the write-off of debt in NOMADS	<u> X </u>	<u> </u>
6	Develop procedures for the Investigations and Recovery Unit's collection of NSF checks from the State Collection and Distribution Unit. Ensure procedures to no duplicate efforts already completed by the State Collection and Distribution Unit.....	<u> X </u>	<u> </u>
7	Review the monthly Investigations and Recovery caseload report to identify the most useful information. Based on the review, develop procedures for preparing the report and ensure supporting documentation is complete, accurate, and retained for future reference.....	<u> X </u>	<u> </u>
8	Ensure Investigations and Recovery debt reports contain reliable information and include the age of debts owed.....	<u> X </u>	<u> </u>
9	Develop control procedures for the Child Care and Development Unit and the Finance and Accounting Section for the review and approval of contractor cash reconciliations	<u> X </u>	<u> </u>

Division of Welfare and Supportive Services
Response to Audit Recommendations
 (continued)

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
10	Develop procedures to guide the Division's Internal auditors in conducting audits of child care contractors. Procedures should include the frequency of audits and detailed steps for reviewing financial transactions	<u> X </u>	<u> </u>
11	Ensure an adequate number of child care quality reviews are completed and document decisions concerning the number of child care reviews to be completed.....	<u> X </u>	<u> </u>
12.	Develop procedures to follow up and report supervisor non-compliance with requirements to complete evaluations and update work performance standards.....	<u> X </u>	<u> </u>
TOTALS		<u> 12 </u>	<u> 0 </u>