



June 6, 2012

2012 Performance Audit Report

North Dakota Department of  
Health - Family Health Division

*Prepared by –*

**CLIFTONLARSONALLEN LLP**

**Craig Popenhagen, CPA, Partner**

220 South Sixth Street; Suite 300

Minneapolis, MN 55402

507-434-7041 *phone*

Craig.Popenhagen@cliftonlarsonallen.com



**CliftonLarsonAllen**

[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)

# Table of Contents

<b>Executive Summary</b>	<b>3</b>
Objectives and Scope	3
Approach	4
Conclusion	5
<b>Observations for Committee Attention</b>	<b>6</b>
<b>Detailed Observation Listing</b>	<b>9</b>

## **Executive Summary**

---

On behalf of the North Dakota Department of Health, CliftonLarsonAllen LLP (“CliftonLarsonAllen or CLA”) performed a control environment performance audit of the Family Health Division (the “Division”). The control environment has a pervasive influence on the way business activities are structured, objectives established and risks assessed. It also influences control activities, information and communication systems, and monitoring activities.

The State of North Dakota, acting through the office of the State Auditor, engaged CLA to perform a control environment performance audit related to the Family Health Division. CLA performed the control environment audit to address potential fiscal irregularities.

The control environment performance audit was driven by the commitment that the Family Health Division has to ensuring their internal processes and controls are designed appropriately and operating as intended. The performance audit was performed from March 5, 2012 to June 1, 2012 in accordance with the timeline agreed to by The State of North Dakota in the Contract for Audit Services dated February 15, 2012.

The performance audit was conducted in two phases. The purpose of the first phase was to gain an understanding of the control environment of the Family Health Division. CLA interviewed all current employees in the Family Health Division, select Community Health Section (“CHS”) employees, and select previous employees no longer employed by the Community Health Section. The second phase of our performance audit focused on performing effectiveness testing and validation based on our risk assessment derived from the interviews and specific areas of risk identified.

## **Objectives and Scope**

---

The objectives of the performance audit were the following:

- Gain an understanding of the control environment.
- Assess whether the control environment has been properly designed and implemented.
- Interview key individuals including each employee of the Family Health Division to identify potential problems.
- Perform necessary audit work to establish the legitimacy of potential problems identified.
- As determined necessary, based on risk assessment procedures performed, judgmentally select transactions for testing.
- Perform the work necessary to provide sufficient, appropriate evidence to support the findings and conclusions.
- If applicable, develop recommendations for corrective action.

The scope of the performance audit included the following for the Family Health Division:

- Control environment areas discussed during the interviews: Integrity and ethical values, commitment to competence, governance and oversight of the board of directors or audit committee, management’s philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resource policies and practices.
- Effectiveness testing and validation based on the results of the interviews focused on four areas of concern that were noted as themes in several of the interviews: employee expense reimbursement requests, annual leave, compensatory time, and grant management.

## Approach

---

Our approach includes initial action plans and steps to support the development of a tailored performance audit related to the overall control environment. Our approach was the following:

- Reconfirm existing understanding of the Division's background – locations / people / operations, current control environment, and general operations.
- Conduct structured, facilitated sessions with identified leadership and stakeholders to gain an understanding of the organization's control environment risks and how they are managed.
- Perform audit procedures to validate our understanding obtained during interview sessions.
- Finalize results of the assessment and develop action plans.
- Present final work results to the Division's leadership and/or staff within a mutually agreeable timeframe.

With the assistance of Family Health Division management, CLA identified 32 key stakeholders that included all current employees from the Family Health Division, select Community Health Section employees, and select previous employees no longer employed by the Community Health Section.

Key stakeholders were interviewed for the purpose of assessing the inherent and specific risks associated with the overall control environment. Based on the results of the interviews, CLA judgmentally selected four employees from the Family Health Division to perform effectiveness testing and validation on specific areas of risk identified in the Objectives and Scope section above (employee expense reimbursement request, annual leave, and compensatory time). Effectiveness testing was performed by selecting transactions from January 2010 through April 2012. Tests of sample transactions were performed to validate the existence and operational effectiveness of internal controls.

Based on the discussions and results of the test procedures, CLA completed an assessment report that will focus on and address the following:

- Key themes and observations noted during interviews and effectiveness testing.
- Recommended action plan for remediation.
- Family Health Division and/or Department responses.
- Risk ranking per individual key theme and observation.

## Conclusion

---

Overall, we noted that key stakeholders in the Family Health Division were very knowledgeable of the processes and procedures in which they are responsible and were able to provide the information needed to complete our procedures in a timely and efficient manner. The documentation received for testing was well organized and easily obtained.

There was disparity in the individuals' opinions addressing Division leadership. For example, several individuals stated they are comfortable and happy with their relationship with senior leadership in the Division and also stated they feel there is always an open door policy, communication is clear and articulated, and senior leadership leads with a direction and tone that is in the employee's best interests. These employees also felt that the morale of the Division has been directly affected by the accusations made over the last couple of years related to potential fiscal irregularities. Several other individuals interviewed have felt intimidated by Family Health leadership in certain situations; did not feel appropriate action would be taken by management if personnel issues and significant accusations made on another employee or division processes were brought to their attention; and having five Division leaders rotate responsibilities as the Section lead creates lack of consistency in day-to-day operations, lack of consistency in long term strategic planning, and does not promote independence in the chain of command reporting. There were also employees that felt neutral related to the topics described above or felt that one or all of the topics above are handled appropriately.

In addition, the results of the effectiveness testing in the areas of grants management, employee expense reimbursement requests, annual leave, and compensatory time should encourage the Family Health Division to describe in more detail reasons for compensatory time accrual, re-evaluate the approval process for annual leave to ensure appropriate individuals are approving annual leave and policy is being followed, perform more detailed reviews for expense reports submitted, and consider the use of a credit card when paying for a taxi fare in certain circumstances (i.e. major city destinations), submitting the credit card receipt. In addition, the Family Health Division should implement a procedure to centrally track and monitor transfers of expenditures within the same grant or to another grant. Federal requirements for cost transfers require they are timely, supported, reasonable, allocable, allowable, and that grant accounts have adequate internal controls so they can be tracked and monitored.

# Observations for Committee Attention

Based on our performance audit we identified three high risk observations. This determination was made based on our key stakeholder interviews, review of applicable policies and procedures, and effectiveness testing activities. The following table details the high risk observations identified.

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>A whistleblower policy is not in place for the North Dakota Department of Health to allow employees to report suspicious or unethical behaviors.</p>	<p>The North Dakota Department of Health should include a whistleblower protection policy in the Department’s Personnel Policy Manual. In addition, communication related to the updated policy and the appropriate method(s) to report suspicious or unethical behaviors should be provided to all employees on a periodic basis.</p>	<p>The Department concurs with the recommendation.</p> <p>About a year ago, the Department began drafting a whistleblower policy. In February 2012, a major rewrite of the Department’s Personnel Policy Manual was started and the whistleblower protection policy and other rules related to reporting fraud and abuse were included. The policy allows an employee who is uncomfortable or otherwise reluctant to report to his/her supervisor, the ability to report fraud and abuse or retaliation related to reporting the activity to higher levels of management including the State Health Officer, the Deputy State Health Office, the Human Resources Director, or the Internal Auditor.</p> <p>The Department will provide education to all staff on the updated Personnel Policy Manual.</p>	<p>High</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>Additional leadership and manager training (i.e. leadership best practices, how to manage conflict, communication, fiscal administration review, etc.) should be required of program managers and division directors.</p>	<p>Research developmental trainings applicable for program managers and division directors (or anyone that supervises others) and include training requirements in the Department's Personnel Policy Manual.</p>	<p>The Department concurs with the recommendation.</p> <p>The Department requires all managers to have, at a minimum, the Supervisory Management Development training provided by Human Resources Management Services with Office of Management and Budget either prior to, or shortly after moving into any management position. The Department will add this requirement to the Personnel Policy Manual. In addition, the Department has begun researching additional public health management training strategies for all section chiefs, division directors, and program managers.</p> <p>The Family Health Division director has recently developed and provided training on department policies, processes and expectations for all Family Health staff.</p>	<p>High</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Effectiveness Testing Results</b>			
<p>The process of transferring expenditures to alternate expense categories within the same grant or to another grant is not thoroughly documented to leave a thorough audit trail. Transfers are typically approved via email and verbal conversations between the Family Health Division and liaison Accountant. When selecting transfers of expenditures for testing, documented evidence was unavailable related to the purpose of the transfer and CLA had to rely on inquiry to understand the purpose of the transfer. In addition, noted that salary and operating expense transfers from one grant to another as requested and approved via email in November 2011 were for expenses incurred anywhere from December 2010 to August 2011. Noted another email from October 2011 approving operating expense transfers from one grant to another; however, the original expenses incurred were from June 2011. Transfers do not always appear to be timely.</p>	<p>A procedure should be implemented in the Division to centrally track and monitor transfers of expenditures within the same grant or to another grant. Information such as the following should be documented for all transfers of expenditures: (1) reason(s) for transferring the expenditure must be sufficiently stated to establish that the transfer is within the approved guidelines of the budget to be charged and is in direct support of the project objectives; (2) reason an expenditure was initially charged to the original grant; (3) transfers of expenditures should be made on a timely basis; and (4) approvals of transfers.</p>	<p>The Department concurs with this recommendation except for #3. All grants within the Family Health Division are awarded on a yearly basis; hence transfers of expenditures between line items within a grant and between grants occur throughout the grant cycle and are allowable up to 90 days after the close of the grant period. Although “best practice” for the private sector may be that adjustments be made within 90 days for quarterly reporting purposes, this is not relevant to federal grants management as reporting is typically done on an annual basis.</p> <p>The Department will establish policy to require documentation of the reason and approval in writing for any transfers between grants. In addition, the Department will establish a process to monitor and track the allowable budget flexibility between line items within a grant.</p>	<p>High</p>



# Detailed Observation Listing

The following table details the observations identified during the performance audit.

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>A whistleblower policy is not in place for the North Dakota Department of Health to allow employees to report suspicious or unethical behaviors.</p>	<p>The North Dakota Department of Health should include a whistleblower protection policy in the Department’s Personnel Policy Manual. In addition, communication related to the updated policy and the appropriate method(s) to report suspicious or unethical behaviors should be provided to all employees on a periodic basis.</p>	<p>The Department concurs with the recommendation.</p> <p>About a year ago, the Department began drafting a whistleblower policy. In February 2012, a major rewrite of the Department’s Personnel Policy Manual was started and the whistleblower protection policy and other rules related to reporting fraud and abuse were included. The policy allows an employee who is uncomfortable or otherwise reluctant to report to his/her supervisor, the ability to report fraud and abuse or retaliation related to reporting the activity to higher levels of management including the State Health Officer, the Deputy State Health Office, the Human Resources Director, or the Internal Auditor.</p> <p>The Department will provide education to all staff on the updated Personnel Policy Manual.</p>	<p>High</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>Additional leadership and manager training (i.e. leadership best practices, how to manage conflict, communication, fiscal administration review, etc.) should be required of program managers and division directors.</p>	<p>Research developmental trainings applicable for program managers and division directors (or anyone that supervises others) and include training requirements in the Department's Personnel Policy Manual.</p>	<p>The Department concurs with the recommendation.</p> <p>The Department requires all managers to have, at a minimum, the Supervisory Management Development training provided by Human Resources Management Services with Office of Management and Budget either prior to, or shortly after moving into any management position. The Department will add this requirement to the Personnel Policy Manual. In addition, the Department has begun researching additional public health management training strategies for all section chiefs, division directors, and program managers.</p> <p>The Family Health Division director has recently developed and provided training on department policies, processes and expectations for all Family Health staff.</p>	<p>High</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>Several employees have felt intimidated by Family Health leadership in certain situations which has caused tension among employees in the Division.</p>	<p>Evaluate management's oversight and leadership skills regularly. In addition, perform regular surveys of individuals in the Family Health Division to evaluate changes in employee's morale and perception of the Family Health Division.</p>	<p>The Department of Health management respects staff feelings and appreciates the feedback given.</p> <p>The Department will conduct staff interviews and/or employee surveys within the next six months, and again one year later, to evaluate concerns and to measure morale and perceptions within the Family Health Division. Strategies for improvement will be implemented as appropriate. Oversight and leadership skills will be given additional emphasis in the Director's performance evaluation if staff interview/employee survey work warrants such. In addition, the Department will research management trainings that include oversight and leadership skills.</p> <p>Department of Health management supports the Family Health Division director's firm stance on holding staff accountable when policies and/or processes are not followed or when expectations are not met.</p>	<p>Moderate</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>Several employees stated that they did not feel appropriate action would be taken by management if personnel issues and significant accusations made on another employee or division processes, were brought to their attention.</p>	<p>Closely evaluate management’s approach to handling personnel issues and significant accusations made on another employee or division processes and determine where changes could be made in methods of handling and approaching situations to reduce the concern. In addition, perform regular surveys of individuals in the Family Health Division to measure changes in employee’s morale and perception of the Family Health Division.</p>	<p>The Department management respects staff feelings and appreciates the feedback given.</p> <p>The Department will conduct staff interviews and/or employee surveys within the next six months, and again one year later, to evaluate concerns and to measure morale and perceptions within the Family Health Division. Strategies for improvement will be implemented as appropriate.</p> <p>While we recognize that employee perceptions are important, no examples of a Director not taking action on an issue have been brought forward to higher levels of management. The Family Health Division director has addressed all personnel issues and/or accusations that have been reported. Staff members are informed when issues brought to the Director’s attention have been handled. However when the issue is a personnel matter, it is Department practice not to release the details of the situation to all staff.</p> <p>The Department will re-educate staff on the chain of command, stressing the point that an employee who is uncomfortable or otherwise reluctant to report to his/her supervisor, has the ability to report to a higher level of management including the State Health Officer and/or Deputy State Health Officer, the Human Resources Director, or the Internal Auditor.</p>	<p>Moderate</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
<p>Several employees have concerns related to the organizational structure of the Community Health Section, specifically the leadership rotation model. Several employees feel that having 5 division leaders rotate responsibilities as the Section lead creates lack of consistency in day-to-day operations, lack of consistency in long term strategic planning, and does not promote independence in the chain of command reporting. Personnel communicated they would not feel comfortable reporting a concern to another division leader as they feel the leaders are not independent of each other.</p>	<p>The Department should closely evaluate how the Community Health Section leadership rotation model affects consistency in day-to-day operations, long term strategic plans, and independence in the chain of command reporting structure and if this model is truly in the best interests of its employees in the Community Health Section.</p>	<p>The Department management respects staff feelings and appreciates the feedback given.</p> <p>The Department will evaluate the Community Health Section leadership rotation model and the pertinent policies and processes in place within the Community Health Section Leadership Team as they relate to consistency in day-to-day operations, long term strategic plans and chain of command. Employee surveys will be conducted to gather information regarding employee concerns of the Leadership Team structure, evaluate those concerns and implement opportunities for improvement.</p> <p>The Community Health Section Leadership Team has an operational manual that contains the following topic areas: Overview, Leadership, Policies and Procedures, Forms, Personnel, Strategic Planning, Accounting Info and Miscellaneous. The manual was developed to assure consistency within the Community Health Section and is continually updated as new policies and processes are developed. The manual is housed on a network shared drive that all Community Health Section employees have access to. (The Family Health Division is one of five divisions within the Community Health Section.)</p> <p>Community Health Section staff will be re-educated on the chain of command, stressing the point that an employee who is uncomfortable or otherwise reluctant to report to his/her supervisor, has the ability to report to a higher level of management including the State Health Officer and/or Deputy State Health Officer, the Human Resources Director, or the Internal Auditor.</p>	<p>Moderate</p>

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Interview Results</b>			
Several employees feel that morale of employees in the Family Health Division is lower than it has been in several years.	Implement a process to regularly assess employee morale to evaluate changes in employee's morale and perception of the Family Health Division.	<p>The Department of Health management respects staff feelings and appreciates the feedback given.</p> <p>The Department will conduct staff interviews and/or employee surveys within the next six months, and again one year later, to evaluate concerns and to measure morale and perceptions within the Family Health Division. Strategies for improvement will be implemented as appropriate.</p>	Moderate

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Effectiveness Testing Results</b>			
<b>Grants Management</b>			
<p>The process of transferring expenditures to alternate expense categories within the same grant or to another grant is not thoroughly documented to leave a thorough audit trail. Transfers are typically approved via email and verbal conversations between the Family Health Division and liaison Accountant. When selecting transfers of expenditures for testing, documented evidence was unavailable related to the purpose of the transfer and CLA had to rely on inquiry to understand the purpose of the transfer. In addition, noted that salary and operating expense transfers from one grant to another as requested and approved via email in November 2011 were for expenses incurred anywhere from December 2010 to August 2011. Noted another email from October 2011 approving operating expense transfers from one grant to another; however, the original expenses incurred were from June 2011. Transfers do not always appear to be timely.</p>	<p>A procedure should be implemented in the Division to centrally track and monitor transfers of expenditures within the same grant or to another grant. Information such as the following should be documented for all transfers of expenditures: (1) reason(s) for transferring the expenditure must be sufficiently stated to establish that the transfer is within the approved guidelines of the budget to be charged and is in direct support of the project objectives; (2) reason an expenditure was initially charged to the original grant; (3) transfers of expenditures should be made on a timely basis; and (4) approvals of transfers.</p>	<p>The Department concurs with this recommendation except for #3. All grants within the Family Health Division are awarded on a yearly basis; hence transfers of expenditures between line items within a grant and between grants occur throughout the grant cycle and are allowable up to 90 days after the close of the grant period. Although “best practice” for the private sector may be that adjustments be made within 90 days for quarterly reporting purposes, this is not relevant to federal grants management as reporting is typically done on an annual basis.</p> <p>The Department will establish policy to require documentation of the reason and approval in writing for any transfers between grants. In addition, the Department will establish a process to monitor and track the allowable budget flexibility between line items within a grant.</p>	High
<b>Compensatory Time – Four Employees were Judgmentally Selected for Testing</b>			
<p>Compensatory time spreadsheets used by employees to document compensatory time accrued and taken do not always provide a level of detail needed in order to understand why the compensatory time was accrued. For example, the description states the name of the grant, but does not state why compensatory time was accrued (i.e. travel for a conference).</p>	<p>When documenting compensatory time on the compensatory time spreadsheets, include detail in the description that fully describes the reason for compensatory time accrual.</p>	<p>The Department concurs with the recommendation and will require the Community Health Section compensatory time policy to include a requirement that the description of the reason for the compensatory time earned be fully described on the compensatory time approval spreadsheet.</p>	Moderate

CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Effectiveness Testing Results</b>			
<b>Annual Leave - Four Employees were Judgmentally Selected for Testing</b>			
<p>The Annual Leave Policy states the following: A request for annual leave must be approved by the employee's supervisor before the employee is authorized to take the leave. The following deviations from policy were noted:</p> <ul style="list-style-type: none"> <li>• In one instance an employee approved their own annual leave on behalf of their direct supervisor, signing their name in the supervisor signature field and stating their signature was on behalf of their supervisor. It appears the supervisor later approved the annual leave; however, it did not appear to be approved prior to the employee taking annual leave.</li> <li>• In two instances an employee approved their supervisor's annual leave, signing their name and stating their signature was on behalf of their supervisor's boss.</li> <li>• In two instances an employee had a colleague approve their annual leave as the colleague had been delegated the responsibility by senior leadership.</li> </ul>	<p>Annual leave should be approved by the employee's supervisor before the employee is authorized to take annual leave, per policy. CLA would also recommend in instances where the employee's supervisor is not available, the Director of the Family Health Division should approval the annual leave. In instances where the employee's supervisor is the Director of the Family Health Division, approval should be obtained from the Community Health Section lead. In instances where the Community Health Section lead is not available, the Director of the Family Health Division should obtain approval from another Community Health Section lead.</p>	<p>The Department concurs with this recommendation and has made immediate changes to discontinue this practice.</p> <p>Effective February 2012, the Family Health Division director no longer assigns leadership or signature authority to program staff within the Division. The Community Health Section Lead assumes leadership responsibilities and signature authority in the absence of the Family Health Division director.</p>	<p>Moderate</p>



CliftonLarsonAllen Observation	CliftonLarsonAllen Recommendation	Family Health Division Response	Risk Ranking
<b>Effectiveness Testing Results</b>			
<b>Expense Reporting - Four Employees were Judgmentally Selected for Testing</b>			
<p>The following observations were noted related to taxi fares and related receipts:</p> <ul style="list-style-type: none"> <li>Per the OMB policy, tips for taxis are not an accepted reimbursable expense; however, it was noted that most taxi receipts submitted and reviewed by CLA were for round dollar amounts and typically rounded to the nearest 10 (i.e. \$20, \$30, \$40) or 5 (i.e. \$25, \$35, \$45). Although CLA cannot validate that tips were submitted for reimbursement, we can validate that taxi fares charged by taxi companies are not always rounded to the nearest \$10 or \$5.</li> <li>When employees were traveling to the same destination (airport and staying in the same hotel), taxi receipts submitted had significant variances in amounts (i.e. \$30 vs. \$70, \$25 vs. \$45, etc.).</li> <li>According to the taxi receipts submitted, the same taxi company was taken very frequently (i.e. airport to hotel and hotel back to airport). In large metro areas, there are several taxi companies, and it would be rare that the same taxi company would continuously be taken to and from airport and hotel for several trips.</li> </ul>	<p>In many instances, the use of a credit card is typically acceptable for a taxi fare (i.e. taxi fares from any major city airport to a hotel and hotel back to major city airport). CLA recommends considering the use of a credit card when paying for a taxi fare in certain circumstances (i.e., major city destinations), submitting the credit card receipt. Management review of expense reports should take into consideration the destination of travel and whether it appears a taxi fare could have been paid for via a credit card.</p>	<p>Based on observations as noted by CLA, increased due diligence will be used in reviewing taxi receipts. The Department is reluctant to set policy requiring the use of a credit card for taxi fares which is a higher standard than required by Office of Management and Budget. In addition, staff may be opposed to use of a personal credit card for taxi expenses. The Family Health Division will provide training to staff regarding taxi expense reimbursement. In situations where taxi receipts are being questioned, the use of a credit card will be required on a case-by-case basis.</p> <p>The Department will also explore the appropriateness of assigning P-Cards to staff that travel for payment of hotel and taxi expenses.</p>	Moderate
<p>Original receipts are not always provided for reimbursable employee expenses. It was noted that a few taxi receipts had been photocopied and personal checks provided in place of an original receipt (another employee that incurred the same expense provided a receipt; therefore, an original receipt could have been provided).</p>	<p>Original receipts should always be required for reimbursement. Management review of employee expense reimbursement requests and supporting receipts should validate original receipts are attached.</p>	<p>The Department concurs with this recommendation. It is Department policy to require original receipts to support requests for reimbursement. Education will be provided to ensure increased due diligence on the part of managers when they review reimbursement requests. In addition education will be provided to staff regarding the importance of having original receipts for travel expense reimbursement.</p>	Low