



State of Nevada  
Governor's Finance Office  
Division of Internal Audits

**Audit Report**

**Department of  
Health and Human Services  
State Trust Funds**

Report No. 18-03  
October 11, 2017



**EXECUTIVE SUMMARY**  
**Department of Health and Human Services**  
**State Trust Funds**

**Introduction.....** page 1

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**Objective: Improve internal controls over trust funds.**

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**Strengthen Controls over Funds Received at SCADU.....** page 2

Strengthening controls over funds received at the Division of Welfare and Supportive Services' State Collections and Disbursements Unit (SCADU) will help ensure child support payments are adequately safeguarded and are available for distribution to custodial parents, compliance with statute, and bank reconciliations are performed allowing for timely detection of questionable bank charges.

Mail containing child support payments is opened in a secure mail room by only one employee. Although other employees are in the room, they are not in a position to closely observe the employee opening the mail. Additionally, not all of the mail is opened in the mail room. To reduce processing time of funds received, some checks are taken by employees to open at their desks, which are located outside the mail room.

On high volume days it may take SCADU two days to process child support payments and deposit funds in the bank. SCADU is in a secure location and does not earn interest on funds in its account; therefore, the only concern is non-compliance with NRS 353.250. SCADU is purchasing equipment which will speed up the process and allow funds to be deposited by the next business day as required by NRS 353.250.

Bank deposits were recorded in the state's accounting system as much as 213 days after the deposit date. This prevented the division from performing bank reconciliations and detecting questionable bank charges on a timely basis.

Strengthening controls over funds received by ensuring other employees are in a position to closely observe the employee opening the mail and all mail is opened in the mail room will help adequately safeguard child support payments and ensure they are available for distribution to custodial parents. Strengthening controls over funds received by ensuring funds are deposited by the next business day and bank deposits are recorded in the state's accounting system timely will enable SCADU to comply with statute and perform bank reconciliations allowing for timely detection of questionable bank charges.

**Strengthen Controls over Funds Received at NNAMHS.....**page 5

Strengthening controls over funds received at NNAMHS Patient Accounts by reconciling the log used to record checks received to the bank deposit and depositing funds timely will help ensure client funds are safeguarded and may increase trust fund bank account earnings.

The log used to record checks received is not reconciled to the bank deposit; accordingly, no one is verifying that all checks received and recorded on the log are deposited in the bank. Additionally, for the only week we noted where funds accumulated to over \$10,000, the funds were not deposited by the next business day.

Reconciling the check receipt log to the bank deposit and depositing funds exceeding \$10,000 by the next business day will help ensure client funds are safeguarded and may increase trust fund bank account earnings.

**Strengthen Controls over Disbursements at NNAMHS..... page 6**

Strengthening controls over disbursements would ensure NNAMHS clients' funds are sufficiently safeguarded. Access to unused checks is not adequately controlled because they are maintained inside a cabinet drawer that is only locked at night. Additionally NNAMHS does not maintain an inventory of checks in the cabinet. Consequently, any employee with access to the cabinet can write a fraudulent check.

Additionally, controls over QuickBooks and Positive Pay are inadequate to prevent an employee from having the ability to write a check without the involvement of another employee, and subsequently alter check information in QuickBooks or the Positive Pay upload file. Strengthening controls over disbursements would prohibit one person from having the ability to write a fraudulent check and subsequently alter check information.

**Evaluate Using Advantage at NNAHMS..... page 8**

If current system controls cannot be strengthened, using the state's accounting system (Advantage) would provide adequate safeguards for clients' funds. Advantage controls prohibit one person from having the ability to write a fraudulent check and subsequently alter check information.

Using Advantage would require client funds to be moved to the state's general account necessitating the Social Security Administration to change bank account information for clients who receive social security income via direct deposit. This can be a long and difficult process. Although strengthening current system controls would be preferable, using Advantage would provide adequate safeguards for clients' funds.

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## INTRODUCTION

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At the direction of the Executive Branch Audit Committee, the Division of Internal Audits conducted an audit of state trust funds held by the Department of Health and Human Services (department).

Our audit focused on trust funds maintained at the Division of Welfare and Supportive Services' (DWSS) State Collections and Disbursements Unit (SCADU), and the Division of Public and Behavioral Health's Northern Nevada Adult Mental Health Services (NNAMHS). The audit scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objective was to develop recommendations to:

- ✓ Improve internal controls over trust funds.

### **Department of Health and Human Services Response and Implementation Plan**

We provided draft copies of this report to the department and the divisions for their review and comments. Their comments have been considered in the preparation of this report and are included in Appendix B. In its response, the department accepted our recommendations. Appendix C includes a timetable to implement our recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and department officials.

The following report contains our findings, conclusions, and recommendations.

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## Improve Internal Controls Over Trust Funds

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The department can improve internal controls over trust funds by:

- Strengthening controls over funds received at SCADU;
- Strengthening controls over funds received at NNAMHS;
- Strengthening controls over disbursements at NNAMHS; and
- Evaluating the use of Advantage at NNAMHS.

### **Strengthen Controls over Funds Received at SCADU**

The department can strengthen controls over funds received at SCADU<sup>1</sup> by ensuring other employees are in a position to closely observe the employee opening the mail, opening all mail in the mail room, and ensuring funds are deposited timely. This will help ensure child support payments are adequately safeguarded and are available for distribution to custodial parents, and ensure compliance with statute. Additionally, the department can strengthen controls over funds received at SCADU by recording deposits into the state's accounting system (Advantage) the day of the deposit. This will enable the department to perform bank reconciliations and detect questionable bank charges timely.

#### **Mail Containing Child Support Payments Opened by an Employee Who is Not Observed by Another Employee**

Mail containing child support payments is opened by only one employee who is not in a position where he can be closely observed by other employees. Consequently, the employee may be able to misappropriate funds without being observed.

SCADU receives mail containing child support payments from non-custodial parents in the form of checks and money orders. The checks and money orders are deposited in an outside bank account administered by SCADU and used to distribute child support payments to custodial parents. Most of the checks have the specific payees listed; however, some of the money orders do not have payees written on the face.

The mail is opened in a secure mail room by only one employee. Although other employees are in the mail room, they are not in a position to closely observe the employee opening the mail. There are four overhead cameras in the room. The

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<sup>1</sup> SCADU is the entity designated by the state for the collection and distribution of child support payments.

monitor for the cameras is in a surveillance room containing several other monitors used for other cameras located in various sections of the building. As the employee in the surveillance room has several monitors to observe, it may be difficult for him to pay full attention to the mail room monitor. Consequently, the employee opening the mail may be able to misappropriate funds received without being observed by other mail room or surveillance employees.

#### Not All Mail Opened In Secure Mail Room

Not all of the mail is opened in the secure mail room. Some checks are received in perforated envelopes. To reduce processing time of funds received, checks in the perforated envelopes are taken by employees to open at their desks, which are located outside the secure mail room. These checks are removed from the mail room without being accounted for. These employees may be able to misappropriate funds without being observed by other employees.

Ensuring other employees are in a position to closely observe the employee opening the mail and all mail is opened in the mail room will help safeguard funds and guarantee they are available for distribution to custodial parents.

#### **Funds Not Deposited Timely as Required by NRS**

On high volume days, SCADU may not be able to process and deposit funds of \$10,000 or more by the next business day. When this occurs, SCADU is not in compliance with NRS 353.250.<sup>3</sup>

We reviewed five deposits and noted they contained funds that accumulated to more than \$10,000 and took two days to deposit. Consequently, they were not deposited by the next business day. SCADU represents on high volume days it may take two business days to deposit funds. This is consistent with our review as we noted no instances where funds accumulated to more than \$10,000 and were not deposited within two business days.

Staff from the Office of the Treasurer represented NRS 353.250 requires timely deposits to ensure maximum security and interest earnings for state funds. However, SCADU is in a very secure building and deposits are made within two business days. Additionally, the bank account used for child support payments does not earn interest. Accordingly, there are minimal adverse effects from not depositing funds by the next business day with the exception of non-compliance with statute.

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<sup>3</sup> NRS 353.250 requires funds of \$10,000 or more to be deposited by the next business day.

SCADU is in the process of purchasing equipment which will automate most of the processing of checks received and should allow funds to be deposited by the next business day. SCADU estimates this will occur by the end of calendar year 2017. If this occurs, SCADU will be able to comply with NRS 353.250. If this does not occur, SCADU should consider submitting a bill draft request to modify NRS 353.250 to allow them more than one business day to deposit funds received.

Depositing funds of \$10,000 or more by the next business day would allow SCADU to comply with NRS 353.250. If funds cannot be deposited by the next business day, SCADU should consider submitting a bill draft request to modify NRS 353.250.

### **Deposits Not Recorded Timely in Advantage**

DWSS staff record bank deposits and disbursements to Advantage using journal entries. This allows DWSS to reconcile the balance in the outside bank account per Advantage to the bank statement, and detect questionable bank charges.

Some journal entries were done several days after the deposit. Although not recording deposits in Advantage timely has no effect on issuing child support payments, it does prevent DWSS from performing timely bank reconciliations.

We reviewed deposits for fiscal year 2017 and noted 61 deposits from September 26, 2016 through December 22, 2016 were recorded between 140 and 213 days after the deposit date. All other fiscal year 2017 deposits were recorded timely.

Recording bank deposits and disbursements into Advantage timely would allow DWSS to perform timely bank reconciliations and detect questionable bank charges.

### **Conclusion**

Strengthening controls over funds received at SCADU will help ensure child support payments are adequately safeguarded and available for distribution to custodial parents, compliance with NRS 353.250 and timelier bank reconciliations.

### **Recommendation**

1. Strengthen controls over funds received at SCADU.



## **Strengthen Controls over Funds Received at NNAMHS**

NNAMHS' can strengthen controls over funds received at Patient Accounts by reconciling the log used to record checks received to the bank deposit and depositing funds timely. This will help ensure client funds are safeguarded and may increase trust fund bank account earnings.

NNAMHS administers an outside bank account for clients who receive income but do not have the ability to manage their personal finances. The bank account is used to deposit clients' incomes and pay clients' expenses.

Checks for social security income, employment income, and other purposes are received on behalf of clients through the mail. A NNAMHS employee receives and opens the mail and delivers the checks to the NNAMHS Patient Accounts section (Patient Accounts). Patient Accounts also receives hand delivered checks from case workers. All checks received by Patient Accounts are recorded on the Patient Accounts check log.

### **Patient Account Check Log Not Reconciled to Bank Deposit**

The log used by Patient Accounts to record checks received is not reconciled to the bank deposit; accordingly, no one is verifying that all checks received and recorded on the log are deposited in the bank.

Reconciling the log to the bank deposit will ensure all checks received and recorded on the log are deposited. The reconciliation should be performed by someone other than the employee preparing the bank deposit. This prevents the employee preparing the bank deposit from embezzling a check without another employee noticing the difference between checks on the log and checks deposited in the bank.

### **Funds Not Deposited Timely**

We reviewed 18 weekly deposits from November 2016 through February 2017 and noted one week where funds accumulated to over \$10,000. The deposit for that week was made two days after funds accumulated to over \$10,000. Consequently, the deposit was not done timely and in compliance with NRS 353.250.

Depositing funds in the bank timely will increase security over the funds. Additionally, Patient Accounts receives nominal earnings on funds in the bank that can be used to offset bank charges. Depositing funds timely may increase these earnings.

## **Conclusion**

Strengthening controls over funds received at NNAMHS will help ensure client funds are safeguarded and may increase trust fund bank account earnings.

## **Recommendation**

2. Strengthen controls over funds received at NNAMHS.

### **Strengthen Controls over Disbursements at NNAMHS**

NNAMHS should strengthen controls over disbursements to a level comparable to Advantage in order to sufficiently safeguard clients' funds. This can be accomplished by controlling access to unused checks, requiring the physical involvement of more than two people to write checks, and prohibiting information on checks written from being altered in the QuickBooks<sup>4</sup> system and the Positive Pay<sup>5</sup> upload file.

#### **Access to Unused Checks Not Adequately Controlled**

Access to unused checks is not adequately controlled. Unused checks are maintained inside a cabinet drawer that is only locked at night. During the day, the cabinet is open and accessible to all employees including those with the ability to write checks in QuickBooks. Consequently, employees have the ability to inappropriately remove unused checks from the cabinet and write fraudulent checks manually or by using QuickBooks.

NNAMHS does not maintain a record of preprinted check numbers for unused checks. Consequently, NNAMHS does not keep an inventory of checks in the cabinet and cannot detect any checks inappropriately removed.

In comparison, agencies using Advantage do not have access to unused checks. Additionally, the checks are secured in a locked room with limited access and a record of preprinted check numbers on the unused checks is maintained.

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<sup>4</sup> QuickBooks is an accounting software package developed and marketed by Intuit.

<sup>5</sup> Positive Pay is an anti-fraud service offered by US Commercial banks to protect companies against altered and counterfeit checks.

Controlling access to unused checks by locking them in a cabinet during working hours will help prevent an employee from inappropriately removing unused checks from the cabinet and writing fraudulent checks manually or by using QuickBooks. Maintaining a record of preprinted check numbers would allow Patient Accounts to keep an inventory of checks in the cabinet and detect any checks inappropriately removed.

### **Controls over QuickBooks Inadequate Compared to Advantage**

The current configuration of QuickBooks does not provide a level of control comparable to Advantage. The QuickBooks configuration allows checks to be written with the physical involvement of only one person.<sup>6</sup> Additionally, information on checks written such as dollar amount and payee can be subsequently altered in QuickBooks. QuickBooks can produce an exception report that shows the detail of all activity, including subsequent alteration of checks; however, NNAMHS does not regularly review the report.

Advantage uses password security, which requires the physical involvement of two people to issue a check. Additionally, information on checks written cannot be altered in Advantage.

Configuring QuickBooks to provide a level of control comparable to Advantage will prevent an employee from having the ability to write a check without the involvement of another employee, and to alter check information in QuickBooks.

### **Positive Pay Controls Ineffective**

Patient Accounts uses a service available from the bank called Positive Pay, which provides additional controls over disbursements. However, due to inadequate controls at NNAMHS, Positive Pay may be ineffective.

Check details such as date, dollar amount, and payee are downloaded from QuickBooks into a text file and subsequently uploaded to Positive Pay via a password secured web application. The bank will not honor checks that do not agree with the details uploaded into Positive Pay.

The employee with the Positive Pay website password has access to unused checks, can write a fraudulent check, and enter the check details into the web application. If this occurred, the additional controls added by Positive Pay would be ineffective.

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<sup>6</sup> Although checks require authorized signatures, those signatures can be forged.

Ensuring employees with the Positive Pay website password have no access to unused checks and are not authorized to write checks using QuickBooks will prevent the employee from entering fraudulent checks into Positive Pay.

## **Conclusion**

Strengthening controls over disbursements to a level comparable to Advantage would ensure clients' funds are sufficiently safeguarded.

## **Recommendation**

3. Strengthen controls over disbursements at NNAMHS.

## **Evaluate Using Advantage at NNAMHS**

NNAMHS should evaluate using Advantage if they cannot strengthen controls over their current system. This would provide adequate safeguards for clients' funds.

### **Clients' Funds Would be Maintained in State's General Account**

To use Advantage, clients' funds would need to be deposited into the state's general bank account. NNAMHS would still need to keep a subsidiary ledger showing the balance of each client's account.

Payments for recurring expenses such as rent and utilities would be made from the general account using Advantage. However, NNAMHS would need to maintain a low balance petty cash checking account to pay clients for immediate needs such as food or clothing. The petty cash checking account would be reimbursed from the state's general account by requesting a payment through Advantage.

NNAMHS would need to use a system other than Advantage to write checks out of the petty cash bank account. However, its exposure to fraud would be much more limited due to the low balance in the petty cash checking account.

## **Use of Advantage May Be Difficult**

NNAMHS represents moving clients' funds to the general account would be difficult as Social Security income is directly deposited and the new bank account information would have to be reported to and processed by the federal government. Per NNAMHS, getting the federal government to change the bank account used for direct deposits of Social Security checks can be a long and frustrating process. Accordingly, strengthening controls over their current system would be less challenging.

## **Conclusion**

Using Advantage if controls over QuickBooks cannot be strengthened would provide adequate safeguards for clients' funds.

## **Recommendation**

4. Evaluate using Advantage at NNAMHS.

## Appendix A

### Scope and Methodology, Background, Acknowledgements

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#### Scope and Methodology

We began the audit in March 2017. In the course of our work, we interviewed staff from the Department of Health and Human Services, State Treasurer's Office, and State Controller's Office.

We reviewed trust fund records, applicable Nevada Revised Statutes, and other state guidelines. We also reviewed an audit of Patient Accounts performed by the Social Security Administration. We concluded field work and testing in August 2017.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

#### Background

The Division of Welfare and Supportive Services (DWSS) and the Division of Public and Behavioral Health (DPBH) are two of the six divisions within the Department of Health and Human Services.<sup>7</sup>

The State Collections and Disbursements Unit (SCADU) is a program within DWSS. The primary function of SCADU is to receive and disburse child support funds. SCADU serves the fiduciary functions of receiving payments from non-custodial parents and issuing payments to custodial parents. Payments received from non-custodial parents are deposited into an outside bank account, which is also used for payments to custodial parents. As of June 30, 2017, the account had a balance of \$5.4 million.

Northern Nevada Adult Mental Health Services (NNAMHS) is a program within DBPH. NNAMHS' Patient Accounts administers a trust fund at an outside bank account for clients who receive income but do not have the ability to manage their personal finances. The bank account is used to deposit clients' incomes and pay clients' expenses. As of June 30, 2017, Patient Accounts maintained funds for approximately 355 clients totaling just over \$640,000.

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<sup>7</sup> Department of Health and Human Services' divisions: Aging and Disability Services, Child and Family Services, Health Care Financing and Policy, Public and Behavioral Health, Welfare and Supportive Services, and Public Defender.

## **Acknowledgments**

We express appreciation to the Department of Health and Human Services, State Treasurer's Office, and State Controller's Office for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Dennis Stoddard, MBA  
Executive Branch Auditor

## Appendix B

### Department of Health and Human Services

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BRIAN SANDOVAL  
Governor



RICHARD WHITLEY, MS  
Director

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September 15, 2017

Steve Weinberger, Administrator  
Department of Administration  
209 E. Musser St., Suite 302  
Carson City, NV 89701

Mr. Weinberger:

The Department of Health and Human Services would like to thank the Division of Internal Audits staff for their time and assistance while conducting audits for the Division of Welfare and Supportive Services and the Division of Public and Behavioral Health. The following are each Division's responses to the audit recommendations.

**Recommendation No. 1**

Strengthen controls over funds received at SCaDU.

**Response**

**RE: Mail Containing Child Support Payments Opened by Only One Employee**

DWSS accepts this recommendation. DWSS/SCaDU reviewed staffing and job duties within the unit.

*Anticipated Implementation Date:* Implemented. SCaDU has implemented a change to reorganize the unit to ensure there is more than one person working in the mailroom at all times. We have also changed our procedures to not allow staff to remove mail from the mailroom when assisting with opening mail or running tapes on checks.

**RE: Funds Not Deposited Timely as Required by NRS**

DWSS accepts this recommendation. SCaDU has hired additional staff which has been beneficial in ensuring payments and deposits are processed timely.

*Anticipated Implementation Date:* DWSS is in the process of obtaining a new payment processing system, including new equipment, which will reduce the amount of time to open, scan, index, post and deposit child support payments. This new process should be in place by the end of April 2018.

*Nevada Department of Health and Human Services  
Helping People – It's Who We Are And What We Do*



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**RE: Deposits Not Recorded Timely in Advantage**

DWSS accepts this recommendation. Although procedures have been in place for several years, staffing vacancies attributed to the established time frames not being met to complete entry into Advantage.

*Anticipated Implementation Date:* DWSS has completed processing of the backlog and supervisors have been made aware that this process must be completed within the timeframe identified in the current procedures to ensure accuracy of the bank reconciliation processes.

**Recommendation No. 2**

Strengthen controls over funds received at NNAMHS.

**Response**

DPBH accepts this recommendation. DPBH will modify current procedures and associated desk manuals to ensure the Patient Account Check Log is reconciled to the bank deposit and funds are deposited timely using check scanners to deposit funds electronically.

*Anticipated Implementation Date:* April 2018

**Recommendation No. 3**

Strengthen controls over disbursements at NNAMHS.

**Response**

DPBH accepts this recommendation. DPBH will modify current procedures and associated desk manuals to ensure that access to unused checks are adequately controlled, and QuickBooks controls are adequate when compared to Advantage. Additionally, these controls will be applied to Positive Pay to ensure its effectiveness.

*Anticipated Implementation Date:* April 2018

**Recommendation No. 4**

Evaluate using Advantage at NNAMHS.

**Response**

DPBH accepts this recommendation, and will make every attempt to ensure QuickBooks processes, system user access, and segregation of duties are adequate when compared to Advantage, rather than using Advantage. If adequate controls cannot be implemented without the use of Advantage, DPBH will evaluate the use of Advantage and the associated petty cash account as recommended. Due to the difficulties in implementing this recommendation, more time would be needed. Based on past experience, it takes a little over a year for Social Security to move all of the trust account direct deposits to a new account.

*Anticipated Implementation Date:* April 2019

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The Department appreciates the opportunity to receive feedback allowing us to improve our practice, enhance efficiency and ensure fiscal transactions are appropriately conducted. I can be reached at (775) 684-4004 or [ecrecelius@dhhs.nv.gov](mailto:ecrecelius@dhhs.nv.gov) if needed.

Sincerely,



Ellen Crecelius  
Deputy Director, Fiscal Services

Cc: Vita C. Ozoude, Executive Branch Audit Manager  
Richard Whitley, Director, Department of Health and Human Services  
Steve Fischer, Administrator, Division of Welfare and Supportive Services  
Amy Rookie, Administrator, Division of Public and Behavioral Health

## Appendix C

### Timetable for Implementing Audit Recommendations

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In consultation with the Department of Health and Human Services (department), the Division of Internal Audits categorized the recommendations contained within this report into one of two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department's target completion date is incorporated from Appendix B.

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#### **Category 1: Recommendations with an anticipated implementation period of less than six months.**

<u>Recommendations</u>	<u>Time Frame</u>
1. Strengthen controls over funds received at SCADU. (page 4)	Apr 2017
2. Strengthen controls over funds received at NNAMHS. (page 6)	Apr 2018
3. Strengthen controls over disbursements at NNAMHS. (page 8)	Apr 2018

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#### **Category 2: Recommendations with an anticipated implementation period exceeding six months.**

<u>Recommendation</u>	<u>Time Frame</u>
4. Evaluate using Advantage at NNAMHS. (page 9)	Apr 2019

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The Division of Internal Audits shall evaluate the action taken by the department concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and the department.

