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We have completed an audit of the Director's Office of the Department of Health and Human 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 Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Director's Office 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

April 14, 2006
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIRECTOR'S OFFICE

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECTOR'S OFFICE

Background

The Department of Human Resources was created in 1963. During the 2005 Legislative Session, the Department was renamed the Department of Health and Human Services. The Department's mission is to promote the health and well-being of Nevadans through services to ensure families are strengthened, public health is protected, and individuals achieve their highest level of self-sufficiency.

The Director's Office is responsible for the management and administration of the human services programs. Additional activities include coordination of departmental programs, planning, budgetary management, and personnel assistance. The Office also provides administrative support to the Public Defender's Office and the Indian Commission. Included in the Director's Office are the Office of Disability Services, Senior Rx, and the Grants Management Unit.

The Director's Office is located in Carson City. The Office of Disability Services operates from a separate office in Carson City, and the Grants Management Unit has an additional office in Las Vegas. For fiscal year 2005, the Office had 39 full-time authorized positions.

The Office is funded mainly with federal grants and state appropriations. The Office's revenues and expenditures were recorded in seven operating budget accounts during fiscal year 2005.

Purpose

The purpose of this audit was to determine if the Office's monitoring efforts over grants ensured compliance with Office policies and procedures, and applicable state and

EXECUTIVE SUMMARY

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECTOR'S OFFICE

federal laws and regulations. We also evaluated the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. This audit included a review of the Office's financial and administrative activities for the fiscal year ended June 30, 2005.

Results in Brief

The Director's Office generally complied with laws and regulations significant to its financial administration. However, we noted some weaknesses in the Office's monitoring efforts over grants and certain administrative functions.

Specifically, the Office did not enforce requirements that grantees submit certain reports in a consistent and timely manner. Periodic site visits were also not consistently conducted. In addition, some administrative functions need to be strengthened. Property and equipment were not adequately controlled, and some statutory requirements over personnel and contracts were not always followed. Improvements in the tracking of receivables are also needed to ensure timely collection efforts are consistently applied. These weaknesses occurred, in part, because some Office procedures were incomplete or unclear. Furthermore, staff did not consistently follow Office policies and procedures.

Principal Findings

- The Director's Office did not enforce requirements that grantees submit certain reports in a consistent and timely manner. We reviewed 20 grants totaling over \$5.9 million awarded to 12 grantees and found progress reports were submitted untimely for 2 of the 20 grants and we could not determine the timeliness

EXECUTIVE SUMMARY

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECTOR'S OFFICE

of the reports for 5 grantees. Financial status and request for funds reports were submitted untimely for 11 of the 20 grants. Financial statements were submitted untimely for 4 of the 10 grants requiring these statements. (page 9)

- The Office did not consistently conduct periodic site visits of grantees. Of the 12 grantees reviewed, over half did not receive a site visit in the last 2 fiscal years or since they began receiving grant funds. Site visits are needed to ensure grantees are abiding by their grant awards and using grant funding as intended. (page 11)
- The Office needs to strengthen controls over property and equipment. Of the 15 assets we tested that were on the Office's inventory list, 6 were not located in the Director's Office. Although the Office identified five of the six as no longer existing within the Director's Office during its fiscal year 2005 annual inventory, property disposition reports were not properly completed and processed. The property disposition reports included 15 additional assets, which still appear on the Office's inventory list. In addition, supervisory approval was not obtained on the Office's annual inventory and property disposition reports as required by Office policies and procedures. (page 12)
- The Office did not comply with personnel requirements for timely employee evaluations and development of work performance standards. Three of the 10 employee files reviewed did not contain a fiscal year 2005 employee evaluation, and 2 of these individuals were on probationary status. Also, two additional employees received their evaluations late. In addition, 1 employee had not received work performance standards since beginning employment in December of 2004, and 2 of the 10 employees had inaccurate work performance standards. (page 12)

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- The Office did not prepare contracts for certain individuals providing services to the Office of Disability Services (ODS). ODS has individuals assist disabled counsel members in participating in counsel meetings held throughout Nevada. According to an agency official, the number of attendants ranges from 5 to 10 a year, charging a total yearly fee of under \$1,000 each. Nevada law requires agencies to establish contracts with individuals meeting the statutory definition of an independent contractor. Although the activity is limited, contracts are needed to identify the services that will be provided and the cost of these services. (page 13)
- The Office did not always take collection action on Senior Rx receivables in a timely manner. Out of 10 receivables reviewed, 3 should have received collection letters for untimely payments. None of the three were sent collection letters timely and consistently, which increases the risk that amounts due will not be fully collected. (page 14)
- The Office did not comply with state laws and regulations for writing off debt. The Office did not obtain Board of Examiner approval for nearly \$45,900 in Senior Rx receivables written off since June 2002. (page 15)

Recommendations

This report contains seven recommendations to improve the Office's monitoring efforts over grants and its financial and administrative practices. Specifically, the Office should revise grant procedures, including recipient reporting requirements and site visits. Additionally, the Office should ensure inventory reports are properly approved and procedures revised to include the disposition of assets. In addition, employees should be provided timely and

EXECUTIVE SUMMARY

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIRECTOR'S OFFICE

accurate work performance standards and employee evaluations. The Office should also improve monitoring of receivables and develop procedures to ensure compliance with the statutory requirements of reporting and writing off debt. (page 22)

Agency Response

The Agency, in its response to our report, accepted all seven recommendations. (page 20)

Introduction

Background

The Department of Human Resources was created by Chapter 232, Statutes of Nevada, 1963. During the 2005 Legislative Session, the Department was renamed the Department of Health and Human Services (DHHS). The Department's mission is to promote the health and well-being of Nevadans through services to ensure families are strengthened, public health is protected, and individuals achieve their highest level of self-sufficiency. The Department consists of a Director's Office and the following divisions:

- Aging Services,
- Health,
- Mental Health and Developmental Services,
- Welfare and Supportive Services,
- Child and Family Services, and
- Health Care Financing and Policy.

The Director's Office is responsible for the management and administration of the human services programs. Additional activities include coordination of departmental programs, planning, budgetary management, and personnel assistance. The Office also provides administrative support to the Public Defender's Office and the Indian Commission. Included in the Director's Office are the following:

- Office of Disability Services (ODS): develops and coordinates resources from local communities and the State for people with disabilities.
- Senior Rx: provides prescription assistance for low to moderate income senior citizens who are residents of Nevada.
- Grants Management Unit (GMU): administers grants to local, regional, and statewide programs serving Nevadans. The GMU ensures accountability and provides technical assistance for social service and health-related programs funded through six state and federal sources. Exhibit 1 shows the GMU programs, number of grantees, and amounts awarded during fiscal year 2005.

Exhibit 1

**DHHS Director's Office
GMU Programs
Fiscal Year 2005**

Program	Number of Grantees⁽¹⁾	Amounts Awarded
Children's Trust Fund	36	\$ 1,400,000
Community Services Block Grant	17	3,284,159
Family to Family Connection	20	1,396,906
Family Resource Centers	20	1,288,299
Fund for a Healthy Nevada	50	8,040,215
Title XX Social Services Block Grant ⁽²⁾	29	698,721
Total		\$16,108,300

Source: Grants Management Unit Annual Report, September 2005.

⁽¹⁾ Some grantees receive funding from more than one GMU program.

⁽²⁾ Does not include state agencies that receive Title XX grant funds.

The Director's Office is located in Carson City. ODS operates from a separate office in Carson City, and the GMU has an additional office in Las Vegas. For fiscal year 2005, the Director's Office had 39 full-time authorized positions.

The Director's Office is funded mainly with federal grants and state appropriations. Exhibit 2 shows the Office's revenues and expenditures for its seven operating budget accounts during fiscal year 2005.

Exhibit 2

**DHHS Director's Office
Revenues and Expenditures
Fiscal Year 2005**

	DHHS Administration	Developmental Disabilities	Grants Management Unit	Children's Trust	Blue Cross Blue Shield Settlement	Healthy NV Fund Administration⁽²⁾	Disability Services
Revenues							
State Appropriations	\$1,095,852	\$108,561	\$ 2,859,663	\$ -	\$ -	\$ 2,128,180	\$2,906,951
Grants	20,000	364,322	15,997,814	-	-	44,349	692,957
Settlements	-	-	-	-	150,000	242,127	-
Interest	-	-	-	18,336	-	-	-
Charges	-	-	-	756,819	-	-	1,907,098
Transfers	616,641	20,000	10,008,574	-	-	15,148,470	273,390
Balance Forwards and Reversions	(312,246)	3,658	183,407	514,974	75,000	(1,766,149)	(243,431)
Total Revenues	\$1,420,247	\$496,541	\$29,049,458	\$1,290,129	\$225,000	\$15,796,977	\$5,536,965
Expenditures							
Operating	\$1,251,380	\$230,732	\$ 968,568	\$ -	\$ -	\$ 254,416	\$ 529,909
Program Costs	168,867	265,809	28,080,890 ⁽¹⁾	-	-	8,003,177	5,007,056
Transfers	-	-	-	1,290,129	225,000	7,539,384	-
Total Expenditures	\$1,420,247	\$496,541	\$29,049,458	\$1,290,129	\$225,000	\$15,796,977	\$5,536,965

Source: State's Accounting System.

⁽¹⁾ Includes state agencies that receive Title XX grant funds.

⁽²⁾ Includes about \$8 million for Senior Rx.

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 provisions 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 Office's financial and administrative activities for the fiscal year ended June 30, 2005. The objectives of the audit were to determine if the Office's:

- Monitoring efforts over grants ensured compliance with Office policies and procedures, and applicable state and federal laws and regulations.
- Activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Findings and Recommendations

The Director's Office generally complied with laws and regulations significant to its financial administration. However, we noted some weaknesses in the Office's monitoring efforts over grants and certain administrative functions.

Specifically, the Office did not enforce requirements that grantees submit certain reports in a consistent and timely manner. Periodic site visits were also not consistently conducted. In addition, some administrative functions need to be strengthened. Property and equipment were not adequately controlled, and some statutory requirements over personnel and contracts were not always followed. Improvements in the tracking of receivables are also needed to ensure timely collection efforts are consistently applied. These weaknesses occurred, in part, because some Office procedures were incomplete or unclear. Furthermore, staff did not consistently follow Office policies and procedures.

Monitoring Efforts Over Grants Can Be Improved

The Director's Office can improve monitoring efforts over grants. The Office needs to enforce requirements that grantees submit certain reports in a consistent and timely manner. In addition, periodic site visits are needed to ensure grantees are abiding by grant award requirements and funding is being used as intended.

Required Reports Not Submitted Timely

The Director's Office did not enforce requirements that grantees submit certain reports in a consistent and timely manner. We reviewed 20 grants totaling over \$5.9 million awarded to 12 grantees for fiscal year 2005 and found the following:

- Progress reports were submitted untimely for 2 of the 20 grants. These reports were 16 and 23 days late. In addition, we could not determine the timeliness of the reports for five grantees, because not all progress reports submitted during the year had been retained.
- Financial status and request for funds reports were submitted untimely for 11 of the 20 grants. These reports ranged from 15 days to 4 months late.

- Financial statements were submitted untimely for 4 of the 10 grants requiring these statements. These statements ranged from 3 to 10 months late.

The Office has established general grant procedures for all grant programs administered by the Grants Management Unit (GMU). Each program also has its own specific set of grant procedures. We noted, however, that the Office's general grant procedures do not specifically address deadlines for submitting required reports. In addition, the procedures do not address the basis for determining whether grantees should submit their financial status and request for funds reports either monthly or quarterly consistently throughout the year.

We also found each program's specific set of grant procedures varied regarding reporting deadlines and the frequency of reporting. For instance, Title XX Social Services Block Grant recipients are required to submit a financial status and request for funds report at a minimum within 30 days following each quarter. Grantees receiving funds from the Fund for a Healthy Nevada are required to submit the report monthly if the total grant award is more than \$25,000 or quarterly if less. Family to Family and Family Resource Center grantees can choose to submit their financial status and request for funds reports either monthly or quarterly, although they must report consistently one way or the other throughout the year. With over \$16 million in grant funds provided annually to non-state agencies, it is important that the Office properly enforce reporting requirements. The Office's lack of policies and procedures over enforcing these requirements may have contributed to these untimely submittals.

The Office should establish consistent reporting deadlines and enforce these requirements. This will assist grant managers in efficiently monitoring their grantees and ensuring they are abiding by their approved budgets, expenditures are appropriate, and funding is being used as intended. In addition, it would benefit the Office and the grantees if reporting requirements were similar among the different grant programs. This would help grantees submit reports more timely and ensure consistent information is collected from each grantee for each grant program.

Periodic Site Visits Not Conducted

The Director's Office did not consistently conduct periodic site visits of grantees. Of the 12 grantees reviewed, over half did not receive a site visit in the last 2 fiscal years or since they began receiving grant funds. Site visits are needed to ensure grantees are abiding by their grant awards and using grant funding as intended.

Grant managers have not conducted periodic site visits because there have been no specific procedures requiring these visits. In addition, grantee audits performed by the Office's internal auditors have not been completed due to staff turnover. As a result, the Office's internal auditors did not issue any audit reports during fiscal year 2005. The Office's policies are vague, requiring program monitoring of grantees only as needed. The Office's internal auditors, however, are required to audit grantees on a regular basis.

Office management has recognized the importance of site visits and developed a monitoring checklist to use during program reviews beginning in fiscal year 2006. However, no corresponding procedures have been developed to address the frequency of these visits and the selection process of choosing grantees to be reviewed. Office policies describe a risk-based analysis to be used by the Office's internal auditors for selecting grantees for their audits, although grant managers have no guidance on how they should select grantees for their reviews.

Recommendations

1. Revise grant procedures to ensure specific and consistent reporting requirements and provide guidance to grant managers for enforcing those requirements.
2. Develop and implement procedures for scheduling grantee site visits to ensure grantees are consistently and adequately monitored.

Controls Over Some Administrative Functions Can Be Strengthened

Controls over some administrative functions need to be strengthened. Weaknesses were noted regarding controls over property and equipment. In addition, statutory requirements over personnel, contracts, and receivables were not always met.

Improvements are also needed in tracking receivables and ensuring timely collection efforts are taken.

Controls Over Property and Equipment Need Improvement

The Director's Office needs to strengthen controls over property and equipment. The Office's inventory list is outdated and includes assets that are no longer located in the Office. In addition, supervisory approval was not obtained on the Office's annual inventory and property disposition reports.

Of the 15 assets we tested that were on the Office's inventory list, 6 were not located in the Director's Office. Although the Office identified five of the six as no longer existing within the Director's Office during its fiscal year 2005 annual inventory, property disposition reports were not properly completed and processed. The property disposition reports included 15 additional assets, which also still appear on the Office's inventory list. In addition, supervisory approval was not obtained on the Office's annual inventory and property disposition reports as required by Office policies and procedures. Office management indicated a majority of the items we identified were associated with a program transferred to the Health Division in fiscal year 2004. Hence, all of the program's assets should have been transferred at that time. This apparently was not done, and the assets are still on the Office's inventory list.

Office policies and procedures over property and equipment are also outdated. Procedures refer to inventory reports being received from State Purchasing, although these reports are no longer prepared. Office staff currently obtain their inventory lists from the State's Accounting System. In addition, Office policies and procedures do not address reporting the disposition of property to State Purchasing. These outdated and incomplete procedures may have contributed to the control weaknesses noted.

Nevada law requires property records be maintained at all times to show the officers entrusted with the custody and transfers of property. Without an accurate inventory list, the Office is at risk that a theft or loss of Office assets could go undetected.

Personnel Requirements Were Not Always Met

The Director's Office did not comply with personnel requirements for timely employee evaluations and development of work performance standards. Three of the

10 employee files reviewed did not contain a fiscal year 2005 employee evaluation, and 2 of these individuals were on probationary status. Also, two additional employees received their evaluations late. In addition, 1 employee had not received work performance standards since beginning employment in December of 2004, and 2 of 10 employees had inaccurate work performance standards. These standards had not been updated to reflect the transfer of two programs previously administered by another agency to the Department of Health and Human Services. Also, one of the employees was promoted, and the standards were not updated to reflect the additional responsibilities required of the new position.

NRS 284.340 sets forth requirements for evaluation of probationary and permanent employees. NRS 284.335 requires agencies to establish standards of work performance for each class of positions. Each appointing authority shall provide each of its employees with a copy of the standards for his position. The Director's Office policies and procedures reiterate these requirements. To ensure these requirements are met, notification memorandums are to be sent to each supervisor at least 60 days before an evaluation is due. In addition, work performance standards are required to be provided to each employee within 60 days of the employee's start date. Standards must also be reviewed annually and amended when appropriate.

Office management indicated that employee evaluations and work performance standards had not been properly completed due to staff turnover and a lack of priority. This resulted in reminder notices not being sent to supervisors as required per Office policies and procedures. Without employee evaluations and work performance standards, employees may not know what is expected of them and deficiencies in performance may not be corrected timely. Accurate work performance standards are also necessary for supervisors to use as a basis in conducting performance evaluations. Without evaluations, employees receive automatic merit pay increases regardless of their job performance. If disciplinary actions are found necessary, the Office will lack adequate documentation to support its decisions.

Contracts Needed to Clarify Services to Be Performed

The Director's Office did not prepare contracts for certain individuals providing services to the Office of Disability Services (ODS). ODS has individuals assist disabled

counsel members in participating in counsel meetings held throughout Nevada. According to an agency official, the number of attendants ranges from 5 to 10 a year, charging a total yearly fee of under \$1,000 each for their services.

Nevada law requires agencies to establish contracts with individuals meeting the statutory definition of an independent contractor. Although the activity is limited, contracts are needed to identify the services that will be provided and the cost of these services. Contracts should also receive management approval. In addition, since these individuals are not state employees, contracts are needed to clarify that state benefits, including insurance, retirement, paid leave, and unemployment compensation, will not be provided. Also, since the attendants receive travel reimbursements, a contract would ensure attendants are aware of the state travel guidelines and requirements.

ODS management indicated that they previously considered preparing contracts for these individuals. However, due to the infrequent use of these services and minimal amounts being charged, management decided it would be an inconvenience to the attendants to have them complete a contract. However, a contract would provide clarification of the services to be provided and reduce the potential liability to the State.

Tracking of Receivables Needs Improvement

The Director's Office needs to improve tracking of receivables for its Senior Rx program. Collection efforts over Senior Rx receivables were not timely in accordance with Office policies and procedures. In addition, state laws and regulations were not followed for writing off debt and reporting receivables to the State Controller.

Senior Rx members identified during the program's income verification process as having income greater than the maximum income requirements are required to reimburse the Office for benefits received. Since June 2002, the program has identified approximately \$100,000 in receivables from individuals not meeting program requirements. As of August 2005, approximately \$40,700 had been collected; \$45,900 had been written off; and \$13,400 is still due from 16 individuals.

Collection Efforts Were Not Timely

The Office did not always take collection action on Senior Rx receivables in a timely manner. Out of 10 receivables reviewed, 3 should have received collection

letters for untimely payments. None of the three were sent collection letters timely and consistently, which increases the risk that amounts due will not be fully collected.

Office policies and procedures require a notice requesting payment be sent if a monthly payment is more than 10 days late. If no payment is received after 30 days, a second letter should be sent. We noted a payment made 63 days late, and a collection letter was not sent until the 56th day. Another payment was 30 days late, and no collection letter was sent. Office staff indicated that they review receivables at the end of each month, and those individuals determined to be delinquent in their payments are usually sent a collection letter at that time. Hence, individuals who have not made their required payment by the 10th of the month may not be recognized and sent a collection letter until the end of the month, 20 days later than Office policies and procedures require.

An aged receivables listing that identifies receivables 30, 60, 90, or over 90 days late would help staff identify accounts needing collection action. Instead, the Senior Rx collection spreadsheet lists all receivables incurred since June 2002. The spreadsheet lists each individual in alphabetical order with payment information recorded under each name. Hence, with this type of format it is difficult to identify current receivables and the payment status of each. Also with receivables previously written off or waived included on the spreadsheet, it is difficult to easily identify only current receivables.

Requirements for Debt Write-Off and Reporting Not Followed

The Director's Office did not comply with state laws and regulations for writing off debt and reporting receivables to the State Controller. The Office did not obtain Board of Examiner approval for \$45,900 in Senior Rx receivables written off since June 2002. NRS 353C.220 requires Board of Examiner approval when writing off old debt. However, the Director's Office has only been obtaining management approval for receivables written off.

In addition, NRS 353C.120 requires state agencies to submit quarterly reports to the Controller's Office on debts owed. Office management indicated that they had not done this due to the immaterial amount of monies owed. As of August 2005, \$13,400 in Senior Rx receivables were owed to the Office. Although the amount of receivables is

not significant, reporting them to the Controller's Office would improve accountability and control.

Recommendations

3. Ensure property and equipment inventory and disposal reports are properly approved and revise procedures to help ensure proper removal of disposed assets from the Office's inventory reports.
4. Provide employees accurate work performance standards in a timely manner and ensure employee evaluations are conducted by sending reminder notices in accordance with Office policies and procedures.
5. Prepare contracts for individuals performing services for the Office who meet the statutory definition of an independent contractor.
6. Improve the monitoring process of Senior Rx receivables to assist management and staff with identifying delinquent receivables and taking appropriate action.
7. Develop and implement procedures to help ensure compliance with the statutory requirements of obtaining Board of Examiners' approval when writing off receivables and providing the Controller's Office with quarterly reports showing debt owed to the Office.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Director's Office of the Department of Health and Human Services, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative and DHHS board and commission minutes, and other information describing the activities of the Office. Furthermore, we documented and evaluated the Office's internal controls including grants management.

To determine if the Office's monitoring efforts over grants ensured compliance with Office policies and procedures, and applicable state and federal laws and regulations, we judgmentally selected 2 grantees from each GMU program, for a total of 12 grantees receiving over \$5.9 million in grant awards during fiscal year 2005. We then conducted tests to determine if required reports were submitted timely, funding received was within the approved grant award amounts, and grantees had been adequately monitored. Because many grantees receive funding from more than one GMU program, we identified other GMU funding received by each of the 12 grantees and tested these grants as well.

We then assessed whether the Office's financial and administrative activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. We determined if the Office had taken an annual property and equipment inventory during fiscal year 2005 and notified State Purchasing of any lost, stolen, exchanged, or excess property. We also determined the accuracy of the inventory list by judgmentally selecting assets to trace to and from the list.

In addition, we selected 10 Senior Rx collection files and tested the completeness and accuracy of the Office's Senior Rx receivables list. We then randomly selected 10 receivables and determined whether they had been properly

tracked and collection action taken. We also assessed whether the Office met statutory requirements regarding receivables.

Furthermore, we randomly selected 10 employee files and determined if work performance standards were established, performance evaluations were received, and overtime agreements were prepared. We then randomly selected 14 expenditures, excluding payroll and grant related transactions, and tested each transaction for proper recording, approval, and compliance with laws, regulations, policies, and procedures. The sample included travel and contract-related expenditures, which were also tested for compliance requirements specific to those transactions. In addition, we randomly selected six transactions from fiscal year 2004 and 2006 to verify they were recorded in the proper fiscal year. We also reviewed three journal vouchers for propriety and examined credit entries made to the expenditure accounts.

Our audit work was conducted from May 2005 to January 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. On April 3, 2006, 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 C, which begins on page 20.

Contributors to this report included:

Tammy A. Goetze, CPA
Deputy Legislative Auditor

Jane Bailey
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B

Prior Audit Recommendations

Our prior audit of the Department of Health and Human Services, Director's Office contained seven recommendations. Four of the recommendations related to the Division of Health Resources and Cost Review, which was transferred to the Division of Health Care Financing and Policy. As part of our audit, we evaluated the status of the remaining three recommendations and determined they were fully implemented.

Appendix C

Response From the Director's Office

KENNY C. GUINN
Governor



MICHAEL J. WILLDEN
Director

DEPARTMENT OF HUMAN HEALTH AND HUMAN SERVICES
DIRECTOR'S OFFICE
505 E. King Street, Room 600
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April 13, 2006

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

Dear Mr. Townsend:

Please accept the following as our response to your audit report on the Director's Office of the Department of Health and Human Services. We accept all 7 of your recommendations. The following items respond to each specific area addressed in your recommendations.

Grantee Reporting Requirements

As we discussed during our exit conference, there are a variety of programs receiving grants through the grants management unit. For that reason a blanket reporting requirement for all grantees does not really make sense. In order to fully implement your recommendation we will incorporate reporting requirements into all of our subgrant agreements. That will allow us to accommodate the variety of programs and request reporting requirements consistent with each programs' complexity.

Scheduling Grantee Site Visits

We have developed a standard monitoring tool and had our staff specialists prepare site visit schedules to finish out the current fiscal year. We will also prepare a tentative schedule for next fiscal year that will include site visits for 1/3rd of each program specialist's grants. The monitoring tool and procedures for developing the schedule will be incorporated into our internal control policies and procedures.

Property and Equipment Inventory

We have already completed the cleanup of the unfinished paperwork. We will also revise our internal controls to reflect the current procedures in place, including completing our documentation of the inventory process in Advantage.

Helping People -- it's who we are and what we do

April 13, 2006
Page 2

Work Performance Standards and Employee Evaluations

We will continue to work on completing these documents in a timely manner. As noted in your report, part of the problem has been support staff turnover. We are working very aggressively to fill our support positions so we can keep better track of the work performance standards that need to be completed and issue reminders regarding evaluations.

Contracts for Temporary Staff

We have already established a relationship with ACCUSTAFF, a temporary employment agency and corrected the problem that resulted in the finding. All of our staff have recently completed the required internal control training so the need to comply with this requirement has been reinforced.

Monitoring and Reporting of Senior Rx Receivables

We will update our written internal controls to reflect our current procedures. We will revisit the amount and intensity of the collection efforts that we feel will be proper for this population, low income seniors. We will still attempt to collect on overpayments where warranted. We will also develop a more appropriate tracking spreadsheet that will allow for better management of the balances. The tracking spreadsheet will also be formatted in a manner that will allow us to report the receivables balance on a quarterly basis to the Controller.

Writing-Off of Bad Debts

We will revise our written procedures to ensure we submit all written-off receivables to the Board of Examiners for approval, no less than annually. We will also develop written policies to determine when assignment to a collection agency would be considered proper. Again, the population is low income seniors and aggressive collection efforts will not normally result in successful collection of the debts.

We 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 questions or concerns regarding our response.

Sincerely,



Mike Willden
Director

**Department of Health and Human Services
Director's Office
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Revise grant procedures to ensure specific and consistent reporting requirements and provide guidance to grant managers for enforcing those requirements.	<u> X </u>	<u> </u>
2	Develop and implement procedures for scheduling grantee site visits to ensure grantees are consistently and adequately monitored.....	<u> X </u>	<u> </u>
3	Ensure property and equipment inventory and disposal reports are properly approved and revise procedures to help ensure proper removal of disposed assets from the Office's inventory reports	<u> X </u>	<u> </u>
4	Provide employees accurate work performance standards in a timely manner and ensure employee evaluations are conducted by sending reminder notices in accordance with Office policies and procedures	<u> X </u>	<u> </u>
5	Prepare contracts for individuals performing services for the Office who meet the statutory definition of an independent contractor	<u> X </u>	<u> </u>
6	Improve the monitoring process of Senior Rx receivables to assist management and staff with identifying delinquent receivables and taking appropriate action..	<u> X </u>	<u> </u>
7	Develop and implement procedures to help ensure compliance with the statutory requirements of obtaining Board of Examiners' approval when writing off receivables and providing the Controller's Office with quarterly reports showing debt owed to the Office	<u> X </u>	<u> </u>
TOTALS		<u> 7 </u>	<u> 0 </u>