

**MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION
Grant Sawyer State Office Building – Room 4412
Las Vegas, Nevada
Legislative Building - Room 4100
Carson City, Nevada
Wednesday, September 19, 2012, 9:30 a.m.**



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MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission's Audit Subcommittee
Date and Time of Meeting: September 19, 2012 - 9:30 a.m.
Place of Meeting: Grant Sawyer State Office Building,
555 East Washington Avenue - Room 4412
Las Vegas, Nevada

Note: Some members of the Committee may be attending the meeting and other persons may observe the meeting and provide comment through a simultaneous videoconference conducted at the following location:

Legislative Building
401 South Carson Street - Room 4100
Carson City, Nevada

If you cannot attend the meeting, you can listen to it live over the Internet. The address for the legislative website is <http://www.leg.state.nv.us>. Click on the link "Live Meetings – Listen or View".

AGENDA

Note: Items on this agenda may be taken in a different order than listed. Two or more agenda items may be combined for consideration. An item may be removed from this agenda or discussion relating to an item on this agenda may be delayed at any time.

1. **Public Comment**
(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).
- For Possible Action* 2. **Approval of minutes from April 17, 2012**
- For Possible Action* 3. **Presentation of audit reports (NRS 218G.240)**
 - Paul Townsend, Legislative Auditor
 - a. Department of Conservation and Natural Resources, Division of State Lands
– Tammy Goetze, Deputy Legislative Auditor; Rick Neil, Audit Supervisor
 - b. Department of Business and Industry, Division of Industrial Relations
– Shawn Heusser, Deputy Legislative Auditor; Doug Peterson, Information Systems Audit Supervisor
 - c. Department of Business and Industry, Division of Insurance
– Dennis Klenczar, Deputy Legislative Auditor; Doug Peterson, Information Systems Audit Supervisor
 - d. Department of Health and Human Services, Division of Welfare and Supportive Services
– Stephany Gibbs, Deputy Legislative Auditor; Jane Bailey, Audit Supervisor
- For Possible Action* 4. **Presentation of six-month reports (NRS 218G.270)**
 - Paul Townsend, Legislative Auditor
 - a. Office of Veterans' Services
– Rocky Cooper, Audit Supervisor
 - b. Department of Health and Human Services, Aging and Disability Services Division
– Jane Bailey; Audit Supervisor
 - c. Department of Conservation and Natural Resources, Division of Environmental Protection
– Shannon Ryan, Audit Supervisor
 - d. Department of Health and Human Services, Oversight of Child Care Facilities
– Rick Neil, Audit Supervisor
 - e. Department of Health and Human Services, Division of Child and Family Services
– Rick Neil, Audit Supervisor

*For
Possible
Action*

5. Update on Plan for Corrective Action (NRS 218G.250)

– Paul Townsend, Legislative Auditor

- a. Division of Mental Health and Developmental Services
Substance Abuse Prevention and Treatment Agency
– Rick Neil, Audit Supervisor

*For
Possible
Action*

6. National State Auditors Association Report on Nevada Legislative Auditor's System of Quality Control

– Paul Townsend, Legislative Auditor

7. Public Comment

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Audit Division of the Legislative Counsel Bureau, in writing, at 401 S. Carson Street, Carson City, Nevada 89701-4747, or call Donna Wynott at (775) 684-6815, as soon as possible.

Notice of this meeting was posted in the following Carson City, Nevada locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps; Carson City Court House, 198 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street.

Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Clark County Office, 500 South Grand Central Parkway, and Grant Sawyer State Office Building, 555 E. Washington Avenue.

Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

AUDIT SUBCOMMITTEE MINUTES
April 17, 2012

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
April 17, 2012

This is the second meeting of 2012.
This is the third meeting of the 2011-2012 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator David Parks, Chair, at 9:40 a.m., Tuesday, April 17, 2012, in room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with a simultaneous video conference to room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Las Vegas:

Senator David Parks, Chair
Senator Mo Denis
Assemblyman Paul Aizley
Assemblywoman Maggie Carlton

Carson City:

Assemblyman Tom Grady, Vice-Chair

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Jane Bailey, Audit Supervisor
Rocky Cooper, Audit Supervisor
Diana Giovannoni, Deputy Legislative Auditor
Mike Herenick, Deputy Legislative Auditor
Sandra McGuirk, Deputy Legislative Auditor
Rick Neil, Audit Supervisor
Todd Peterson, Deputy Legislative Auditor
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

Item 1— Public comment

Chair Parks called for public comment.

Mr. Barry Lovgren read prepared testimony into the record regarding the Substance Abuse Prevention and Treatment Agency (SAPTA). (attached to minutes) He also provided a handout to the Committee. (attached to minutes) Mr. Lovgren stated despite a requirement that SAPTA certify and fund programs according to the Division

of Mental Health and Developmental Services' criteria, unauthorized certification and funding to treatment programs has occurred. He noted making numerous requests for public records from the Department of Health and Human Services in regard to legitimate Division criteria for Treatment of Substance Related Disorders had not been addressed. Mr. Lovgren concluded his testimony.

Chair Parks called for additional public comment. He noted there was none.

Item 2— Approval of minutes of the meeting held on February 2, 2012

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF FEBRUARY 2, 2012. THE MOTION WAS SECONDED BY SENATOR MO DENIS AND CARRIED UNANIMOUSLY.

Item 3— Presentation of audit reports (NRS 218G.240)

– Paul Townsend, Legislative Auditor

A. State of Nevada, Single Audit Report

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, to present the report.

Ms. Ryan presented the Single Audit Report for the State of Nevada for fiscal year 2011. Kafoury, Armstrong & Co., completed the report that included an audit of the State's financial statements and an audit over compliance with requirements related to federal expenditures. An unqualified opinion was issued on the financial statements. In addition, no material weaknesses or non-compliance was reported related to the audit of the financial statements. The report on compliance with federal requirements disclosed no material weaknesses. Ms. Ryan stated 64 findings related to internal control deficiencies were noted. In total, the State reported having \$4.9 billion in federal expenditures for fiscal year 2011.

Ms. Ryan concluded the report presentation. She offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Senator Denis asked for comment about the findings on control issues.

Ms. Ryan replied there were two components. The unqualified opinion relates to the financial statements. A different report relates to compliance with federal expenditures, that federal money is spent in accordance with compliance requirements. The 64 findings were related to the expenditure of federal funds and were not related to the financial statements.

Senator Denis asked for comments on the timeframe for when the 64 findings would be corrected.

Ms. Ryan replied the agency submits a plan of corrective action for each finding. She explained the agencies typically attempt to complete their plan for corrective action as soon as possible but it can take a year or two to implement corrective action.

Chair Parks asked for an explanation of the term "unqualified".

Ms. Ryan replied an unqualified opinion means that there are no material misstatements related to the financial statements. She explained the three types of opinions that could be rendered include: an unqualified, a qualified, and an adverse opinion. She stated the unqualified opinion is preferable because that means the auditors did not find evidence that financial statements were misstated in any way on a material basis.

Chair Parks called for a motion.

ASSEMBLYMAN AIZLEY MOVED TO ACCEPT THE REPORT ON THE STATE OF NEVADA, SINGLE AUDIT REPORT. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

B. Department of Business and Industry, Housing Division

Mr. Townsend introduced Todd Peterson, Deputy Legislative Auditor; and Rocky Cooper, Audit Supervisor, to present the report.

Mr. Peterson stated the Housing Division, created in 1975, is located within the Department of Business and Industry. With offices in Carson City and Las Vegas, the Division administers several programs to help stimulate low- and moderate-income housing by the use of public and private financing.

The Division administers the Low-Income Weatherization Assistance Program. This program uses state and federal funding to provide weatherization measures to low-income households that will increase the energy efficiency of the dwellings and reduce expenditures on energy. Weatherization measures include, but are not limited to, insulating ceilings and floors, sealing gaps and cracks, replacing drafty windows and doors, and installing window solar screens.

Mr. Peterson stated the 2009 Legislature approved Senate Bill 152, which provided for the use of incentives contained in the American Recovery and Reinvestment Act of 2009, also known as ARRA. These incentives were to provide job training, promote energy efficiency, and promote the use of renewable energy in Nevada. The bill also required the Division to establish contractual relationships with nonprofit organizations, to provide training in weatherization jobs, and to identify neighborhoods that would qualify for weatherization assistance.

Exhibit 1 provides details on weatherization funding for fiscal years 2009 to 2011. As shown in the exhibit, ARRA provided a significant increase of funding to the weatherization program. Exhibit 2 provides details of how ARRA weatherization funding was spent in fiscal years 2010 and 2011.

Mr. Peterson stated the report outlined problems found in other states regarding the expenditure of ARRA weatherization funding. These problems included program mismanagement and poor workmanship by contractors installing weatherization measures. Because of the significant increase in weatherization funding and the problems documented with other weatherization programs, auditors chose to audit the Division's weatherization program.

The objective of the audit was to determine if the Division has established adequate controls to ensure compliance with ARRA weatherization requirements and accurate reporting of related performance information.

Mr. Peterson began the findings and recommendations section of the report. The Division's oversight of ARRA weatherization funding was effective. ARRA weatherization funding was spent timely and appropriately. For about \$1 million in project costs reviewed, auditors found that ARRA funding was spent on priority measures that were billed according to pre-approved contractor prices. In addition, the Division received approximately \$37 million in funding for its weatherization program. As of December 2011, about \$35.7 million had been expended. In contrast, other states have experienced difficulties spending their ARRA weatherization funds and risk losing those funds.

Mr. Peterson stated the Division has established controls to monitor subrecipients. These controls include continued monitoring of subrecipients' financial and program activities related to the weatherization program. Auditor review of 100 files, totaling about \$1 million in project costs, found subrecipients were timely when approving applications, performing energy assessments, completing projects, and performing final project inspections.

Mr. Peterson noted the report summarizes the weatherization process. The Division established controls to ensure effective monitoring of contractors' work. Auditors inspected 40 homes that were weatherized by subrecipients and only found a few minor instances where measures previously paid for were not installed.

Mr. Peterson stated the uninstalled measures totaled \$1,092, which was less than 1% of the \$405,000 in project costs inspected. Most uninstalled measures were windows or solar screens that were included on contractors' original estimates; however, were not installed for some reason, and were not removed from the final billings. Effective monitoring of contractors helps ensure approved weatherization measures are installed and the workmanship is of good quality.

Although the Division's oversight is effective, auditors observed the Division could strengthen a few processes. Mr. Peterson stated that subrecipients' documentation of inspections could be improved. For 11 of 100 files tested, subrecipients did not properly complete inspection forms used to review contractor work. The report explains that 11 projects were divided into several categories. He indicated subrecipients did not include all installed measures on the inspection form, or the inspector did not document inspecting all measures listed on the inspection form. Comparing inspection forms to

contractor invoices and periodic training regarding inspections will help improve this process.

Mr. Peterson reported that the process to document applicant eligibility for the program could be strengthened. To be eligible for ARRA weatherization funding, an applicant's household income has to be at or below 200% of the federal poverty level. Exhibit 3 shows the 2011 federal poverty level based on household size.

Mr. Peterson stated that for 19 of 100 weatherization files tested; better documentation is needed to support the applicants' incomes. The report groups the 19 files by the problems observed with their documentation. For example, some files did not include all required forms and others lacked sufficient documentation to help ensure all of the applicant's current income was reported.

Mr. Peterson reported auditors observed 28 of 100 files that included conflicting documentation regarding the number of household members. In most instances, the difference between the household size reported by the applicants and contractors was one. In addition, during inspections of weatherized homes, auditors observed two instances where the number of people living in the home did not match the application. For example, auditors inspected one home where several people were living. The application for this home reported one person living in the home. However, a form completed by the contractor indicated five people were living in the home. Documentation of income and household size is important to ensure a home qualifies for the weatherization program. Although the Division has established policies for documenting household income, it has not developed procedures for the subrecipients to follow.

Two recommendations were made to help improve documentation of weatherization inspections and household income.

Mr. Peterson stated that the Division has established an effective method to collect reliable performance information for the weatherization program. Reliable information is important so the Division can monitor subrecipients' activities and report program results. The Division developed a database that collects and compiles weatherization project information and calculates energy savings. In addition, to help ensure information is reliable, the Division randomly selects project files and verifies reported information when performing site visits to subrecipients. Auditor testing found only a 4% error rate when comparing project file information to project information in the database.

Although auditors found ARRA weatherization performance information to be reliable, the accuracy of some information could be improved. Mr. Peterson stated that errors occurred more frequently in certain areas tested. For 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Additional training of subrecipient staff charged with reporting weatherization data will help improve its accuracy in those areas where errors were more frequent.

One recommendation was made to improve performance information.

Mr. Peterson stated Appendices A & B provide additional details of ARRA projects by county which were performed in fiscal years 2010 and 2011.

Mr. Peterson stated the Division accepted the three audit recommendations.

Mr. Peterson concluded the presentation. He offered to answer questions from the Committee.

Chair Parks called for questions from the committee.

Senator Denis asked Mr. Peterson if national weatherization program problems had prompted the focus of the audit.

Mr. Peterson replied yes.

Senator Denis stated that the Housing Division was not following the national pattern, in that, the Division did not have any major problems.

Mr. Peterson replied yes.

Senator Denis stated when Nevada does things right it should be pointed out.

Assemblywoman Carlton referred to the audit methodology in the report. She asked, when looking at how the Division complied with SB 152 of the 2009 Legislative Session, did auditors compare the contractual relationships with the contractors.

Mr. Peterson replied auditors ensured in the audit survey work that there were contractual relationships with the subrecipients. Auditors did not audit that aspect. Mr. Peterson suggested that a representative from the Division could respond to the question.

Assemblywoman Carlton asked for clarification of the term subrecipient.

Mr. Peterson replied the subrecipient is the non-profit entity selected through a competitive process by the Housing Division to administer the ARRA grant funds.

Assemblywoman Carlton just wanted to make sure she understood the process. She stated there are ARRA grant funds, and the subrecipients are the non-profits that establish relationships with the contractors who did the work for the residents to improve their homes through weatherization. She commented that auditors did not review the relationships between the non-profits and the contractors as far as their training, expertise, pay rates, and things along that line. She clarified that auditors just looked at the basic function of whether they fit the non-profit definition and not who they actually contracted with.

Mr. Peterson replied that was correct. He added the audit work focused on the weatherization projects and whether they were performed and completed correctly.

Assemblywoman Carlton clarified that SB 152 was not addressed in this audit. She stated there are questions that will need to be addressed beyond the actual audit. She asked if there were consequences to the subrecipients or the contractors for the lack of documentation for the windows or solar screens that were not installed.

Mr. Peterson replied documentation to verify applicant income was in the files. However, in some cases the files lacked additional documentation that would help ensure that they had met the income eligibility guidelines as shown in the report. For example, 9 files lacked a zero income statement to verify that someone living in the home above the age of 18 did not have income. He explained auditors saw this as a documentation issue. Regarding the contractors and the work that was missed, auditors concluded this was an oversight. Mr. Peterson had contacted two subrecipients who reported they had received credits from the contractors for work that was not performed.

Assemblywoman Carlton referred to Appendix B, Projects by County, which included the number of projects, the costs, and the breakdown per project. She stated in Carson City a project was about \$5,400, Clark County averaged about \$3,900, in Elko \$3,200, in Lyon \$4,006, and in Washoe County \$3,200. She tried to take a cross section of the whole state when she made this comparison. She asked if auditors knew why the variation in the numbers was so great.

Mr. Peterson replied as shown in the audit report on page 7, the process for performing weatherization measures in a home starts with an application from an applicant. An energy assessment is performed on the home to outline valid weatherization measures. Measures that can be performed will determine the amount of work done in each home. Weatherization measures can differ from one home to another. Mr. Peterson stated the Division has established a priority list of weatherization measures that have gone through a benefit cost analysis to ensure that these measures are effective and that they will realize energy savings over the life of the measure. Mr. Peterson suggested that the Division could further respond to the difference in average costs in the counties.

Assemblywoman Carlton commented on the variables within the audit, adding questions would be asked of the agency.

Chair Parks asked about findings in regard to documentation problems by the subrecipients. He asked if some subrecipients had more problems than others.

Mr. Peterson replied no, the instances where some measures were not installed, those were done across a range of subrecipients and contractors so there was no pattern observed by the auditors that one subrecipient and/or contractor consistently failed to install weatherization measures.

Chair Parks called for the agency representative to testify.

Assemblyman Grady stated the report shows that the state spent a little over \$1.6 million on training. He thought that this was training to do the installation. He asked for comments on who did the training and what qualifications they had to do the training to receive the payment of \$1.6 million.

Mr. Peterson deferred the question to the agency.

Dr. Hilary Lopez, Chief of Federal Programs, Nevada Housing Division (NHD), introduced Sue Martin, Weatherization Assistance Program Manager. She thanked the

audit staff for the thorough review of the Weatherization Assistance Program (WAP). She appreciated and accepted the three audit recommendations. The Housing Division received \$37.1 million in ARRA and WAP funding which represented an approximate 1,000% increase over prior year funding. Many states have struggled to get funds allocated, while NHD was commended by the US Department of Energy for its ability to expend the funds in a timely manner. Additionally, prior monitoring by the US Department of Energy has shown that the Division and its subgrantees operate an effective program. The Division was pleased that the LCB audit report reached a similar conclusion. To date, the Housing Division and its subgrantees have provided ARRA and WAP services to approximately 8,500 low income households throughout the state and as indicated in the LCB audit have done so in an efficient and effective manner. The recommendations made by LCB staff will enable the Division to further strengthen this already successful program. She stated within the next 60 days the Division would outline a corrective action plan to address the three recommendations noted in the report. She stated the Division's preliminary response for the specific recommendations, as indicated in the response letter, are as follows.

For Recommendation 1 for providing additional training to subrecipients regarding the inspection of weatherized units they are reviewing policies and procedures so that additional training and guidance can be provided to subrecipient staff to ensure that all inspection forms are properly completed and that work completed matches invoice cost received.

For Recommendation 2 to develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants house size and total income. The current subgrantee administrative manual is being reviewed with regard to income verification and household size. The Division is also reviewing the income verification procedures of other US Department of Energy Weatherization Assistant Program grantees as well as discussing this issue with other agencies within the State of Nevada that require income verification for their programs.

For Recommendation 3 to provide additional training and monitoring of subrecipients weatherization data entered into their building weatherization report system. She stated the Division would be providing one-on-one training with subrecipient staff responsible for data entry into the system.

Dr. Lopez added the Division is already in the process of reviewing the issues and will prepare a corrective action plan and submit it to Audit staff within the next 60 days.

Dr. Lopez referred to Assemblywoman Carlton's question concerning SB 152 compliance. She indicated that as part of the Divisions monitoring of subgrantees, the Division monitors for compliance with SB 152 requirements. They have monitored subgrantees to ensure that their contractors offer health insurance to their employees as well as their dependents, that they maintain the proper work force make up, and that employees are paid prevailing wage rates.

Dr. Lopez deferred to Ms. Sue Martin, Weatherization Assistance Program Manager, to discuss the other questions asked by members of the Committee.

Ms. Martin referred to Assemblywoman Carlton's question regarding the variations in costs per county. She stated there were many reasons, which begins with the housing type. She explained costs for a multi-family unit versus a single-family unit would go down. She stated the Division tries to maintain an average cost per household of \$5,000; however, each household can vary due to the age of the unit being weatherized. For example, if a house was 50 years old, it might need insulation; if the house is 12 years old it may be up to code with insulation. Those types of measures would vary per dwelling and by county. Some of the outlying counties have old housing stock. She was unaware if the counties had different prevailing wages, which could be an issue. She added travel costs in the outlying areas would be figured into the average cost per unit.

Dr. Lopez referred to Assemblyman Grady's question regarding the DETR training. She stated DETR, at the beginning of this process, had selected several groups to provide training to individuals. The contractors that were working in the program then employed those individuals. She concluded and offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Senator Denis asked if it was known what the breakdown was in regard to single family homes versus multi-units.

Dr. Lopez offered to provide the information to the Committee.

Senator Denis asked if the information was broken down by single family units into a regular home versus any other type of dwelling.

Ms. Martin replied it is broken down into single family, which would be 1-4 units; multi-family, which would be 5+ units; and mobile homes.

Assemblywoman Carlton asked about the cost benefit analysis that was used with the application approval, the assessment, the measures, and the inspection. When she looks at one home in Humboldt County being weatherized for \$8,200 compared to a home in Clark County being weatherized for \$3,900, she was concerned about the cost that was spent on the home versus the benefit and the savings. She asked if there was a way to go back and look at the analysis that was made before a home was chosen to get an idea of how it was evaluated and how decisions were made. She added that she supported the program. She was having difficulty with an \$8,200 improvement on one home.

Dr. Lopez replied the Division does not track this information on a house-by-house basis. She explained they have a priority list established with the US Department of Energy. The priority list used by the Division is established based on cost versus savings of a particular measure within a particular area of the state, within a particular unit type, to determine the savings to investment ratio. She added, in terms of the disparity in some of the pricing she explained it could be that the average cost is lower

in Clark County because the Division would have more multi-family units within that region of the state. Heating and air conditioning systems used in single-family homes might be more expensive. Also, in multi-family homes the Division asks the landlord for a contribution towards the improvements to the property. She stated depending upon the age of the property they may not need substantial improvements in terms of an overhaul of their heating or air conditioning system.

Assemblywoman Carlton asked if the Division would be able to provide future legislatures with information regarding homes improved in 2011. She asked if the Division would be able to provide information on actual savings versus the projected savings.

Dr. Lopez replied the Division does not prepare an actual billing analysis as part of their evaluation of the installed measures because there are a variety of factors to consider in terms of if the household changes, if there are other improvements to the household, and also due to the Division's limited financial resources. The Division works from the estimated savings based on the priority list.

Assemblywoman Carlton clarified that the Division would not be able to verify the estimated savings in the future.

Dr. Lopez replied that was correct unless the Division undertook a specific study to evaluate based on billing analysis for what the actual realized savings were.

Assemblywoman Carlton stated this information might be helpful to legislators to see data showing how the funds are spent. She suggested that the Division could pick cases to follow.

Dr. Lopez commented that one part of the billing analysis would be to review data trends in terms of usage, household size, weather, increases in rates, etc. She stated the Division also participates in the national WAP evaluation and as part of that the US Department of Energy has hired a third party to run those types of analysis which will include some of the Division's data that national WAP evaluation.

Assemblywoman Carlton thanked Dr. Lopez for the information. She stated that was good to hear. She added it is good to move forward to glean as much data as possible so that future legislators will have hard data to make a decision.

Dr. Lopez stated the Division has received many comment cards from clients who received the weatherization services. The recipients let the Division know they are very pleased with the weatherization program and are saving money due to receiving these services.

Chair Parks commended the Housing Division staff for doing a great job on this program.

Chair Parks thanked Audit staff for their work on the audit.

Chair Parks called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, HOUSING DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

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

Mr. Townsend introduced Diana Giovannoni, Deputy Legislative Auditor; and Rick Neil, Audit Supervisor, to present the report.

Ms. Giovannoni began the presentation with background information. She stated the Substance Abuse Prevention and Treatment Agency (SAPTA) is within the Department of Health and Human Services under the Division of Mental Health and Developmental Services. SAPTA's mission is to reduce the impact of substance abuse in Nevada. SAPTA receives funding primarily from federal grants and General Fund appropriations. Exhibits 1 and 2 in the report show that fiscal year 2011 revenues and expenditures exceeded \$25.5 million.

SAPTA serves as the single state authority for the federal Substance Abuse Prevention and Treatment Block Grant, but does not provide direct services. Instead, SAPTA awards grant funds to community-based public and nonprofit organizations that provide prevention and treatment services. SAPTA distributed over \$46 million to these organizations during fiscal years 2010 and 2011.

Ms. Giovannoni continued, for substance abuse prevention programs, SAPTA funds prevention coalitions and oversees them to implement strategies recommended by the federal government. The prevention coalitions distribute the funds to prevention providers and are responsible for oversight of prevention providers that provide services. For substance abuse treatment programs, SAPTA provides funds to and oversees treatment providers for services to adults and adolescents including comprehensive evaluations, interventions, detoxification, outpatient, intensive outpatient, residential, transitional housing, and opioid maintenance.

Ms. Giovannoni stated Exhibit 3 depicts the flow of federal and state funds to SAPTA and on to other entities. Exhibit 4 summarizes, by type of award, the grant payments SAPTA made in fiscal year 2011, which totaled over \$22.6 million.

Ms. Giovannoni explained this audit focused on SAPTA's subrecipient oversight activities conducted in fiscal years 2010 and 2011. The audit objective was to evaluate whether SAPTA provided adequate fiscal oversight of subrecipients.

Ms. Giovannoni continued the report presentation with audit findings and recommendations. Beginning with independent audits, SAPTA needs to improve its oversight of subrecipients to ensure that audit requirements are met. Independent audits are one of the primary means by which SAPTA ensures subrecipients spend grant funds for their intended purposes. Auditors explained that SAPTA accepted audit reports on subrecipients that did not provide assurance of how grant funds were spent.

Specifically, 8 of 30 audit reports on subrecipients that SAPTA accepted did not examine whether grant funds were used for the grants' intended purposes or indicate compliance with other grant requirements. Consequently, for these entities, SAPTA did not have the information it needed to provide oversight of subrecipients' grant expenditures.

Ms. Giovannoni stated subrecipients often did not submit timely audit reports to SAPTA, in accordance with federal and state requirements. Over half of the subrecipients tested submitted audit reports late. Further, SAPTA took little action to follow up on late audit reports. By not ensuring subrecipients submit audit reports timely, SAPTA delays the detection of potential problems with subrecipients not using funds for their intended purposes. This is apparent by reviewing problems with one subrecipient as explained in the audit report. The subrecipient did not provide required audit reports to SAPTA for three consecutive years, 2006 through 2008, until May 2010. This entity received about \$6.8 million from SAPTA for fiscal years 2006 through 2010, of which a significant amount was forwarded to other subrecipients. Although SAPTA requested the audits on numerous occasions, it did not impose sanctions on the subrecipient until March 2010, when it cut off funding. Subsequent to this, SAPTA notified federal and state authorities that it suspected the subrecipient had intentionally misused or misappropriated federal and state funds so the entity could be investigated.

Ms. Giovannoni stated auditors noted the lack of procedures contributed to untimely audit reports. SAPTA did not have procedures for imposing sanctions when subrecipients fail to submit required annual audits. Federal regulations provide for sanctions in these cases, such as withholding a percentage of federal awards until the audit is completed satisfactorily. In addition, SAPTA did not verify that subrecipients took appropriate corrective action for material weaknesses and other findings noted in audit reports. The usefulness of audit reports for fiscal oversight is diminished when SAPTA does not verify problems are corrected.

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

Ms. Giovannoni stated SAPTA also did not detect that a subrecipient provided forged audit reports for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, auditors contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. Then, as required by statute, auditors reported this information to the Governor, each legislator, and the Attorney General. Because audit reports were forged, there is significant risk that grant funds were not spent appropriately. Exhibit 5 shows the subrecipient received over \$1.1 million from SAPTA during the 4 years it submitted forged reports. The subrecipient is working with an independent auditor to have audits performed for the past 4 years.

Ms. Giovannoni stated nine recommendations were made to help SAPTA ensure subrecipients comply with audit requirements to provide assurance that federal and state grant funds are used for intended purposes.

Ms. Giovannoni explained SAPTA's direct fiscal monitoring of subrecipients was not adequate. The grants oversight process includes periodic visits to subrecipients to determine whether they comply with grant requirements, including verifying that federal and state funds are used for intended purposes. These fiscal monitoring visits, along with independent audits previously discussed, are the primary means SAPTA uses to provide fiscal oversight of subrecipients.

Ms. Giovannoni stated SAPTA did not perform required fiscal monitoring site visits of subrecipients timely. Auditors explained that none of the five coalitions tested had timely site visits by SAPTA. Visits of coalitions are required annually, yet the visits were late from 6 months to over 3 years. In addition, 5 of 10 treatment providers auditors tested had untimely fiscal monitoring visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly \$7.1 million in fiscal years 2010 and 2011.

Ms. Giovannoni explained that documentation of procedures performed on fiscal monitoring visits was not sufficient to verify that staff properly performed important steps. In some cases, fiscal monitoring forms showed affirmative responses to steps without explanation or reference to documentation. This included the fiscal monitoring form for the July 2009 site visit to the subrecipient that SAPTA stopped funding and referred to federal and state authorities for investigation.

When monitoring steps are not properly documented, there is increased risk that subrecipients could misuse state and federal funds and go undetected. Furthermore, this makes it more difficult for SAPTA to demonstrate that it complied with federal requirements for fiscal oversight of subrecipients. This potentially puts SAPTA at risk of losing federal funds.

Ms. Giovannoni stated the report describes untimely follow-up on problems SAPTA found during fiscal monitoring site visits. Specifically, SAPTA delayed handling problems staff noted during site visits of three subrecipients auditors tested, to wait for them to respond to questions and provide information that should have been provided during the site visit.

An example of untimely follow-up is described in the report. During an April 2011 fiscal monitoring visit to a coalition, staff questioned many unsupported expenses paid with SAPTA funds. The coalition's responses to repeated requests failed to answer SAPTA's questions. However, SAPTA continued to make payments to the coalition through September 2011. A second site visit in December 2011 was unsuccessful in resolving the questioned items. The matter has since been referred to the Department Director's Office to determine the next course of action, including whether to require the subrecipient repay SAPTA for unsupported costs.

SAPTA needs to follow-up timely on problems staff note on fiscal monitoring visits, including imposing sanctions or special conditions to mitigate the risk of fraud, waste, or abuse of federal and state funds.

Ms. Giovannoni stated seven recommendations were made to improve fiscal monitoring performed by SAPTA personnel.

Appendix A lists the subrecipients that received grant funds in fiscal years 2010 and 2011. The report issued to the Governor, each legislator, and the Attorney General concerning the forged audit reports is included in the report.

Ms. Giovannoni stated the SAPTA accepted all 16 recommendations.

Ms. Giovannoni concluded the report presentation. She offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Chair Parks stated the report revealed substantial findings as well as the need for improvements.

Chair Parks called for agency staff to testify.

Assemblywoman Carlton asked about the possibility that the state could lose close to \$15 million in federal grants due to the problems outlined in the audit report.

Ms. Giovannoni deferred the question to the agency.

Ms. Deborah McBride, Agency Director, SAPTA, stated the agency accepted all of the audit recommendations. She thanked the audit staff for their work and professionalism throughout the audit process. She agreed that the audit clearly reflects the deficiencies in the agency system, prompting changes in the agency. She stated some of the recommendations have been implemented or are in the process of being implemented. She stated the next report will indicate progress in addressing the issues. Ms. McBride stated the agency was reviewing system processes, and writing new procedures to ensure that all the recommendations are implemented.

Chair Parks thanked Ms. McBride for the comments. He had questions in regard to how the agency got to where they are as identified in the report. He knew that staffing at the agency had changed in recent years. He also knew that most community-based organizations are finding it increasingly difficult to perform their mission. He asked for the agency to comment on the current staffing component and to address whether staffing was insufficient to do this monitoring to ensure that the work was done satisfactorily.

Ms. McBride replied the agency did have some staffing issues that had been addressed. They had to cut back substantially on their staffing. For the last 3 years they have gone from 33 staff down to 23 staff. They are looking at the issues to address that, change procedures and processes, and reassign responsibilities to various staff.

Chair Parks asked for a summary of the staffing changes. He was concerned about the insufficient accounting oversight by SAPTA.

Ms. McBride replied they have changed fiscal staff within the program. The new fiscal staff are reviewing procedures and processes to address the deficiencies. She stated the agency was looking at assigning some of the responsibilities for the fiscal monitors in audits to other staff. They recently hired an account technician and are looking to hire a Management Analyst I position to help with fiscal monitors and audits. She added, the agency would be setting up better tracking systems to monitor and follow up on the audits.

Chair Parks asked Ms. McBride to address the previous question from Assemblywoman Carlton relative to the possibility of interruption and/or a decrease of federal funding.

Ms. McBride replied she believes they will be ok with that. Ms. McBride replied the agency is making timely corrections to ensure that procedures and processes are in place to avoid a possible interruption or decrease in federal funding. She noted that additional improvements were going to be made starting July 1, 2012, when new subgrants are issued.

Chair Parks asked if the agency would pursue the repayment of misused funds from any subrecipient upon completion of their analysis.

Ms. McBride replied yes. She stated in regard to the forged audit reports the agency promptly requested repayment of those funds which were still in their bank accounts. The funds were returned to the agency. For another subrecipient mentioned in the report, the agency has requested repayment of funds that the subrecipient was not able to document. Demand letters had also been sent to the subrecipient.

Chair Parks called for questions from the Committee.

Senator Denis was trying to understand the agency as a whole. The mission statement says the agency is to reduce the impact of substance abuse in Nevada by identifying and responding to alcohol and drug concerns of Nevadans. He asked if this was in relation to prescription narcotic abuse.

Ms. McBride replied yes the treatment programs do accept clients that have problems related to prescription drug abuse.

Senator Denis asked how much substance abuse treatment involves prescription narcotic abuse versus illegal substance abuse.

Ms. McBride offered to provide the information to the Committee.

Senator Denis referred to the testimony in public comment from Mr. Lovgren. He asked why the agency was not able to provide requested information to Mr. Lovgren.

Ms. McBride replied the agency does respond to public record requests in accordance with agency procedures. She was unsure of what Mr. Lovgren was referring to. She emphasized the agency responds to requests and works with their public information officer to ensure they are providing requested information timely.

Senator Denis asked if the agency had any requests for information that they were not been able to fulfill.

Ms. McBride replied she was not aware of any at this point.

Assemblywoman Carlton was pleased to hear that the federal money was not in jeopardy. She was encouraged that the agency would move quickly to implement the recommendations to ensure no future problems.

Assemblywoman Carlton said Mr. Lovgren had submitted a request to the agency for public records and stated he had not received it; she requested that the agency's reply to Mr. Lovgren be provided to the Committee for review, so they can verify that the questions in Mr. Lovgren's letters have been answered.

Regarding one of Mr. Lovgren's information requests, Assemblywoman Carlton asked if Division criteria for the treatment of substance related disorders existed, if it was used, and if it was current.

Assemblywoman Carlton knew Mr. Lovgren from working with him on a committee 10 years ago. She respected his passion for these issues.

She stated that since the audit report uncovered ongoing problems, and then it is found that a citizen is not being responded to in what they believe to be an appropriate manner, this causes her more concern. She asked that the request for information from Mr. Lovgren be addressed by the agency.

Chair Parks noted that the document Mr. Lovgren provided to the Committee included concerns that were not specific to the audit on SAPTA being reviewed today. However, it indicates that there is an interest which should be addressed by either this committee or the Legislative Commission.

Senator Denis stated Appendix A lists the subrecipients. He had previously asked audit staff if they had gone back after this issue with forged audit reports came up and looked at some of the other ones. He was assured that the auditors reviewed the larger ones. He asked for comments on whether the agency goes back when there is an issue as in this case where there was a forged audit, and actually look through all of the subrecipients and ensure that this was not a recurring issue. He asked if the agency had or planned to review the smaller subrecipients.

Ms. McBride replied yes they are planning to go back to check all of the subrecipients to ensure that everything is in order. She noted the agency had sent out a letter to all providers advising them that the agency required an original audit report signed in blue ink.

Senator Denis stated we have had economic issues over the last few years requiring significant cuts. He noted this was an area where those cuts have impacted this agency. He expressed appreciation for all state employees and the work that they do. He was hopeful that resources would improve in the future.

Chair Parks called for comments from the Committee.

Assemblywoman Carlton asked if the agency would be reviewed prior to the six-month follow up meeting.

Mr. Townsend replied he anticipated the next Committee meeting being after the July 12, 2012, date when the 60-day plan of corrective action is due. He stated the Committee could choose to go over the agency plan at the next Committee meeting.

Assemblywoman Carlton agreed considering the concerns with this particular audit.

Chair Parks agreed.

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES, SUBSTANCE ABUSE PREVENTION AND TREATMENT AGENCY. THE 60 DAY PLAN OF CORRECTIVE ACTION WILL BE REVIEWED AT THE NEXT AUDIT SUBCOMMITTEE MEETING. THE MOTION WAS SECONDED BY SENATOR DENIS.

Senator Parks disclosed for the record that he serves on a board of directors that is a recipient of SAPTA funds. He added, to the best of his knowledge, it is not one of the agencies referenced in the audit report presentation. He noted that he would be voting on the motion.

THE MOTION CARRIED UNANIMOUSLY.

Assemblyman Grady was absent from the vote.

Chair Parks thanked the agency for their responses and the Audit staff for their fine work on the audit.

Item 4— Presentation of Review of Governmental and Private Facilities for Children, April 2012 (NRS 218G.575)

Mr. Townsend stated this report was the result of a statutory requirement that the Audit Division perform reviews on agencies that have residential treatment or care for children. He stated the auditors have been presenting these reports on a regular basis since the legislation was passed. He introduced Jane Bailey, Audit Supervisor; Sandra McGuirk, Deputy Legislative Auditor; and Mike Herenick, Deputy Legislative Auditor.

Mike Herenick, Deputy Legislative Auditor, began the report presentation. He explained the report includes the results of reviews of 5 children's facilities, unannounced site visits to 7 children's facilities, and surveys of 56 children's facilities. Statutes require reviews of both governmental and private facilities for children. As of June 30, 2011, auditors identified 19 governmental and 33 private facilities in Nevada, for a total of 52 facilities. Exhibit 1 shows the number of different types of facilities, their maximum capacity, average population, and the average staffing levels as of June 30, 2011.

Mr. Herenick stated as of June 30, 2011, 150 youths were placed in 22 different facilities in 11 different states by a county or state agency. Exhibit 2 shows the number of youths placed in out-of-state facilities by the placing agencies. Exhibit 3 shows the number of youth placed in out-of-state facilities and the placing agencies from December 31, 2008, through June 30, 2011.

Mr. Herenick explained that statutes require children's facilities to forward to the Legislative Auditor copies of complaints filed by children in their custody or on behalf of such a child. Auditors reported receiving 541 complaints from 24 facilities in Nevada from July 1, 2011, through December 31, 2011. The other 35 facilities reported no complaints were filed during this timeframe.

Mr. Herenick stated reviews were conducted pursuant to the provisions of NRS 218G. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards. The purpose of these reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities and whether the facilities respect the civil and other rights of the children in their care. The reviews include an examination of policies, procedures, processes, and complaints. In addition, auditors discussed related issues and observed related processes during their visits.

Mr. Herenick introduced Sandra McGuirk, In-charge, Deputy Legislative Auditor, to present a summary of the results of the reviews.

Sandra McGuirk stated based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at all five facilities reviewed provide reasonable assurance that the facilities adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of the youths. She stated during the seven unannounced visits conducted, auditors did not note anything that caused them to question the health, safety, welfare, or protection of the rights of the children in the facilities.

Ms. McGuirk noted that a summary of all five facilities reviewed is included in the report. All five facilities reviewed need to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from a timeframe to complete a youth's initial treatment plan, including when the plan should be reviewed and revised, to the control and security of keys, tools, and kitchen utensils. Policies and procedures are needed to help ensure management and staff understand the facilities' processes and provide consistent services to the youths.

Ms. McGuirk reported that all five facilities reviewed need to improve their medication administration processes and procedures. Auditor reviews found that youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of the five facilities reviewed. For example, at three of five facilities, some youths' files were missing evidence of physician's orders. At 1 facility some youth's files were missing up to 5 months of medication administration records. In

addition, at three of the five facilities medication files and records did not always contain evidence of independent review.

Ms. McGuirk discussed the facilities' implementation of new medication policy requirements. During the 2011 Legislative Session, the Legislature passed Senate Bill 246, which became effective January 1, 2012. The bill requires children's facilities to adopt policies to document physicians' orders; administer and document medications administered, including errors; store, handle, and dispose of medication; and ensure each employee who administers medication receives a copy of and understands the policies. Of 56 facilities surveyed, auditors received responses from 52. Of the four that did not respond, one was in the process of closing, two did not respond timely and one did not respond at all. Ms. McGuirk stated that auditors would assess each facility's compliance with the requirements contained in SB 246 at future reviews and unannounced visits.

Ms. McGuirk stated Exhibit 4 includes a map of the five facilities reviewed. The report provides details on issues noted at each facility, as well as each facility's response. For example, the report includes the Nevada Youth Training Center beginning with background information, followed by the purpose of the review, results in brief, observations, and the facility's response to each observation.

Ms. McGuirk gave an overview of the appendices included in the report.

Appendix A contains a copy of Nevada Revised Statutes 218G.500 through 218G.535 and 218G.570 through 218G.585.

Appendix B contains a glossary of terms used within the report.

Appendix C contains a summary of common observations noted at the facilities reviewed.

Appendix D provides background, population, and staffing information on 52 Nevada facilities.

Appendix E contains a list of unannounced Nevada facility visits.

Appendix F discusses the methodology used to carry out the requirements of the statutes.

Ms. McGuirk concluded the report presentation. She offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Chair Parks called for the agency representative to testify.

Mr. Tom Criste, State Director, Maple Star, thanked audit staff for the review. He explained Maple Star had three sites audited. He explained that Maple Star represents five locations within the state located in Elko, Reno, Tonopah, Pahrump, and Las Vegas. He explained that Maple Star includes about 43 homes across the state with about 93 children placed in the facility. In addition, Maple Star treats on any given day

about 350 individuals in a community based or an in-home situation. They are not a clinic operation; they treat clients in a community setting. Mr. Criste stated they attempt to make the foster homes as home like as possible.

Mr. Criste stated the audit was comprehensive and defined oversights. He noted, a detailed action plan was written to address the specific areas in the three reviews. Their corpus of policies is statewide, however, the counties, Clark and Washoe, and DCFS have nuances that these entities expect to have applied to policies and procedures in their respective areas.

Mr. Criste stated the audit has impacted Maple Star and has improved their compliance and overall operation to ensure that kids and families are receiving the highest quality of care. They are following all of the compliance issues that are expected in a treatment environment for their clients.

Chair Parks thanked Mr. Criste for his testimony.

Assemblywoman Carlton thanked Mr. Criste for accepting the audit as a way to improve their processes. She stated Mr. Criste had mentioned the differences and inconsistencies in countywide and statewide regulations. She asked for comments on the problems and asked if legislators could make them easier for compliance.

Mr. Criste replied inconsistencies in requirements can involve background checks, durations of reviews for staff, and how often fingerprinting and TB testing should be conducted. He suggested that LCB could lead the charge to bring the government entities together and come out with one regulation or one approach. This would make it a lot easier for implementation of the medication policy.

Assemblywoman Carlton thanked Mr. Criste for the testimony.

Chair Parks thanked Mr. Criste for his testimony and insight of the audit.

Chair Parks asked audit staff for comment on the 541 complaints from 24 facilities.

Mr. Herenick replied the number of complaints depends on the type of facility, the population of the youths being served, and the format in which the complaints are submitted. For example a residential facility or group home tends to provide more of a home like atmosphere which is more conducive to voicing a complaint versus a staff secured facility such as a detention or correctional facility, the youths tend to submit a written complaint. That identifies the difference in the representation of the 541 complaints from the 24 facilities noted in the report. The variation or examples of types of different complaints submitted vary from complaints of dislike of the food to interaction between youths and staff or youths and other youths, or the privilege system.

Chair Parks asked if auditors utilized the complaints to formulate any of the recommendations.

Ms. McGuirk replied auditors review all of the complaints that come into their offices. It is a requirement by law. They are due in the office on a monthly basis. Auditors read each one and then use the information from the complaints to help them to assess risk

at the facilities. She explained this helps determine how quickly auditors need to review a facility. She stated auditors use the complaints to determine areas they need to review more extensively at the facilities.

Chair Parks asked about the 150 youths placed in out-of-state facilities. He asked if auditors played a role in monitoring these other facilities. He asked how this impacted the overall scope of the review.

Ms. McGuirk replied auditors identify youths that are placed in the out-of-state facilities from various sources. The facility is contacted and a request is sent for them to submit complaint information to auditors on a monthly basis. Auditors review each complaint received which helps auditors assess risk.

Chair Parks commented that over the years he was aware of horror stories about youth in various facilities around the country, which causes some concern.

Chair Parks called for a motion.

SENATOR DENIS MOVED TO ACCEPT THE REPORT ON THE REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN, APRIL 2012. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.

Assemblyman Grady was absent from the vote.

Chair Parks thanked audit staff for their work on this report.

Item 5— Follow-up on six-month report from a prior meeting (NRS 218G.270)

A. Department of Administration, Motor Pool Division

Mr. Townsend stated auditors follow up on the audit recommendations to help ensure implementation. Agencies are asked to return to the Committee to discuss the status of partially implemented recommendations. The follow up involves one recommendation for the Motor Pool Division. This recommendation was discussed at the February 2, 2012, Audit Subcommittee meeting and was brought back to this meeting for review.

He introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper stated in September 2010, auditors issued an audit report on the Motor Pool Division that contained 11 recommendations. As reported at the February 2, 2012, Audit Subcommittee meeting one recommendation remained partially implemented. He stated recommendation 9 is for the Motor Pool to request NDOT to provide odometer readings associated with each fuel transaction. He stated NDOT's monthly billing statements provided detailed information about each fuel transaction except for the vehicles odometer readings. Fueling procedures require the driver to enter the odometer reading when obtaining fuel from NDOT facilities. However, this data is not provided to the Motor Pool Division. Odometer readings can be helpful in preventing and detecting improper fuel card use. He stated at the October 17, 2011, Audit Subcommittee meeting the Motor Pool Division was requested to provide the Audit

Division with a written explanation from NDOT regarding why they are unable to prepare a report that includes the odometer readings. On January 5, 2012, the Motor Pool Division sent a written request to NDOT. This letter explains that even though the card reader prompts the operator to enter the odometer reading, the odometer reading does not appear on the monthly fuel invoice. In addition, the letter explains two attempts by NDOT staff that have not worked. On March 15, 2012, NDOT provided a written response indicating they cannot program the fuel system to provide odometer readings to the Motor Pool Division. Because NDOT is unable to provide the odometer readings, auditors have concluded that this recommendation is no longer applicable. Mr. Cooper stated during the audit process, auditors met with NDOT and Motor Pool Division staff and believe this recommendation would be relatively simple to implement. However, this recommendation has proved more challenging to implement than anticipated. Although the Motor Pool Division agrees with the recommendation auditors do not want the cost of implementing this recommendation, such as NDOT requesting a new fueling system, to exceed the intended benefit. Mr. Cooper concluded the presentation. He offered to answer questions from the Committee.

Chair Parks called for questions from the Committee.

Chair Parks commented on the issue. He asked when NDOT might look at upgrading its fuel tracking system.

Mr. Cooper could not answer the question for NDOT. He stated the audit recommendation did not want the cost to exceed the benefit. He was unsure of NDOT plans to upgrade the system. He stated during the audit process auditors identified situations of improper fuel card use and auditors made four recommendations to the Motor Pool Division. He stated the Division was able to implement three of the recommendations, the ones that were under their control. He stated the Motor Pool Division has some controls in place. He stated this recommendation would be more of an added benefit or a compensating control. He stated the Motor Pool Division had implemented controls in regard to detecting improper fuel card use.

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE FOLLOW-UP SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION, MOTOR POOL DIVISION. THE MOTION WAS SECONDED BY SENATOR DENIS AND CARRIED UNANIMOUSLY.

Assemblyman Grady was absent from the vote.

Item 6—Public Comment

Chair Parks called for public comment or additional public testimony.

Chair Parks recognized Mr. Barry Lovgren.

Mr. Barry Lovgren, private citizen, thanked the Audit Subcommittee for its interest in citizen access to SAPTA's public records. He wanted to place the issue that he had raised about the Division criteria in the context of the audit report. He stated the contents of the audit report generally speaks to whether the program spent SAPTA funding appropriately. The Division criteria that he had been pursuing dealt with quality assurance standards that determine whether a program qualifies under NAC 458.118 to receive that SAPTA funding. He stated those criteria were revised in November 2011 to add some levels of treatment that had been certified before November 2011 even though there were not any Division criteria for them. He wanted to find out the full extent of that problem by finding out what the lawful division criteria for treatment programs were before that November 2011 revision. He stated even that revision did not fix the problem because there is still no division criteria for programs treating co-occurring disorders. Those continue to be funded and continue to be certified by standards established in an unadopted SAPTA draft document that would add co-occurring disorders to the criteria but has never been done. It continues to be a draft.

Mr. Lovgren thanked the Committee for their interest. He offered to answer questions from the Committee.

Chair Parks thanked Mr. Lovgren for his comments. He stated further discussions would occur to attempt to gain a full understanding of the issues.

Chair Parks called for additional public comment. He noted there was none.

Chair Parks called for a motion to adjourn the meeting.

ASSEMBLYWOMAN CARLTON MOVED TO ADJOURN THE MEETING OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. THE MOTION WAS SECONDED BY ASSEMBLYMAN AIZLEY AND CARRIED UNANIMOUSLY.

Legislative Commission's Audit Subcommittee
April 17, 2012
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The meeting adjourned at 11:47 a.m.

Respectfully submitted,

Donna Wynott, Audit Secretary

Senator David R. Parks
Chair of the Audit Subcommittee
of the Legislative Commission

Paul V. Townsend, Legislative Auditor
and Secretary to the Audit Subcommittee
of the Legislative Commission

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

4a

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September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In October 2011, we issued an audit report on the Office of Veterans' Services that contained eight recommendations. The Office filed its plan for corrective action in January 2012. NRS 218.G270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the eight recommendations contained in the report. As of July 18, 2012, the Department of Administration indicated that five recommendations were fully implemented and three recommendations were partially implemented. The three partially implemented recommendations shown below relate to difficulties ensuring accurate accounts receivable records at the Veterans' Home.

Recommendation Number		Anticipated Date for Full Implementation
2	Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required.	January 15, 2013
3	Ensure staff are adequately trained in using the accounting functions of the new software program.	January 15, 2013
4	Establish policies and procedures to ensure accuracy of the accounts receivable aging report.	January 15, 2013

During our audit, we identified several issues related to unreliable accounts receivable records. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. According to management, staff had not received adequate training, and the Veterans' Home was working with the software vendor to ensure the program was working as specified in the contract.

According to the Department of Administration's six-month report, the Veterans' Home experienced some setbacks in implementing the recommendations. These setbacks include high turnover in key accounting positions and ongoing software issues resulting in inaccurate aging reports. To address these issues, the Veterans' Home hired new accounting staff and hired a consultant to review the system and provide training. In addition, an RFP for a new billing/clinical software program is being pursued, and accounting staff is working on correcting data inaccuracies before the installation of the new software program.

Members of the Audit Subcommittee
of the Legislative Commission
September 10, 2012
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Question

1. Is the Veterans' Home still on target to meet its planned date of January 15, 2013, for full implementation of the remaining three recommendations?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Caleb S. Cage, Director, Nevada Office of Veterans' Services

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Nevada Office of Veterans' Services

On October 17, 2011, your office released an audit report on the Nevada Office of Veterans' Services (Office). The Office subsequently filed a corrective action plan on January 9, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Office to comply with audit findings.

There were 8 recommendations contained in the report. The extent of the Office's compliance with the audit recommendations is as follows:

Recommendation 1

Develop comprehensive policies and procedures for billing, receiving, and monitoring Veterans' Home revenues.

Implementation Status – Fully Implemented

Agency Actions – The Office developed comprehensive policies and procedures for all their revenue areas. These policies and procedures were submitted to the Nevada State Veterans Home's Policy and Procedures Committee for review and approval. The new policies and procedures became effective August 15, 2011. We reviewed the policies and procedures and staff represented that the new policies and procedures are being used for billing, receiving and monitoring of revenues.

Recommendation 2

Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required.

Implementation Status – Partially Implemented

Agency Actions – The Office established controls to ensure accounts receivable reports are submitted to the State Controller's Office when required. However, the reports are not being submitted to the State Controller's Office as required because of high turnover in key accounting positions at Nevada State Veterans Homes as well as ongoing software-related issues resulting in inaccurate aging reports. The Office addressed the turnovers by hiring new employees and are currently pursuing RFP to address the software related issues. The Office anticipates full implementation by January 15, 2013.

Recommendation 3

Ensure staff are adequately trained in using the accounting functions of the new software program.

Implementation Status – Partially Implemented

Agency Actions – Discussions with staff disclosed that they were unable to fully implement this recommendation because of vacancies experienced by the Office and vendor inability to make the system compliant with federal requirements. However, the Office has filled the vacancies and all staff are being trained. Additionally, the Office is in the process of procuring new billing/clinical software that will be compliant with federal licensure requirements. Therefore, full implementation of this recommendation is anticipated by January 15, 2013.

Recommendation 4

Establish policies and procedures to ensure accuracy of the accounts receivable aging report.

Implementation Status – Partially Implemented

Agency Actions – The Office established policies and procedures to ensure accuracy of the accounts receivable aging report. However, high staff turnover has prevented training and continuing inaccuracies in the system has delayed full implementation. Staff represented the Office hired an outside consultant who is currently reviewing the system and training staff. The Office is also aggressively pursuing an RFP for a new software program. In addition, accounting staff is

working on correcting the data inaccuracies before the installation of the new software program. The Office anticipates full implementation of this recommendation by January 15, 2013.

Recommendation 5

Revise policies and procedures to ensure the Veterans' Home complies with the state's requirement for collection of outstanding debts.

Implementation Status – Fully Implemented

Agency Actions – The Office revised its policies and procedures spelling out the processes that would be followed when collecting outstanding debts. We reviewed the revised policies and procedures and discussed it with staff. Staff represented the Office sends out statements by the 15th of the month followed by a certified 30 day delinquent letter if payment is not received. A discharge notice is sent after 60 days, and if the resident is still owing after 70 days, the debt will be transferred to the Controller's Office for collection in accordance with a Memorandum of Understanding between the Office and the Controller's Office.

Recommendation 6

Monitor reimbursement from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited to the correct budget category.

Implementation Status – Fully Implemented

Agency Actions – The office developed policies and procedures to monitor reimbursement from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited to the correct budget category. We reviewed workpapers submitted by the Office that shows the different budget accounts used by the office for the different deposits. The Office represented the management analyst reconciles the deposits posted in the State's Data Warehouse (DAWN) to the anticipated revenues for each reimbursement budget account.

Recommendation 7

Develop policies and procedures to ensure the resident trust fund bank account is reconciled monthly, and reconciliations are submitted to the State Controller's Office when required.

Implementation Status – Fully Implemented

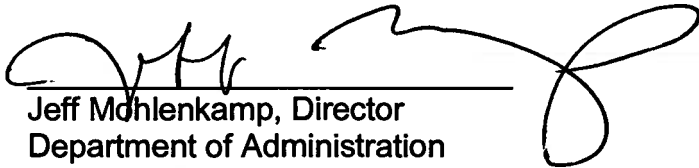
Agency Actions – The Office developed policies and procedures to ensure the resident trust fund bank account is reconciled monthly and the reconciliations are submitted to the State Controller’s Office when required. The new policies and procedures also provide information on other services provided to veterans who wish to maintain a resident trust fund account such as performing a cashiering service and providing quarterly statements.

Recommendation 8

Segregate duties over the resident trust fund, including responsibilities for completing monthly bank reconciliation.

Implementation Status – Fully Implemented

Agency Actions – The Office developed policies and procedures to ensure segregation of duties over resident trust fund, including responsibilities for completing monthly bank reconciliation. The Office represented that no one individual is allowed to perform more than one of the functions.



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Caleb Cage, Director, Nevada Office of Veterans’ Services
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Office of Veterans' Services issued on October 17, 2011. Report # LA12-03.

Background

The Nevada Office of Veterans' Services (NOVS) was established in 1943 to serve as an advocate for veterans. NOVS is responsible for operating a state veterans' nursing home; supervising the operations and maintenance of two state veterans' cemeteries; assisting veterans and their families in obtaining available federal benefits, services, and compensation to which they are entitled; and obtaining and disseminating information to the veterans of Nevada.

NOVS has offices in Las Vegas, Reno, Elko, and Fallon and cemeteries located in Fernley and Boulder City. Additionally, the Nevada State Veterans' Home, a 180 bed skilled nursing care facility, is located in Boulder City. As of August 2010, NOVS had a total of 231 positions with 186 located at the Veterans' Home. NOVS is funded from a variety of sources including, Medicaid, private pay residents, Veterans' Affairs State Home Per Diem Program, General Fund appropriations, license plate proceeds, federal burial reimbursements, Medicare, and gifts. Expenditures were just over \$18 million for fiscal year 2010 with the majority (over \$15 million) at the Veterans' Home.

Purpose of Audit

The purpose of this audit was to determine whether internal controls at the Veterans' Home ensure that Medicaid, Medicare, Veterans' Affairs, and residents are billed timely and accurately, and revenues are collected. In addition, we determined whether the Veterans' Home has adequate controls over the resident trust fund. This audit included a review of the revenues and resident trust fund activities for calendar year 2010, and activities through February 2011 for certain areas.

Audit Recommendations

This audit report includes eight recommendations. Six recommendations were made to improve controls over billing and collecting revenues at the Veterans' Home. Two recommendations were designed to strengthen oversight of the resident trust fund.

The Office accepted the eight recommendations.

Recommendation Status

The Office of Veterans' Services's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Office of Veterans' Services

Summary

The Nevada State Veterans' Home does not have adequate controls to ensure revenues are billed timely or accurately, and that outstanding balances are collected. During our audit, the Veterans' Home did not bill for more than \$600,000 in services timely. Although the delay should not impact the amount of Medicaid and Medicare reimbursements eventually received, it is likely that some losses will occur from private pay residents that were not billed for several months. In addition, accounts receivable balances have not been adequately monitored, and staff have not followed the state's policies for collecting and reporting accounts receivable. Most billing and collection problems stem from a lack of policies and procedures. During our audit, new fiscal staff were taking steps to develop policies and procedures and to improve the accuracy and monitoring of accounts receivable.

The Veterans' Home lacks adequate controls to ensure resident trust funds are properly safeguarded. Monthly bank reconciliations of the trust account were not completed for extended periods of time. In addition, duties have not been adequately segregated to help protect the \$181,000 average monthly balance in the resident trust fund.

Key Findings

The Veterans' Home did not always bill revenues timely or accurately. We identified billing problems from each of the four major revenue billing sources. For example, during our audit Veterans' Home staff identified \$285,000 in previously missed Medicaid reimbursements from prior months. In addition, staff did not bill Medicare for a 6-month period. We estimate that \$240,000 had not been billed; however, staff have approximately 1 year to request reimbursements from Medicare. Further, three private pay residents were not billed timely, including one resident that was not billed for 10 consecutive months of care. When a bill was finally sent, it had a balance of nearly \$53,000. For each of these revenue sources, accounting staff did not have adequate policies and procedures to guide billing activities. Policies and procedures are important because turnover occurred in key accounting positions and new staff did not have adequate guidance. (page 6)

The Veterans' Home did not maintain accurate accounts receivable reports. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. Although a new software program was implemented in 2009, staff have been unable to use the program to generate an accurate accounts receivable aging report. Our review of 16 residents with outstanding balances greater than \$10,000 found that only 1 had an individual statement balance matching the accounts receivable aging report balance. For example, one resident had an aging report balance of \$23,116 and a statement balance of \$12,114 for the same day. According to management, additional software training is needed for staff, and they are working with the software vendor to ensure the program performs as specified in the contract. (page 8)

The Veterans' Home has not actively pursued the collection of delinquent accounts for private pay residents. Delinquent accounts have not been turned over to the State Controller's Office for collection after 60 days as required by state law. As of December 2010, the Veterans' Home accounts receivable aging report showed over \$230,000 in outstanding debt between 1 and 2 years old. However, because the aging report contains inaccurate information, staff were unsure which debts and exact amounts that should be pursued for collection. (page 9)

Monthly bank reconciliations of the resident trust fund were not completed during fiscal year 2010. In addition, reconciliations for July through November 2010 were not completed until January 2011 and included an unexplained overage of about \$2,400. The trust fund holds residents' money and serves as a bank for residents wishing to participate. The trust fund is used by residents to pay for monthly bills, clothing, haircuts, and other services and activities. Therefore, reconciliations are vital to help ensure residents' money is safeguarded and errors are detected and corrected timely. (page 13)

The Veterans' Home has not adequately segregated the duties of accounting staff to help safeguard the resident trust fund. Segregation of duties is needed so that one individual cannot control all aspects of a financial transaction. The resident trust fund included accounts for over 160 residents and had an average monthly balance of \$181,000 for calendar year 2010. Segregation of duties is important to help reduce the risk of error and fraud. (page 14)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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LEGISLATIVE COUNSEL BUREAU

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September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In October 2011, our office released an audit report on the Aging and Disability Services Division. The report contained three recommendations to improve administrative controls over performance measures. The Division filed its corrective action plan on January 18, 2012. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months of the corrective action plan outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the three recommendations. As of July 18, 2012, the Department of Administration indicated one recommendation was fully implemented and two were partially implemented. The two partially implemented recommendations are shown below.

**Recommendation
Number**

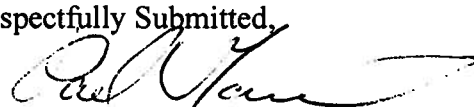
- | | |
|---|--|
| 1 | Clearly define terms and identify assumptions needed to perform the calculation as described in the performance measure's title. |
| 3 | Use the Division's existing knowledge, skills, and abilities to strengthen controls over information used to calculate performance measures. |

The Department of Administration reported the Division had clearly defined the elements and identified the assumptions for the performance measures discussed in the audit; however, the Division is in the process of developing new performance measures to better determine the value of its programs. The Department of Administration also reported the Division is working with the provider of the Social Assistance Data Management System to move to the next generation data base system that contains error and logic checks, and other controls to help ensure the data are accurate.

Question

1. When will the Division complete the remaining work on performance measures?

Respectfully Submitted,


Paul V. Townsend, CPA
Legislative Auditor

PVT:dw
Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Mary Liveratti, Administrator, Aging and Disability Services Division

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services –
Aging and Disability Services Division

In October 2011, your office released an audit report on the Aging and Disability Services Division (Division). The Division subsequently filed a corrective action plan on June 21, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Board to comply with audit findings.

There were three recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Clearly define terms and identify assumptions needed to perform the calculation as described in the performance measure's title.

Status – Partially Implemented

Agency Action – The Division clearly defined the elements and identified the assumptions of the Personal Assistance Services and Traumatic Brain Injury program measures discussed in the audit, however, they are in the process of developing new performance measures to provide benchmarks to be used to better determine the value of their programs.

Recommendation 2

Review the formulas used to calculate performance measures

Status – Fully Implemented

Agency Action – The Division has developed procedures requiring Program Chiefs and the Deputy Administrator (or designee) to review performance measure calculations.

Auditor's Comment – We reviewed the calculations and supporting documentation for the Personal Assistance Services and Traumatic Brain Injury programs and noted no exceptions.

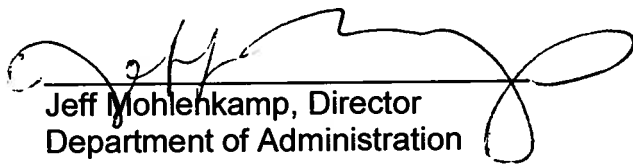
Recommendation 3

Use the Division's existing knowledge, skills, and abilities to strengthen controls over information used to calculate performance measures.

Status – Partially Implemented

Agency Action – The Division is working with the provider of the Social Assistance Data Management System to move to their next generation data base system which contains error checks, logic checks, and other controls to help ensure the data used to calculate performance measures is accurate.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Wilden, Director, Department of Health and Human Services
Mary Liveratti, Administrator, Aging and Disability Services Division
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Aging and Disability Services Division issued on October 17, 2011. Report # LA12-04.

Background

The Division for Aging Services was created in 1971. In 2009, the Office of Disability Services, Senior and Disability Rx Programs, Traumatic Brain Injury Programs, and other related responsibilities were merged with the Aging Services Division. The agency was renamed the Aging and Disability Services Division (Division).

The Division's mission is to develop, coordinate, and deliver a comprehensive support system of essential services that will allow Nevada's elders and those with disabilities to lead independent, meaningful, and dignified lives. In the 2011-2013 Executive Budget, the Division reported on 44 performance measures.

The Division's funding totaled \$57 million in fiscal year 2010. The largest funding sources were General Fund appropriations and grants. Program costs made up 74% of the Division's expenditures. The Division was authorized 206 full-time positions for fiscal year 2010.

Purpose of Audit

The purpose of this audit was to evaluate the Division's performance measures, including the reliability of reported results. The audit focused on the Division's performance measures reported for fiscal year 2010.

Audit Recommendations

This audit report contains three recommendations to improve administrative controls over performance measures. These recommendations include taking necessary steps to improve the reliability and validity of performance measures by defining terms, identifying assumptions, reviewing formulas used in the calculations, and using existing knowledge and abilities to ensure the data reported is complete, valid, and reliable.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Aging and Disability Services Division

Department of Health and Human Services

Summary

The Aging and Disability Services Division reported some performance measures that did not accurately describe the performance of the programs. Of the five performance measures reviewed, two were significantly misleading and inaccurate, and the other three had minor errors. Management did not adequately review the calculations and descriptions of two measures to ensure the titles reflect the information reported. In addition, the Division's controls over the collection of information used to calculate the measures can be improved. These performance measures may be used by the Legislature, Governor, and Department and Division management to make critical decisions.

Two performance measures were reported as cost savings to the State for home versus institutional care, but actually reflected the estimated cost of institutional care for clients. Since the calculations did not deduct program costs and included other errors, we estimate the reported results were overstated by \$5.0 million and \$1.7 million for fiscal year 2010.

Key Findings

Descriptions for two performance measures for personal assistance services for adults with disabilities and persons with traumatic brain injuries did not accurately describe the information presented. The Division reported the two programs saved the State \$8.8 million and \$1.8 million in fiscal year 2010 by diverting adults with disabilities and persons with traumatic brain injuries from institutional care. The formulas used to calculate these amounts do not represent the programs' savings of state dollars because they did not include the costs of operating these two programs. In addition, the Division did not include potential reimbursement from the federal government for Medicaid costs incurred by the State for institutionalization. We estimate the two programs saved the State \$3.8 million and \$123,000 during fiscal year 2010. (page 4)

The Division used information to calculate performance measures that was not always correct. Management did not implement sufficient controls to ensure the information used to calculate performance measures is accurate and reliable. The Division's calculations for the Traumatic Brain Injury (TBI) and Personal Assistance Services programs' performance measures contained the wrong Medicaid rate and number of days in a year. (page 6)

Reports used to calculate performance measures are not always accurate. The Division contracts with a provider to assist persons who qualify to receive benefits from the TBI program. The Division relies on worksheets from the provider to calculate performance measures. These worksheets contain significant errors that, in turn, distort the performance measures. For example, the provider's calculation for the average days of service did not include the number of days for 4 of 10 discharged clients for 2 months. These were unintentional errors. However, it is the Division's responsibility to implement a system to review supporting data to ensure accuracy. (page 8)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In October 2011, we issued an audit report on the Department of Conservation and Natural Resources, Division of Environmental Protection. In that report, we made nine recommendations to assist the Division in enhancing controls over accounts receivable, reporting reliable performance measures, and the regulation of permittees. The Division filed its plan for corrective action in November 2011. NRS 218G.270 requires the Department of Administration to issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

The Department of Administration reported in July 2012, on the status of the nine recommendations contained in the audit report. The Department indicated eight recommendations were fully implemented and one was partially implemented. The Department indicated the final recommendation would be fully implemented when the Division issues permit invoices in 2013. Because the Division has developed controls to ensure fees are accurate and agree with laws and regulations, we believe the Division has met the intent of the recommendation and consider it fully implemented. We have no questions for the Division.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of Governor
Steve Weinberger, Administrator, Division of Internal Audits
Jeff Mohlenkamp, Director, Department of Administration
Leo Drozdoff, Director, Department of Conservation and Natural Resources
Colleen Cripps, Administrator, Division of Environmental Protection

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Division of Environmental Protection

On October 17, 2011, your office released an audit report on the Department of Conservation and Natural Resources, Division of Environmental Protection (Division). The Division subsequently filed a corrective action plan on November 30, 2011. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 9 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Report debt over 60 days delinquent to the State Controller for collection in accordance with NRS 353C.195.

Status – Fully Implemented

Agency Actions – The Division is working toward reporting debt over 60 days delinquent to the State Controller for collection in accordance with NRS 353C.195. The Division has monthly reports created by its bureaus to track unpaid debt and collection efforts; the debt is billed annually and bureau staff call debtors attempting to receive payment. The Division also has a quarterly account receivable report mandated by the State Controller's Office and created by its Office of Fiscal and Personnel Management (OFPM) every 90 days. The quarterly report is used as oversight to the bureaus' actions, including collection efforts, and for transfers to the State Controller's office. After reviewing, OFPM

uses email and an Excel spreadsheet as requested by the State Controller's Office to transfer the debt.

Auditor's Comment – The Division may not be able to meet the statutory requirement of transferring the debt within 60 days. Depending upon when the debt becomes past due within the quarter, the Division may or may not transfer the debt timely pursuant to statute. NRS 353C.195 states “[u]nless an agency and the State Controller agree on a different time, an agency shall assign a debt to the State Controller for collection not later than 60 days after the debt becomes past due.”

The State Controller's Office stated the Division does not have an agreement extending the deadline. However, it stated that agencies can keep accounts when there is an effort to receive debt, such as a payment plan. The State Controller's Office verified its last receipt of transferred debt from the Division occurred on June 28, 2012, transferring debt that was slightly more than 60 days past due, which was acceptable.

Recommendation 2

Periodically update accounts receivable policies and procedures, including statutory changes, as necessary.

Status – Fully Implemented

Agency Actions – The Division updated its accounts receivable policies and procedures, including statutory changes, as necessary. For example, we reviewed the Division's 2010 and 2012 Administrative Manual and noted changes to the Accounts Receivable section that included references to statutes and administrative code.

Recommendation 3

Develop controls over accounts receivable maintenance and reporting, and consider centralization of the accounts receivable function to the Division's financial management section.

Status – Fully Implemented

Agency Actions – The Division developed controls over accounts receivable maintenance and reporting, and centralized the accounts receivable function to the Division's financial management section. We reviewed the Division's policies and procedures for accounts receivable and noted new processes. For example, new processes require OFPM to reconcile forms submitted by the bureaus,

periodically update policies and procedures, and conduct biannual audits. The Division also centralized accounts receivable functions. We reviewed debt records and transfers newly managed by the OFPM.

Recommendation 4

Review and confirm the write-off of bad debt when requested by the State Controller.

Status – Fully Implemented

Agency Actions – The Division amended its Administrative Manual to provide for the review and confirm the write-off of bad debt when requested by the State Controller. The new policies and procedures designate OFPM with this responsibility.

Auditor's Comment – The State Controller's Office confirmed it has not made a write-off request of the Division since the audit was completed.

Recommendation 5

Develop controls to ensure written policies and procedures over accounts receivable are followed.

Status – Fully Implemented

Agency Actions – The Division has developed controls to ensure written policies and procedures over accounts receivable are followed. The Division added a biannual audit to its accounts receivable procedures. We reviewed the audit record of four bureaus completed in April 2012. The Division represents it follows up with its bureaus thirty days after each audit when necessary.

Recommendation 6

Increase the number of outcome based performance measures to help Division management, the Governor, and the Legislature make fiscal and program decisions about Division operations.

Status – Fully Implemented

Agency Actions – The Division increased the number of outcome based performance measures to help Division management, the Governor, and the Legislature make fiscal and program decisions about Division operations. We reviewed past and current performance measures. We contacted the Legislative

Auditors to confirm which performance measures they considered to be “outcome” measures. The Division represents it used one of those outcome measures as a template to improve other measures. We noted three instances where the Division applied the template to create new outcome measures.

Recommendation 7

Develop written policies and procedures regarding each performance measure including the methodology regarding how each measure is to be calculated, document retention, and management review.

Status – Fully Implemented

Agency Actions – The Division developed written policies and procedures regarding performance measures. We reviewed the Division’s 2010 and 2012 Administrative Manual and noted changes to the Performance Measure section. The Division added a requirement for bureau Deputy Administrators to review performance measure documentation before submitting its biennium budget. We also reviewed the initial quarterly reports under the new process that document performance measure calculations completed by the bureaus.

Recommendation 8

Continue to monitor and revise the permitting process to help ensure permit renewals are issued within statutory timeframes.

Status – Fully Implemented

Agency Actions – The Division continues to monitor and revise the permitting process to help ensure permit renewals are issued within statutory timeframes. The Division represents two of its five permitting bureaus are currently implementing new database processes.

Recommendation 9

Develop controls to ensure fees are mathematically accurate and agree with amounts stated in laws and regulations.

Status – Partially Implemented

Agency Actions – The Division developed controls to ensure fees are mathematically accurate and agree with amounts stated in laws and regulations; however, implementation will not be finalized until the first invoice period in 2013.

Paul Townsend, Legislative Auditor
July 18, 2012
Page 5

We reviewed records and interviewed staff and management from four bureaus. Some bureaus rely upon databases and spreadsheets to calculate and confirm accurate mathematical fee compilations and rely upon professional environmental engineers to confirm fee rates agree with laws and regulations. Other bureaus manually calculated fees based upon information provided by the permitted entity then review the fee calculations.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation & Natural Resources
Colleen Cripps, Administrator, Division of Environmental Protection
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Division of Environmental Protection issued on October 17, 2011. Report # LA12-07.

Background

The Division's mission is to preserve and enhance the environment of the state to protect public health, sustain healthy ecosystems, and contribute to a vibrant economy. To accomplish its mission, the Division implements state and federal environmental laws, provides financial and technical assistance related to drinking water and wastewater systems, oversees clean-up of contaminated soil and water, administers the State Petroleum Fund, and provides public education programs.

The Division is organized into ten bureaus with offices in Carson City and Las Vegas. As of August 2011, the Division had 252 authorized positions. The Division also provides staff support to the State Environmental Commission, the Board to Finance Water Projects, and the Board to Review Petroleum Claims. The Division is primarily funded by federal grants, fees, assessments, and reimbursements. In fiscal year 2011, revenues and expenditures amounted to \$114 million, exclusive of transfers and appropriations.

Purpose of Audit

The purpose of this audit was to determine if state laws, regulations, and Division policies were followed regarding the administration of accounts receivable, reporting reliable performance measures, and the regulation of permittees. Our audit focused on the Division's activities for fiscal year 2011.

Audit Recommendations

This audit report contains 9 recommendations to assist the Division in enhancing controls over accounts receivable, performance measures, and permit issuance and fee collection.

The Division accepted the nine recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Division of Environmental Protection

Department of Conservation and Natural Resources

Summary

Developing controls to consistently turn debt over to the State Controller's Office can assist the Division with collections and ensure the removal of significantly delinquent debt. Additionally, controls to ensure subsidiary ledgers are accurate will aid in correcting quarterly reporting errors. Turning debt over to the Controller's Office and improving controls can create additional efficiencies that allow staff to concentrate efforts on other Division matters.

While the Division has a strategic plan, its performance measures can be improved by focusing on outcome based measures, maintaining supporting documentation, and developing policies and procedures. Without sound performance measures, state officials and Division management may be making decisions based on unreliable and inaccurate information. Additionally, management and stakeholders cannot effectively determine if goals and objectives are being met.

Delays were made in renewing some permits. Not promptly renewing permits may result in the Division losing revenue as permits are allowed to be active for periods beyond 5 years. Prompt issuance of permit renewals will also ensure fees are collected and permittee operations are proper.

Key Findings

Most bureaus did not actively submit debt over 60 days delinquent to the State Controller during fiscal year 2010 or 2011. Assembly Bill 87, passed during the 2009 Legislative Session, centralized the State's collection efforts to the Office of the State Controller after debts reach 60 days past due. Even though this requirement is relatively recent, the Division forwarded only about \$84,000 of its roughly \$2 million in debt. (page 5)

The Division did not properly report accounts receivable on quarterly reports forwarded to the Controller's Office. Errors and inaccuracies on accounts receivable ledgers resulted in inaccurate reporting and were caused by insufficient controls and staff turnover. (page 7)

Significantly aged and uncollectible debt of nearly \$2 million continues to be carried on the Division's ledgers. Some accounts related to bankrupt and abandoned facilities have been due for over a decade, and collection is highly unlikely. (page 9)

Most of the Division's performance measures are non-outcome oriented. Our analysis found 30 of 37 measures were non-outcome oriented and many simply counted the number of activities or the amount of work the Division was doing. Conversely, outcome measures demonstrate the impact an agency is having on a stated issue or problem. The Legislature and the Department of Administration recommend agencies use outcome measures to help decide how well an agency is achieving its goals. (page 11)

Supporting documentation for 7 of the Division's 37 performance measures reviewed was not retained. The Division was also unable to recalculate or recreate 6 of the 7 measures. Policies and procedures have not been developed over performance measures and will help ensure reported results and calculations are consistent, accurate, error free, and supporting documentation retained. (page 12)

Permit renewals were delayed. We found 8 of 73 permits were not issued as old permits expired. Although the Division has decreased the frequency of delays since our last audit, we still found notable delays between permit expiration and issuance ranging from 1 year, 2 months to 7 years, 11 months. We also reviewed several types of permit listings which indicated additional expired permits of both large and small facilities. By not renewing some Water Pollution Control permits timely, the Division has already missed about \$23,000 in renewal fees. (page 15)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In October 2011, we issued an audit report on the Department of Health and Human Services, Oversight of Child Care Facilities. The plan of corrective action was filed in January 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the six recommendations contained in the audit report. As of July 18, 2012, the Department of Administration indicated all six recommendations were fully implemented. We agree and therefore do not have any questions for agency officials.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Richard Whitley, Administrator, Health Division

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services,
Oversight of Child Care Facilities.

On October 17, 2011, your office released an audit report on the Department of Health and Human Services. The Department's Health Division subsequently filed a corrective action plan on January 20, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 6 recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Develop policies and procedures to help ensure Bureau inspections are performed timely and child care facilities take corrective action when necessary.

Status – Fully Implemented

Agency Actions – In December 2011 the Division developed two separate policies to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made two additions to the policy and procedure manual: a policy titled Ensuring Timely Inspections; and a policy titled Corrective Action Plans – Child Care Facilities.

- The Ensuring Timely Inspections policy describes procedures for conducting facility surveys, timelines for the surveys and responsibilities of both the surveyor and provider during the inspections.

- The Corrective Action Plans – Child Care Facilities policy describes procedures for implementing a plan to assist and provide the licensee with a listing of corrections and a time line for completing the corrections to comply with state law.

Recommendation 2

Revise management reports to include information that helps ensure timely Bureau inspections and follow-up issues requiring corrective action.

Status –Fully Implemented

Agency Actions – In December 2011 the Division developed a policy to comply with the recommendation. The Division’s Bureau of Health Care Quality and Compliance made an addition to the policy and procedure manual, a policy titled Notice of Violation Policy. The policy describes the Notice of Violation process and how the Division ensures facilities are coming into compliance with regulations. Additionally, the Division provided examples of the monthly supervisors’ case tracking form that includes information used to help ensure inspections are timely and issues requiring corrective action are followed up by managers.

Recommendation 3

Develop policies and procedures for monitoring child care facilities to help ensure fire and health inspections are performed timely.

Status – Fully Implemented

Agency Actions – In March 2012 the Division developed two separate policies to comply with the recommendation. The Division’s Bureau of Health Care Quality and Compliance made two additions to the policy and procedure manual: a policy titled Ensuring Timely Health and Fire Inspections – Child Care Facilities – Southern Nevada; and a policy titled Ensuring Timely Health and Fire Inspections – Child Care Facilities – Northern Nevada. The policies describe responsibilities for providers and agency surveyors for initial and renewal licensee inspections and requirements specific to Las Vegas providers. Additionally, the Division provided an example of a memorandum to child care providers notifying them of changes to the procedures for fire and health inspection requests and possible sanctions if providers do not comply with state law.

Recommendation 4

Revise management reports to include information helpful in monitoring the timeliness of health and fire inspections.

Status – Fully Implemented

Agency Actions – The Division created a spreadsheet that includes information helpful in monitoring timeliness of health and fire inspections. The information includes when inspections are due, the type of inspection required, when the provider requested the inspection, and when the inspection was completed. A staff member has been assigned to track the spreadsheet on a daily basis to ensure fire and health inspection requests are being completed.

Recommendation 5

Develop procedures to help ensure employees at child care facilities have timely child abuse and neglect checks.

Status –Fully Implemented

Agency Actions – In December 2011 the Division developed a policy to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made an addition to the policy and procedure manual, a policy titled Ensuring Timely Child Abuse and Neglect Checks – Child Care facilities. The policy establishes procedures for providers and the Division to follow to obtain, review and act upon information about employees working with children and to ensure they have timely child abuse and neglect checks.

Recommendation 6

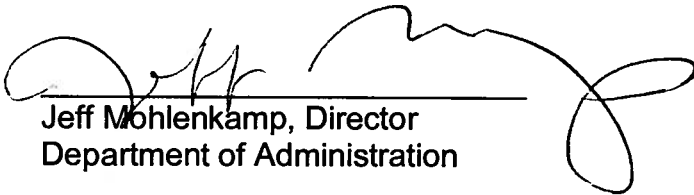
Revise inspection procedures to detect employees at child care facilities that have not had tuberculosis tests before working with children, or whose tests have expired.

Status – Fully Implemented

Agency Actions – The Division revised inspection procedures to detect employees at child care facilities that have not had tuberculosis tests before working with children, or whose tests have expired. Tuberculosis test information is now part of the employee's individual training record and shows the date of the most recent test and expiration date. Additionally, the Division advised providers that all new employees must have had their tests prior to starting their position or they will be in non-compliance with child care regulations.

Paul Townsend, Legislative Auditor
July 18, 2012
Page 4

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Willden, Director, Department of Health and Human Services
Richard Whitley, Administrator, Nevada State Health Division
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Oversight of Child Care Facilities issued on October 17, 2011. Report # LA12-06.

Background

The Bureau of Services for Child Care (Bureau) licenses, inspects, and investigates complaints of child care facilities in Nevada. During our audit scope, the Bureau was within the Division of Child and Family Services. With legislation in 2011, the Bureau was transferred to the Health Division on July 1, 2011.

The purpose of the Bureau is to ensure the health, safety, and well-being of children in child care facilities. It is responsible for all facilities in Nevada, with the exception of most facilities in Washoe County.

The Bureau is primarily funded by a federal grant. In fiscal year 2011, the Bureau received approximately \$1 million under this grant. The Bureau has offices in Carson City, Elko, and Las Vegas. In fiscal year 2011, the Bureau had 19 employees.

As of June 30, 2011, 558 facilities were licensed by the Bureau. The Bureau experienced a significant increase to its caseload recently. In May 2009, the city of Las Vegas relinquished its child care responsibilities to the State. This resulted in an increase of 197 facilities to the Bureau's caseload. In September 2010, Clark County relinquished its responsibilities, increasing the Bureau's caseload by 174 facilities.

Purpose of Audit

The purpose of this audit was to determine if the Bureau ensures child care facilities meet health and safety requirements. Our audit focused on the Bureau's activities from July 1, 2009 through March 31, 2011.

Audit Recommendations

This audit report contains 4 recommendations to improve the timeliness of inspections and ensure follow-up so that problems noted during inspections are corrected timely. In addition, there are 2 recommendations to improve the monitoring of employees at child care facilities to ensure they meet requirements in state laws and regulations.

The Division accepted the 6 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Oversight of Child Care Facilities

Department of Health and Human Services

Summary

The Bureau did not always perform timely inspections of child care facilities or take timely action to help ensure fire and health inspections were performed by state and local fire and health authorities. Although a majority of inspections were timely, it is important for the Bureau to ensure inspection requirements are always met. In addition, better monitoring of facility employees is needed to ensure compliance with key health and safety requirements. It is critical that requirements such as child abuse and neglect checks and tuberculosis tests for facility employees are always met because they protect the health and safety of children at child care facilities.

Key Findings

We tested inspections of child care facilities performed by the Bureau from July 1, 2009 through March 31, 2011. Our audit found 7 of 50 child care facilities had untimely inspections. The untimely inspections ranged from 2 to 8 months late, with an average of 3.5 months late. Inspections are the primary method for the Bureau to verify child care facilities are in compliance with key health and safety requirements designed to keep children safe. NAC 432A.190 requires inspections to be made at least two times during the 12-month licensing period or once every 6 months. (page 4)

We also found the Bureau did not always follow up when facilities were not in compliance with health and safety requirements. For 2 of the 50 facilities tested, there was no evidence that corrective action was taken on issues noted during inspections. One facility had eight non-compliant issues. This included findings that the facility admitted children without current immunizations and did not have an emergency plan for responding to a fire or natural disaster. (page 5)

Most child care facilities we tested had timely fire and health inspections conducted by state and local fire and health authorities. However, 3 of 50 facilities did not have timely fire inspections. For two facilities, we found no evidence the Bureau contacted state or local fire authorities to request an inspection, including one that was 5 months overdue at the time of our testing. In the other instance, the request was not sent timely. In addition, 4 of 50 facilities did not have timely health inspections. One facility had not been inspected for 17 months. The other three facilities had not been inspected for at least 14 months at the time of our testing. In all three instances, the Bureau had not contacted state or local health authorities to request an inspection for these facilities. It is the Bureau's standard practice to request these inspections. (page 6)

The Bureau's inspection process did not always ensure employees at child care facilities had child abuse and neglect checks required by state law. We tested inspections for 50 facilities and found 3 inspections did not have evidence the Bureau performed a child abuse and neglect check for any of the 18 employees at these facilities. In addition, we found that checks were not performed timely for 19 of 20 employees selected. NRS 432A.170 requires the Bureau to perform the check within 3 days of the person being hired. On average, the check was performed 24 days after the person was hired. Most of the delay was because the facilities did not inform the Bureau timely when employees were hired. (page 8)

We found instances when problems at facilities were not detected during inspections. We tested inspections for 50 facilities and found some new employees did not have timely tuberculosis (TB) tests and some existing employees had expired TB tests. Specifically, for 10 of 29 facilities with new employees since the prior inspection, there were 22 new employees with untimely TB tests. For these new employees, the tests were performed on average 40 days after the employee was hired. In addition, 3 facilities had instances when existing employees or volunteers did not have a TB test or it was expired. (page 9)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

4e

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September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In October 2011, we issued an audit report on the Division of Child and Family Services. The plan of corrective action was filed in January 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the four recommendations contained in the audit report. As of July 18, 2012, the Department of Administration indicated all three recommendations were fully implemented. We agree and therefore do not have any questions for Division officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Amber Howell, Administrator, Division of Child and Family Services

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services,
Division of Child and Family Services

On October 17, 2011, your office released an audit report on the Department of Health and Human Services, Division of Child and Family Services. The Division subsequently filed a corrective action plan on January 18, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

There were 4 recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Develop policies and procedures on the compilation of performance measures to ensure reported results are reliable, including retention of supporting documentation and supervisory review of calculations and methodology.

Status – Fully Implemented

Agency Actions – In January 2012, the Division developed policies and procedures on the compilation of performance measures to ensure reported results are reliable, including retention of supporting documentation and supervisory review of calculations and methodology. The policy defines types of performance measures and how the Division uses them to monitor and adjust services. The policy proscribes a retention schedule for documentation

supporting the performance measures and identifies specific responsibilities to program staff for collecting and reviewing the performance measures.

Recommendation 2

Increase the number of outcome performance measures to help agency managers, the Governor and the Legislature, and other oversight bodies make budget and policy decisions about the Division's operations.

Status –Fully Implemented

Agency Actions – The Division used the new policy resulting from recommendation 1 to develop a new list of performance measures. These measures reflect outcome standards and criteria previously established by the federal government and other national organizations that deal with child and family services. The Division used the new performance measures to support the Governor's Priority and Performance Based Budgeting initiative for the upcoming 2013 legislative session.

Recommendation 3

Revise contract procedures to help ensure contract monitors obtain proof of insurance for all required policies throughout the life of the contract.

Status – Fully Implemented

Agency Actions – The Division revised contract procedures to help ensure contract monitors obtain proof of insurance for all required policies throughout the life of the contract. The revised procedures assign responsibility for complying with contract insurance requirements to the contract originator and assign the contract compliance manager responsibility for notifying the contract monitor when the insurance is set to expire. The Division's contract compliance manager is responsible for entering insurance information into the contract summary system. The revised procedures designate the contract summary system as the record of compliance for insurance requirements for all Division contracts.

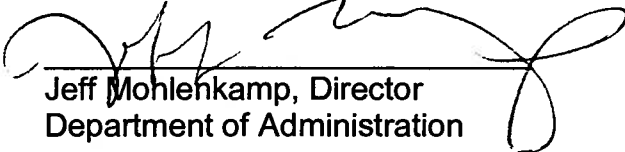
Recommendation 4

Review contracts to ensure vendor invoices have information necessary to verify charges are accurate and invoices are properly reviewed to verify services charged were provided.

Status – Fully Implemented

Agency Actions – The Division implemented a new statewide Office Voucher Cover Sheet to review contracts to ensure vendor invoices have information necessary to verify charges are accurate and invoices are properly reviewed to verify services charged were provided. The cover sheet summarizes invoice activity and provides a checklist for fiscal staff to review the payment request and payment voucher entries. These procedures help ensure charges conform to appropriate state law and guidelines, and reconcile with state financial tracking systems.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Willden, Director, Department of Health and Human Services
Amber Howell, Administrator, Division of Child and Family Services
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Division of Child and Family Services issued on October 17, 2011. Report # LA12-05.

Background

The mission of the Division is to provide support and services to assist Nevada's children and families in reaching their full human potential. The Division is primarily responsible for: (1) child protective and welfare service delivery in rural Nevada and oversight of urban county-operated child protective and welfare services, (2) children's mental/behavioral health treatment and residential services in urban Nevada, and (3) statewide juvenile justice services including state-operated youth training centers and youth parole.

In fiscal year 2011, the Division had expenditures of about \$209 million. The Division is funded primarily by state appropriations and federal funds. General fund appropriations were about \$131.5 million in fiscal year 2011. Federal funds, such as Medicaid and Title IV-E, were the second largest revenue source. The Division has offices in Carson City, Las Vegas, Reno, and various sites in rural Nevada, with the Administrator's office in Carson City. For fiscal year 2011, the Division had 1,011 authorized positions.

Purpose of Audit

The purpose of this audit was to determine if the Division: (1) has performance measures that are reliable and useful in assessing program outcomes, and (2) effectively monitors service contracts. Our audit focused on the Division's performance measure and contract activities from July 1, 2009 through March 31, 2011.

Audit Recommendations

This audit report contains two recommendations to improve the reliability of performance measures and usefulness in assessing program outcomes. In addition, there are two recommendations to enhance controls over service contracts.

The Division accepted the four recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Division of Child and Family Services

Department of Health and Human Services

Summary

Key performance measures reported by the Division were often not reliable. It is important for performance information to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. Further, we found a majority of the Division's performance measures were indicators of the agency's efforts (outputs), rather than measures that demonstrate the impact of its efforts (outcomes). Increasing the number of outcome measures would provide useful information to management and oversight bodies such as the Governor and Legislature in making budget and policy decisions.

Overall, the Division has an effective process for monitoring service contracts. However, the Division could improve its monitoring to verify all insurance requirements are continuously met over the life of the contract. In addition, because one contractor's invoices did not include adequate detail, the Division had limited assurance amounts billed were valid, accurate, and in accordance with terms of the contract.

Key Findings

The reported results for 8 of 20 performance measures we tested were not reliable. The reported results were unreliable because they were not supported by competent underlying records or used an inappropriate methodology. We found four of the measures tested did not have competent underlying records and four did not use a sound methodology. These problems with reliability were caused by the lack of written policies and procedures on how results were to be computed and by inadequate review. (page 8)

We identified a total of 154 performance measures that were reported by the Division in the 2011-2013 Executive Budget and other budget-related documents. We analyzed these measures and found 73% were output measures and 16% were outcome measures. The remaining were either effectiveness or quality measures. The Department of Administration's budget instructions to agencies recommend outcome measures because they demonstrate the impact the agency is having on a stated issue or problem. Further, the Federal Office of Management and Budget strongly encourages the use of outcome measures because they are more meaningful to the public than outputs. We surveyed seven states with programs similar to the Division's. All seven states indicated the use of outcome performance measures has resulted in positive feedback from legislators, governors, and the public. (page 12)

The Division did not always obtain proof of insurance from contractors to verify all insurance requirements were met throughout the life of the contract. For 6 of 27 contracts with insurance requirements, the Division did not obtain proof of insurance for all required policies. The types of insurance that were not always verified included general liability, professional liability, workers' compensation, and auto. The length of time ranged from 3 months without general liability to almost 2 years without workers' compensation. When contractors do not have all required insurance, there is an increased risk to the State. Although the agency's written procedures require contract monitors to ensure insurance requirements are met, regular monitoring of required insurance policies was not performed. (page 14)

For one of the 30 contracts we tested, the invoices were not adequate because they did not indicate how the amount billed was calculated and other details required by the contract. As a result, the Division did not have reasonable assurance it paid the proper amount. This contractor was paid about \$569,000 during fiscal years 2010 and 2011 for support services provided to families of children with severe emotional disabilities. The State Administrative Manual states invoices must describe all work performed in detail and by whom it was performed. Further, one of the attachments to this contract states invoices are to include specific data regarding cost, client, and referral source. (page 15)

**UPDATE ON
PLAN FOR CORRECTIVE ACTION
SUBSTANCE ABUSE PREVENTION
AND TREATMENT AGENCY
(SAPTA)**

5a

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

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DONALD O. WILLIAMS, *Research Director* (775) 684-6825

September 10, 2012

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In April 2012, we issued an audit report on the Substance Abuse Prevention and Treatment Agency (SAPTA) within the Division of Mental Health and Developmental Services. The audit report contained nine recommendations to help ensure grant recipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contained seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds. In accordance with NRS 218G.250, SAPTA filed its 60-day plan of corrective action on July 3, 2012. The plan includes detailed steps on how the agency intends to implement the 16 recommendations.

We have reviewed the plan of corrective action and agree with the direction taken by the agency. The plan includes system changes such as workflow restructuring and reassignment of staff. In addition, the plan includes enhancing written policies and procedures in many areas, such as identification of and focus on high-risk entities, tracking of audits due on subrecipients, follow-up on problems noted on audits and fiscal monitors, and imposing graduated sanctions on subrecipients failing to comply with grant requirements. Nevertheless, we suggest the Audit Subcommittee obtain additional information about the agency's 60-day plan.

Question

1. An attachment to the 60-day plan shows two proposed positions on the agency's organization chart. Would implementation of any of the audit recommendations be affected if the proposed positions are not approved?

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw
Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Michael J. Willden, Director, Department of Health and Human Services
Richard Whitley, Administrator, Division of Mental Health and Developmental Services
Deborah McBride, Agency Director, SAPTA

**AGENCY 60-DAY PLAN
FOR CORRECTIVE ACTION**

STATE OF NEVADA

BRIAN SANDOVAL
Governor

MICHAEL J. WILLDEN
Director



RICHARD WHITLEY
Acting Administrator

JANE GRUNER
Deputy Administrator

DEPARTMENT OF HEALTH AND HUMAN SERVICES
MENTAL HEALTH & DEVELOPMENTAL SERVICES
SUBSTANCE ABUSE PREVENTION & TREATMENT AGENCY
4126 Technology Way, 2nd Floor
Carson City, NV 89706
(775) 684-4190 • FAX (775) 684-4185

July 03, 2012

Jeff Mohlenkamp, Director
Department of Administration
Blasdel Building, Room 200
209 East Musser Street
Carson City, NV 89701

Re: Audit Report LA12-15

Dear Mr. Mohlenkamp:

Pursuant to NRS 218G.250 and 218G.270, below is the Substance Abuse Prevention and Treatment Agency's (SAPTA) plan of corrective action. Also included is a status report on implementation of the audit recommendations.

Plan of Corrective Action in Response to LCB Audit Report

I. System Change

Results from the April 2012 Legislative Counsel Bureau (LCB) audit report has necessitated an overall system change on how SAPTA conducts business internally around fiscal monitoring oversight, compliance monitors, audit requirements, follow-up, corrective action plans, and graduated sanctions. The system change will be made in the context of determining how the various team components link together as a whole with compliance as the centerpiece.

Several major areas will be redeveloped:

- Workflow restructuring
- Revision of tracking methodology
- Reassignment of staff

- Shift in reporting structure
- Communication flow
- Written policies/procedures
- Additional training

Orientation Change

In the past SAPTA has worked closely with community partners to allow flexibility in deadlines for providing documentation that could not be located during a fiscal monitor. In addition, leeway was given in deadlines for receipt of A-133 audits and limited scope audits if there was a valid reason for a delay. SAPTA is now adhering to strict deadlines and will be writing procedures and policies to reflect this business model and the ensuing sanctions.

Due dates for Corrective Action Plans (CAPs) will be adhered to and immediate sanctions imposed for failure to submit responses timely. Written procedures/policies will be developed to address this issue.

Procedural Changes

Some of the procedural changes to take place in response to the audit will be:

- Identify high risk programs
- Development of a schedule for monitoring based on risk assessment
- Improvement and expansion of tracking spreadsheets
- Written policies for sanctions
- Graduated sanction response to lack of documentation/non-compliance
- Written procedures for monitoring, both fiscal and programmatic
- Incorporation of required documents and procedures into subgrant assurances
- Increase of staff
- Paperwork flow review
- Review of team analysts responsibilities
- Review of monitoring documents

Fiscal Team Change

The fiscal team will be divided into two sections: 1) Monitoring; and 2) Operations

Monitoring Structure

Primary responsibility in the Monitoring Group will report to the ASO II, Fiscal Lead (see attached organizational chart). Secondary responsibility will fall to the Operations group with cross training.

Monitoring group responsibilities:

- Scheduling of audits, fiscal monitors
- Audit tracking, follow-up, and review
- Fiscal monitors, tracking, follow-up, and review
- Certification billing and tracking
- Tracking of required State and Federal licenses, insurance, and structure
- Reporting and preparation of SAPT Block Grant
- Training for providers
- Cross training with operations group

Operations group

Operations group responsibilities:

- Review and process requests for reimbursement/payment for services
- Review and process internal payments, credits, and transfers
- Monitor and prepare Agency travel
- Technical review of program and administrative subgrants, preparation of documentation and assist Prevention/Treatment with budget changes/amendments
- Contract monitoring
- Cross training with monitoring group

Essential Changes

Enhance and design tool to track all aspects of provider compliance/requirements:

- Structure (501c3) non-profit status
- Federal (DUNS, tax reporting – IRS 990)
- State (Business License, Certification, HCQC)
- Insurance (Liability, Auto, Volunteer, Professional, Etc.)
- Fiscal monitors (timing dependent on risk assessment)
- Audit (SAPTA Administrative Manual (G10) Limited scope or A-133)
- Program monitors (coordinate with Prevention and Treatment teams)

The initial tool will be an excel spreadsheet for set timing reminders and non-compliance issues. The longer-term goal will be development of a database that will auto-generate letters and reports. The tracking tools will address all LCB audit findings and maintain a historic record of Agency actions. The timing of actions generated will match developed (or developing) internal controls, policies, and procedures.

Staffing Changes

See attached organizational chart.

Details

See responses to the Legislative Counsel Bureau (LCB) recommendations.

Development of written procedures/policies to address:

- Risk based assessment approach
- Documents to pull during fiscal monitor
- Tracking of audits and fiscal monitors due including scheduling
- Graduated sanctions
- Communication workflow
- Desk procedures to guide the monitoring group on how to document performance of monitoring steps to include:
 - Types of source documents to review;
 - Proper sample size;
 - How to document procedures performed and test results; and
 - Performing proper follow-up on problems found during site visits.
- Procedures to address reports of compliance from staff
- Procedures that require coalitions to submit fiscal monitoring reports of prevention subrecipients to SAPTA
- Procedures to guide the coalitions in performing the fiscal monitoring activities
- Required documentation for audit reports and Board approval from coalitions

Risk Based Assessment Framework

The development of a consistent risk evaluation of our providers will enable efficient use of resources. The State Administrative Manual (SAM 3022) will be referenced. The main factors on establishing a provider's risk category:

- Size of the award relative to the grantor and recipient
- Funding sources
- Provider/award complexity/size
- Length of relationship with provider
- Compliance with subgrant assurances (many levels)
- Findings on fiscal or program monitors and subsequent corrective action plans
- Audit findings and subsequent corrective action plans
- Staff stability
- State staff ratings/experience

These primary factors will be expanded into a numerical, weighted rating system with the expectation of having half of the providers with medium risk and a quarter each of low and high risk. This will drive the number and depth of monitors and should become part of the review for future funding.

Graduated Sanctions

The Federal Government has policies in place for treating high-risk grantees per 45 CFR Part 92.12. The Federal guidelines provide for several types of provider sanctions. SAPTA will develop simple procedures using a few of these from most severe to least:

- Ineligibility – Close current subgrant and be ineligible for any future funding. Report to Division and Federal level for possible action from any other related funding sources
- Defunding – Close current subgrant, may apply for future period funding, report to Division
- Holding of payment/reimbursement – Hold entire amount until corrective action is taken, the action is sufficiently documented, and the documentation of the action is reported to SAPTA
- Holding of partial payment/reimbursement – Hold portion of funding until corrective action is taken, the action is sufficiently documented, and the documentation of the action is reported to SAPTA

Developing written, precise, graduated sanctions for non-compliance will ensure the Agency is treating providers in a fair, consistent way. This will also formalize steps taken by staff and codify their actions. The Agency Director will retain the ability to modify a prescribed sanction for extenuating circumstances in writing.

II. Update on LCB Recommendations:

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

Response:

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

SAPTA (Agency) will communicate the minimum requirements of limited scope audits to subrecipients. The Agency is in the process of revising the subgrant assurances that each subrecipient receives. The revisions will include specific language referring to Appendix G10 of the SAPTA Administrative Manual “Standard Procedures for a SAPTA-Required Agreed-Upon Procedures (Limited Scope) Audit.”

Update: Specific reference to the Appendix G10, Standard Procedures for a SAPTA-Required Agreed-Upon Procedures (Limited Scope) Audit, has been incorporated into the SAPTA subgrant assurances. The revised subgrant assurances were effective July 01, 2012. A letter was sent to providers in June providing them with a copy of the Appendix G10.

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

Response:

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

SAPTA will add procedures to withhold funding from subrecipients that do not meet the Appendix G10 of the SAPTA Administrative Manual requirements and deadlines established in the revised assurances.

Update: SAPTA will develop procedures to ensure that submitted audit reports meet requirements in the subgrant agreements. SAPTA is also working on adding written procedures on sanctions for non-compliance when requirements are not met. Procedures will be completed by December 17, 2012.

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

Response:

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

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

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

Update: A statement requesting letters of engagement be submitted within three months of the close of their fiscal year is included in the subgrant assurances (Section 14-1). SAPTA is also working on written procedures addressing sanctions for non-compliance when engagement letters are not submitted timely which will be completed by December 17, 2012. At this time, reimbursements are being held immediately when engagement letters are not received by the deadline.

An electronic tracking spreadsheet has been updated and expanded to ensure that engagement letters are submitted timely. Three months after the close of a program's fiscal year, an e-mail is sent to the providers asking for the audit engagement letter.

Staff has been instructed to immediately notify their supervisor or Agency Director when a deadline is missed.

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

Response:

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

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

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

Update: Providers continue to be sent reminders that audit reports will be due on the specified date. Six months after the close of a program's fiscal year, an e-mail is sent reminding them about the due date for their audit. A tracking spreadsheet has been updated and expanded to ensure that the reports are submitted timely. Historical data is being tracked.

SAPTA is working on written procedures addressing sanctions for non-compliance when audit reports are not submitted timely. Nine months after the close of a program's fiscal year, an e-mail is sent reminding them about the due date for their audit. At this time, reimbursements are being held immediately when audit reports are not received by the deadline. Staff has been instructed to immediately notify their supervisor or Agency Director when a deadline is missed. Written procedures are being developed and will be completed by December 17, 2012.

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

Response:

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

SAPTA is developing more robust audit tracking reports that will include mandatory response times to any audit findings and require subgrantees to meet timelines for corrective action or have funding withheld.

Update: SAPTA is developing audit report review procedures as requested and will be completed by December 17, 2012. Electronic audit tracking reports have been updated and expanded to track responses to corrective action on findings noted in audit reports.

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

Response:

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

SAPTA is completing the final revisions to their subgrant assurances. The revisions include specific language requiring original copies of audit reports and a copy of Board minutes detailing the review and acceptance of audit findings. SAPTA has already sent a letter to subrecipients requiring original copies of audit reports.

Update: The SAPTA subgrant assurances contain language requesting that subrecipients provide an original, signed final audit report with documentation that their Board reviewed and accepted the audit report. The new subgrants were effective July 01, 2012.

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

Response:

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

SAPTA received an independent accountant's report on applying agreed-upon procedures during its fiscal monitor of the subrecipient on March 28, 2012. The report from Kafoury, Armstrong & Co. covered the four-year period July 01, 2007, to June 30, 2011. A corrective action plan detailing items found on the monitor and items found during the reviewed period FY2008 to 2011, will be prepared and sent to the subrecipient.

Update: On April 06, 2012, the subrecipient submitted a corrective action plan to SAPTA to address the findings in the limited scope audits performed by the independent auditor. On April 19, 2012, SAPTA sent the coalition a letter requesting repayment of undocumented expenditures identified in the audit report. After further review, an agreed upon payment was submitted to SAPTA.

It should be noted that no funds were missing from the Coalition's bank account and payments to this subrecipient for the forged audits were still in their bank account. All funds for the forged audits were repaid to SAPTA including any expenses unsupported by documentation. All accounts reconciled.

The problems experienced with this subrecipient was an isolated incident caused by one individual. There are additional safeguards in place now and all corrective action plan items are being addressed by this Coalition. See attached report.

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

Response:

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

SAPTA is making the final revisions to their subgrant assurances. The revised item #14 includes specific language referring to Appendix G10 of the SAPTA Administrative manual "Standard Procedures for a SAPTA-Required Agreed-Upon Procedures (Limited Scope) Audit" and includes deadlines for submission. SAPTA assurances pass to coalition subgrantees. SAPTA will add procedures to fiscal monitors to track coalition compliance with timely audit follow up of their subgrantees. Non-compliance will result in withholding coalition and subgrantee funding.

Update: The SAPTA subgrant assurances include specific language referring to Appendix G10 in section A, #14. The subgrant assurances also contain language that subgrantees are required to pass through these requirements to any subrecipients (section A, #20(6)). See attached copy of subgrant.

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

Response:

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

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

Update: Additional fiscal training was held on May 27, 2012, with the coalitions by SAPTA staff. Another training is scheduled at the next coalition meeting in August. One-on-one training has been conducted with new coalitions in Las Vegas and ongoing with all the coalitions by the SAPTA team analysts. The SAPTA Fiscal Team is always available for ongoing technical assistance. SAPTA is also looking into providing another mandatory grants management intensive training.

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

Response:

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

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

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

Update: SAPTA is researching information in regards to this model and will be developing and implementing a process by December 17, 2012.

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

Response:

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

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

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

Update: SAPTA has started developing desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance monitoring steps. This will be completed by December 17, 2012. All fiscal monitors are up-to-date.

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

Response:

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

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

Update: Regular reviews of follow-up for timeliness of corrective action plans are being conducted. After staff reviews and approves the corrective action plan responses, they are filed with the fiscal monitor reports and in the specific subgrant file. Documents are also scanned and filed in electronic files. An electronic tracking spreadsheet is kept up-to-date and written procedures will be modified and developed as needed.

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

Response:

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

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

Update: Written procedures will be revised prior to the required December 17, 2012, report.

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

Response:

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

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

- Procedures will be developed to ensure that corrections are submitted timely;
- A tracking spreadsheet will be developed to document and ensure follow-up on timely submission of corrections to problems identified in the fiscal monitors;
- Procedures for the imposition and when to impose sanctions or special conditions will be implemented on subrecipients that fail to correct problems timely and comply with fiscal requirements; and
- Sanctions will include suspending funds until corrective action is taken or terminating funding.

Update: SAPTA is continuing to develop procedures and sanctions and will be completed by December 17, 2012. An electronic tracking spreadsheet has been updated and expanded to ensure that the reports are submitted timely.

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

Response:

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

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

Update: Section C, #6, in the subgrant contains language that requires coalitions to submit reports on fiscal monitoring of prevention providers to SAPTA with corrective action plans and documented follow-up. New subgrants were effective July 01, 2012.

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

Response:

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

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

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

Update: Procedures will be developed as recommended by December 17, 2012.

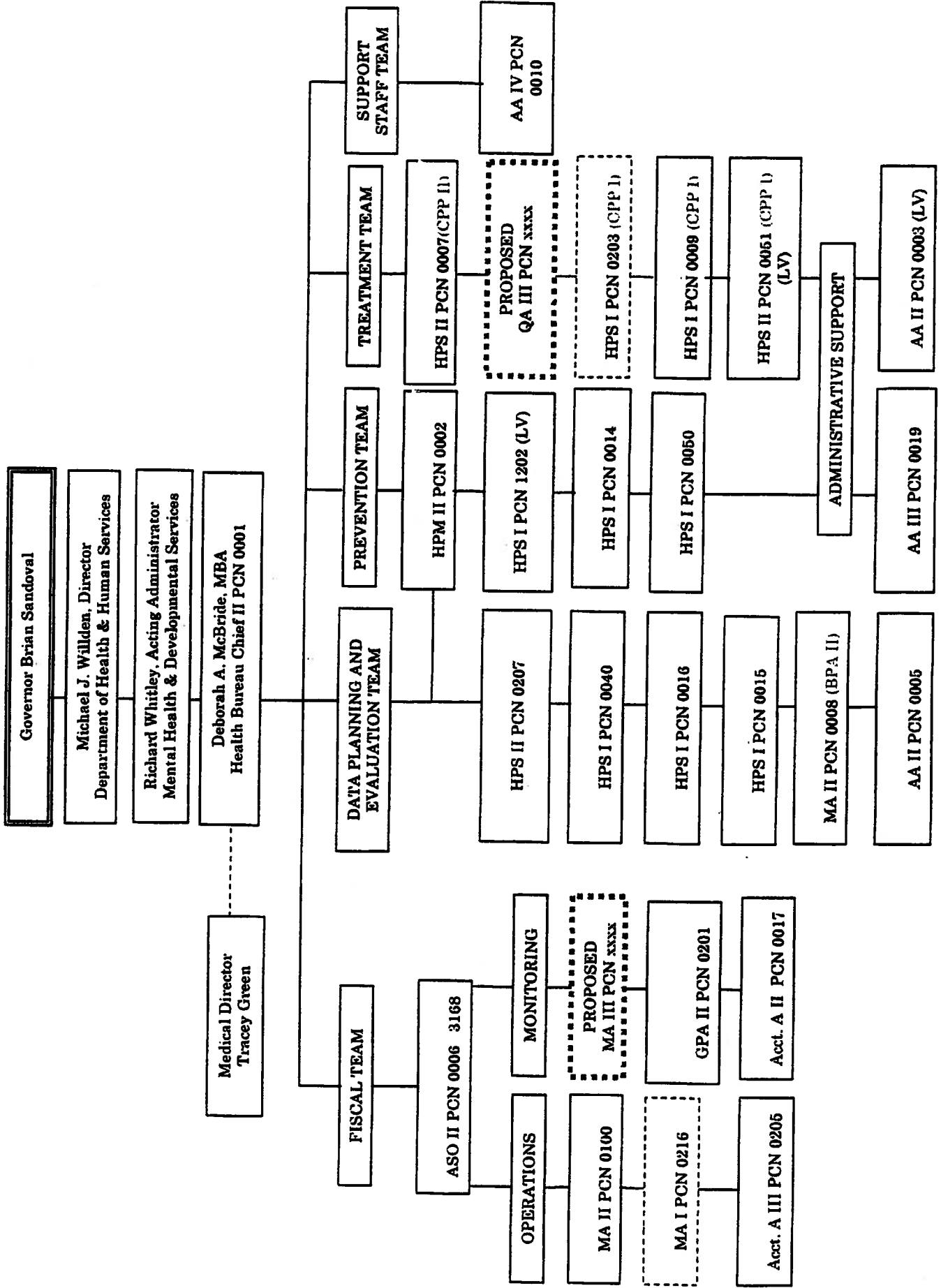
Sincerely,



Deborah McBride, Agency Director

cc: Division of Internal Audits
Paul V. Townsend, CPA, Legislative Auditor, Legislative Counsel Bureau
Mike Willden, Director, Department of Health and Human Services

Proposed SAPTA Restructure



AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Agency accepted the 16 recommendations.

Recommendation Status

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

Substance Abuse Prevention and Treatment Agency

Department of Health and Human Services

Summary

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

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

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

Key Findings

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

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

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

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

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

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

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

**NATIONAL STATE AUDITORS ASSOCIATION
REPORT ON NEVADA LEGISLATIVE
AUDITOR'S SYSTEM OF QUALITY CONTROL**



National State Auditors Association

**State of Nevada
Legislative Counsel Bureau Audit Division
Quality Control Review**

**For the Period
July 1, 2011 to June 30, 2012**



National State Auditors Association

August 17, 2012

Mr. Paul Townsend, CPA, CIA
Legislative Auditor
State of Nevada
401 S. Carson St.
Carson City, Nevada 89701-4747

Dear Mr. Townsend:

We have reviewed the system of quality control of the State of Nevada's Legislative Counsel Bureau - Audit Division (the office) in effect for the period July 1, 2011 through June 30, 2012. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of State of Nevada's Legislative Counsel Bureau - Audit Division in effect for the period July 1, 2011 through June 30, 2012 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

L. Scott Owens, CIA, CGAP
Team Leader
National State Auditors Association
External Peer Review Team

Cole Hickland, CPA, CMA
Concurring Reviewer
National State Auditors Association
External Peer Review Team