

STATE OF NORTH CAROLINA

PERFORMANCE AUDIT

DEPARTMENT OF HEALTH AND HUMAN SERVICES DIVISION OF HEALTH SERVICE REGULATION

KEY AGENCY INDICATORS

JUNE 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

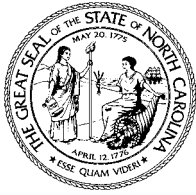
STATE AUDITOR

PERFORMANCE AUDIT

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF HEALTH SERVICE REGULATION**

KEY AGENCY INDICATORS

JUNE 2011



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

June 14, 2011

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
Lanier M. Cansler, Secretary, Department of Health and Human Services
Drexal Pratt, Director, Division of Health Service Regulation

Ladies and Gentlemen:

We are pleased to submit this performance audit titled "*Department of Health and Human Services – Division of Health Service Regulation, Key Agency Indicators.*" The audit objectives were to determine if the Division of Health Service Regulation (Division) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate and supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently. Secretary Cansler reviewed a draft copy of this report. His written comments are included in the appendix.

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

We wish to express our appreciation to the staff of the Division of Health Service Regulation for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
SUMMARY	1
INTRODUCTION	
BACKGROUND.....	3
OBJECTIVES, SCOPE, AND METHODOLOGY	4
FINDINGS AND RECOMMENDATIONS.....	6
APPENDIX	
PLANNING PROCESS MODEL	14
AUDITOR’S RESPONSE	15
DEPARTMENT RESPONSE	18
ORDERING INFORMATION	28

SUMMARY

PURPOSE

This audit evaluated the Department of Health and Human Services – Division of Health Service Regulation’s (Division) key agency indicators¹ for the state fiscal years 2008 through 2010 to ensure that accurate and meaningful information is available to evaluate the Division’s performance and make budgeting decisions. We made recommendations so the Governor, Legislature, Office of State Budget and Management, and Division management can take appropriate corrective action.

RESULTS

The Division’s key agency indicators, first reported in fiscal year 2007-08, are not meaningful measures of its performance. Specifically, two of the three key agency indicators are not clearly linked to the Division’s goals and do not provide a method for decision-makers such as the Governor, Legislature, Office of State Budget and Management, and Division management to measure the Division’s progress toward achieving its goals. Additionally, the key agency indicators are not used for decision making by agency management or legislators which further suggests that the indicators do not measure divisional goal-achievement. As a result, decision-makers may lack information necessary for determining whether the Division is achieving the goals for which state appropriations were allocated to it.

The Division did not report the key agency indicators directly to the Office of State Budget and Management (OSBM) because OSBM did not require state agencies to update key agency indicators for fiscal years 2008-09 or 2009-10. However, the Division publicly reported two of the three key agency indicators on the North Carolina Department of Health and Human Services “Open Window” website for state fiscal year 2008-2009. One of the key agency indicators reported was not accurately calculated or supported by documentation. No key agency indicators were reported for state fiscal year 2009-2010. The lack of key agency indicators limits operational transparency and the ability for the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations.

The Division has not established sufficient policies and procedures necessary to ensure that key agency indicator data is accurate, complete, and consistent. Specifically, the Division does not have sufficient policies and procedures in place to ensure that source data for the key indicators is collected in a consistent manner, errors are not introduced when performance data is processed, and key agency indicators are reviewed for accuracy and consistency before they are reported. The lack of proper procedures could result in incomplete, inaccurate, and invalid performance data.

¹ Key agency indicators are performance measures that identify and measure the key results necessary for an agency to achieve its goals. The Office of State Budget and Management states that key agency indicators should “provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas.”

RECOMMENDATIONS

Division management should create a written strategic plan that clearly explains how the Division's mission, goals, and strategies are linked to and measured by key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Division's performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement. Management should require the measures to be reported periodically, monitor the measures, and use the measures in decision making.

The Division should update and report its key agency indicators to OSBM at least annually so that current information is available for evaluative and decision-making purposes for the Governor, Legislators, and management.

OSBM should enforce their requirement that agencies update key agency indicators annually.

The Division should develop written policies and procedures for performance data collection and processing. The Division should ensure that personnel are properly trained in the data collection and processing procedures. The Division should require management to review the key agency indicators and certify that procedures were followed and that the key agency indicators are complete, accurate, and valid.

AGENCY'S RESPONSE

The Agency's response is included in the appendix.

INTRODUCTION

BACKGROUND

On January 12, 2009, the Governor issued Executive Order No. 3, “On-Site and State-Stat Performance Management and Accountability,” to improve program and management performance at state agencies and to maximize efficiency and effectiveness when spending taxpayer dollars. Executive order No. 3 requires each Cabinet-level department² to develop a strategic plan that clearly and concisely states the (1) mission of the department, (2) goals of the department, (3) strategies for achieving department goals, and (4) measures that demonstrate how well the goals are being achieved.

Similarly, the Office of State Budget and Management (OSBM) requires all state agencies to perform strategic planning and identify the agency’s mission, goals, and performance measures as part of the State’s budget process. OSBM requires this information from state agencies to ensure that the State’s budget process encourages efficient and effective government and emphasizes performance and accountability. OSBM also wants to ensure that the State’s budget process provides “decision makers with detailed information in order to assess the effectiveness of state programs and to inform the public about state government work and subsequent results.”³

In compliance with the State’s budget process in 2008, the Department of Health and Human Services’ Division of Health Service Regulation (Division) submitted its mission, goals, and performance measures to OSBM.

The Division’s mission is to provide for the health, safety, and well-being of individuals through effective regulatory and remedial activities, including appropriate consultation and training opportunities, and by improving access to health care delivery systems through the rational allocation of needed facilities and services.

The Division also established goals or steps to achieve its mission. The Division’s goals are to:

- License and regulate health care facilities to ensure the health, safety, and welfare of individuals residing in or receiving services. Perform inspections, monitoring, and complaint investigations to determine compliance with regulations.
- Help protect the health, safety and welfare of patients and residents being served by health care facilities and agencies through the approval of Nurse Aide I (NAI) educational programs, assuring that only individuals who pass state competency to provide nursing related services are listed on the NAI Registry, and through the timely

² Executive Order No. 3 encouraged and invited the Board of Governors of the University of North Carolina System, the State Board of Community Colleges, State Board of Education, the Administrative Office of the Courts, and each of the heads of the Council of State agencies to participate in the Executive Order.

³ OSBM’s “Results-Based Budgeting, Preparing for the 2009-11 Biennium,” pg. 1.

investigation of allegations of abuse and neglect against unlicensed healthcare workers and the listing of substantiated allegations.

- Facilitate and improve compliance with licensure, certification, and Health care Finance Program (HFA) requirements related to health care facility construction and compliance with the life safety code.
- Contain increasing health care costs by preventing unnecessary duplication of medical facilities.
- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need using demographic and statistical analyses to guide local planning for specific health care facilities and services.
- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need to guide local planning for specific health care facilities and services.
- Provide grants to upgrade the preparedness of North Carolina's health care system to respond rapidly and effectively to bioterrorism, outbreaks of infectious disease, and other public health threats or emergencies.

To demonstrate progress in achieving its goals, the Division developed the following three "key agency indicators:"⁴

1. Percentage of licensed nursing home surveys conducted within the federally established timelines;
2. Percentage change of square footage reviewed for health care construction projects; and
3. Percentage of patient encounters with licensed Emergency Medical Service (EMS) providers in conformance with the standard of care established by the North Carolina College of Emergency Physicians' protocols.

To achieve its goals and serve the citizens of North Carolina, the Division received about \$17.9 million in state appropriations for fiscal year 2010.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine if the Department of Health and Human Services - Division of Health Service Regulation (Division) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate, supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently.

⁴ OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium" describe key agency indicators as follows: "Developed in conjunction with an agency's mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years."

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

The audit scope included key agency indicators reported for state fiscal years 2008 through 2010. We conducted the fieldwork from December 2010 to January 2011.

To determine if the Division established key agency indicators that have a clear relationship to agency goals and accurately reflect the performance being measured, we compared agency indicators to the definition of “outcome-based” measures.⁵ We compared agency indicators to strategic plans. We also interviewed agency management, OSBM personnel, General Assembly Fiscal Research Division personnel, and legislative oversight committee members.

To determine if the Division reported accurate, supported performance information to OSBM, we reviewed key agency indicator calculations and supporting documentation.

To determine if the Division established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently, we compared agency performance data collection, processing, and reporting practices for three randomly selected program measures to identified data quality assurance best practices.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit under the authority vested in the State Auditor of North Carolina by *North Carolina General Statute* 147.64.

⁵ The National State Auditors Association states, “Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved.”

FINDINGS AND RECOMMENDATIONS

1. NO CLEAR RELATIONSHIP BETWEEN KEY INDICATORS AND AGENCY GOALS

The Division of Health Service Regulation's (Division) key agency indicators are not meaningful measures of the Division's performance. Specifically, two of the key agency indicators are not clearly linked to the Division's goals and do not provide a method for the Governor, Legislators, and management to measure the Division's progress in achieving its goals. Additionally, two of the key agency indicators are not used for decision making by agency management which further suggests that the indicators do not measure Divisional goal-achievement. The lack of a clear relationship between the indicators and agency goals is explained in part by the Division's lack of a written strategic plan.

Key Agency Indicators Not Clearly Linked To Goals

Performance measures can help direct and motivate employee behavior toward the achievement of agency goals if the measures are clearly linked to the agency's goals.

Only one of the three key agency indicators links to one of the Division's stated goals. The indicator "Percentage of licensed nursing home surveys conducted within the federally established timelines" provides information that links to the goal related to licensing and regulating health care facilities to ensure the health, safety, and welfare of individuals residing in or receiving services.

However, the Division's other two agency indicators are not clearly linked to its stated goals. The indicators may provide some information on the results of the use of state and federal resources such as "Percentage change of square footage reviewed for health care construction projects" and "Percentage of patient encounters with licensed Emergency Medical Service (EMS) providers in conformance with the standard of care established by the North Carolina College of Emergency Physicians' protocols," but neither of these indicators are clearly linked to the Division's goals to:

- Help protect the health, safety and welfare of patients and residents being served by health care facilities and agencies through the approval of Nurse Aide I (NAI) educational programs, assuring that only individuals who pass state competency to provide nursing related services are listed on the NAI Registry, and through the timely investigation of allegations of abuse and neglect against unlicensed healthcare workers and the listing of substantiated allegations.
- Facilitate and improve compliance with licensure, certification, and Health care Finance Program (HFA) requirements related to health care facility construction and compliance with the life safety code.
- Contain increasing health care costs by preventing unnecessary duplication of medical facilities.
- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need using demographic and statistical analyses to guide local planning for specific health care facilities and services.

FINDINGS AND RECOMMENDATIONS

- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need to guide local planning for specific health care facilities and services.
- Provide grants to upgrade the preparedness of North Carolina's health care system to respond rapidly and effectively to bioterrorism, outbreaks of infectious disease, and other public health threats or emergencies.

The Government Accountability Office (GAO) recommends that agencies link performance measures to agency goals. The GAO states: ⁶

"Performance goals and measures should align with an agency's goals and mission. A cascading or hierarchal linkage moving from top management down to the operational level is important in setting goals agency wide, and the linkage from the operational level to the agency level provides managers and staff throughout an agency with a road map that (1) shows how their day-to-day activities contribute to attaining agency wide goals and mission and (2) helps define strategies for achieving strategic and annual performance goals."

The GAO notes that failure to link performance measures to goals can create behaviors and incentives that do not support organizational goals.

Key Agency Indicators Do Not Measure Goal Achievement

The National State Auditors Association states, "Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved."⁷

However, none of the Division's three key agency indicators are outcome measures that clearly measure the Department's success in achieving its stated goals. None of the indicators clearly or directly measure the Department's success in achieving its goals as listed above.

The state budgeting process requires state agencies to provide outcome-based key indicators. Instructions from the Office of State Budget and Management (OSBM) state:

"Key indicators should be outcome-based and inclusive of various programs, activities, and funds in order to provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

The state budget instructions include examples of outcome-based measures such as:

- Employment rate for 13 weeks following training program;
- Annual return on short-term investments;
- Teenage birth rate;

⁶Government Accountability Office. Report no. [GAO-03-0143](#). November 2002

⁷ NSAA. [Best Practices in Performance Measurement](#). 2004

FINDINGS AND RECOMMENDATIONS

- Percentage of psychiatric hospital patients indicating satisfaction with hospital services;
- Percentage of tested training school residents who passed the GED;
- Percentage of welfare recipients who are employed three months after receiving job training; and
- Elder abuse recidivism rate.

A lack of outcome-based performance measures can prevent decision-makers from determining whether the agency is achieving its goals and whether the agency is effectively achieving the desired social, civic, economic, or environmental impact.

Key Agency Indicators Are Not Used For Decision Making

Performance measures can provide useful information for decision-makers. The National State Auditors Association states, "A good process for developing performance measures would include assessing each performance measure by asking 'Is the measure useful to others [i.e. decision-makers]?' " ⁸

One of the Division's key agency indicators is not used for decision making by management and legislators which suggests that the indicators may not be useful. Division management did not describe any instances where the key agency indicator "Percentage of patient encounters with licensed Emergency Medical Service (EMS) providers in conformance with the standard of care established by the North Carolina College of emergency Physicians' protocols" was used to make operational or strategic decisions. Members of the House Appropriations Subcommittee and the Senate Appropriations Committee on Health and Human Services did not describe any instances where the Division's key agency indicators were used to make decisions. Additionally, personnel from the General Assembly Fiscal Research Division did not indicate they used the key indicators when making decisions.

Performance measures should be useful for decision-making. The Government Finance Officers Association (GFOA) states, "Performance measures should be monitored and used in managerial decision-making processes."⁹ Furthermore, OSBM budget instructions require agencies to develop a set of key agency indicators that "impact and link to budget decisions."

If the performance measures are not useful for decision-making, the Division may waste time and effort collecting the data and calculating the measures. Additionally, the Governor, Legislators, and management may not have the information they need to evaluate the Division's performance and make resource allocation decisions.

⁸ NSAA. Best Practices in Performance Measurement. 2004

⁹ GFOA. Performance Management: Using Performance Measurement for Decision Making. 2002 and 2007

FINDINGS AND RECOMMENDATIONS

No Written Strategic Plan

The Division has not developed a written strategic plan to ensure that key agency indicators are clearly linked to goals, measure goal-achievement, and are useful for decision making. In part, strategic planning includes preparing a mission statement, agreeing on a small number of broad goals, developing strategies to achieve the goals, creating an action plan, developing measurable objectives, and incorporating performance measures to “provide an important link between the goals, strategies, actions, and objectives stated in the strategic plan.”¹⁰

Strategic planning is a best practice recommended by the GFOA and the Governor of North Carolina. The GFOA recommends that “all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals.”¹¹ Furthermore, the Governor’s Executive Order No. 3 states:

“Each department shall develop a strategic planning process and continually update a strategic plan in compliance with guidance from the Office of State Budget and Management (OSBM) and the Governor’s Policy Office. Departments shall submit their plans annually to OSBM and the Governor’s Office. The plans shall include clear, concise, and focused statements of at least the following:

- (a) The mission of the department.
- (b) The goals of the department.
- (c) The strategies for achieving department goals.
- (d) Measures that demonstrate how well the goals are being achieved.
- (e) A description of the department strategic planning process.”

Failure to perform strategic planning and develop a written strategic plan could prevent a state agency from effectively and efficiently fulfilling its mission, achieving its goals, and serving the citizens of North Carolina.

Recommendation: Division management should create a written strategic plan that clearly explains how the Division’s mission, goals, and strategies are linked to and measured by the key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Division’s performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement. Management should require the measures to be reported periodically, monitor the measures, and use the measures in decision making.

¹⁰ GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005

¹¹ GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005

FINDINGS AND RECOMMENDATIONS

2. NO KEY AGENCY INDICATORS REPORTED FOR TWO STATE FISCAL YEARS

The Division of Health Service Regulation (Division) did not report updated key agency indicators to the Office of State Budget and Management (OSBM) for state fiscal years 2008-09 and 2009-10. It should be noted that OSBM did not require state agencies to update key agency indicators for fiscal years 2008-10.

The Division reported two of the three key agency indicators on its website, the North Carolina DHHS Open Window, for fiscal year 2008-09. However, only one of the measures, “Percentage of licensed nursing home surveys conducted within the federally established timelines,” was reported accurately.

Key agency indicators provide important information to the Governor, Legislators, and management so that they can understand the agency’s goals and evaluate agency performance. The state budgeting instructions define the purpose of key indicators:

“Developed in conjunction with an agency’s mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years.”

Failure to report on key agency indicators limits operational transparency and the ability of the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations.

Recommendation: The Division should select and report on key agency indicators to OSBM at least annually so that current information is available for evaluative and decision-making purposes.

OSBM should enforce their requirement that agencies update key agency indicators annually.

3. CONTROLS DO NOT ENSURE ACCURATE, COMPLETE, AND CONSISTENT DATA

The Division of Health Service Regulation (Division) has not established policies and procedures necessary to ensure that key agency indicator data is accurate, complete, and consistent. Specifically, the Division does not have policies and procedures in place to ensure that (1) source data for the key indicators is collected in a consistent manner, (2) errors are not introduced when performance data is processed, and (3) key agency indicators are reviewed for accuracy and consistency before they are reported.

Performance Data Collection

The Division does not have policies and procedures in place to ensure that the source data for the key agency indicators is collected in a consistent manner. Specifically, the Division does not have:

FINDINGS AND RECOMMENDATIONS

- Written procedures and methodology for collecting performance data for one of the three key agency indicators reviewed; and
- Review procedures to ensure adherence to data collection procedures for two of the three key agency indicators reviewed.

The Division does have documented staff training in proper data collection procedures.

The Government Accountability Office recommends that government agencies clearly document internal controls,¹² review and validate the propriety and integrity of performance measures and indicators, and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions imply that an agency should have policies and procedures in place to ensure consistent performance data collection. The state budget instructions require, “An agency’s measures should be consistent over time so that the data presented are easy to compare from year to year.”

If source data is not collected in a consistent manner from period to period, the results may not be comparable and may not be legitimate.

Performance Data Processing

The Division does not have policies and procedures in place to ensure that errors are not introduced in the performance measurement process when data is entered, transcribed, or transferred during the reporting process. Specifically, the Division does not have:

- Written procedures and methodology for entering performance data for one of the three key agency indicators reviewed;
- Written procedures for checking data for obvious inaccuracies, checking data consistency, and checking data against source documents for two of the three key agency indicators reviewed; and
- Documented staff training in proper data entry procedures for one of the three key agency indicators reviewed.

The Government Accountability Office recommends that government agencies clearly document policies and procedures and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions require, “Data for performance indicators should be accurate, on file, and auditable.”¹³

¹² Government Auditing Standards state, “Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring performance.”

¹³ OSBM’s “Results-Based Budgeting, Preparing for the 2009-11 Biennium,” pg. 26.

FINDINGS AND RECOMMENDATIONS

Without written procedures and trained staff, reported performance measurement information may be incomplete, inaccurate, and invalid.

Performance Data Reporting

The Division does not have policies and procedures in place to ensure that performance data is reported accurately. Specifically, the Division does not:

- Require responsible officials to certify that proper procedures were followed in collecting and calculating the three key agency indicators reviewed; and
- Require responsible officials to certify that data accuracy has been checked before being reported.

State budget instructions require data for performance indicators to be accurate.¹⁴

Requiring responsible officials to certify that proper procedures were followed and that data accuracy was checked will help ensure that performance measurement information is complete, accurate, and valid.

Recommendation: The Division should develop written policies and procedures for performance data collection and processing. The Division should require management to review the key agency indicators and certify that procedures were followed and that the dashboard measures are complete, accurate, and valid.

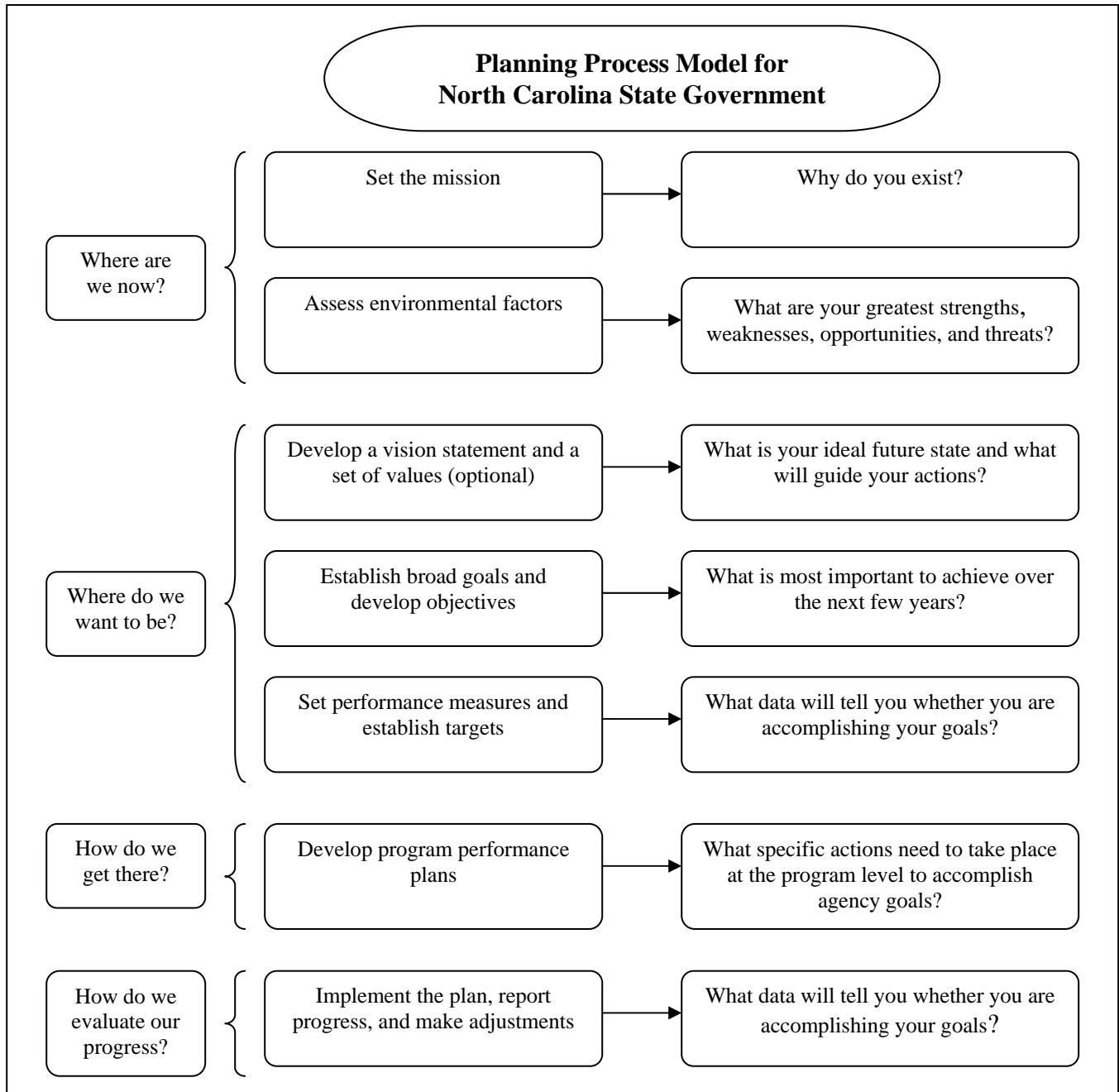
¹⁴ OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium," pg. 26.

[This Page Left Blank Intentionally]

APPENDIX

PLANNING PROCESS MODEL

The diagram below details the recommended planning process for North Carolina state government.



Source: OSBM's "Planning Guidelines for North Carolina State Government – March 2010", pg. 5.

AUDITOR'S RESPONSE

We are required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of our findings.

Generally Accepted Government Auditing Standards state,

“When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditor's recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.”

To ensure the availability of complete and accurate information and in accordance with Generally Accepted Government Auditing Standards, we offer the following clarifications:

In response to the report, the Division response states that *“The Division respectfully disagrees with the Auditor's opinion stated above with regards to the relationship between key indicators and agency goals”* and then provides an explanation of how the key agency indicators for the Office of Emergency Medical Services and the Construction Section directly link to the Division's goals.

We disagree.

This audit focuses on key agency performance indicators because key indicators provide a limited number of key results for the Governor, Legislators, and citizens to understand the Division's achievements in relation to their budget. As noted in this report, the Government Accountability Office (GAO) recommends that agencies link performance measures to agency goals in order to provide “a road map that (1) shows how their day-to-day activities contribute to attaining agency wide goals and mission and (2) helps define strategies for achieving strategic and annual performance goals.”

The key agency indicator “Percentage of patient encounters with licensed EMS providers in conformance with the standard of care established by the NC College of Emergency Physicians' protocols” does not provide any information to the Governor, Legislators and citizens about how the Division is attaining its goals and mission, nor does it help define strategies for achieving the Division's goals to:

- Provide grants.
- Upgrade the preparedness of NC's health care system.
- Respond rapidly and effectively to bioterrorism.
- Respond rapidly and effectively to outbreaks of infectious diseases.
- Respond rapidly and effectively to other public health threats or emergencies.

AUDITOR'S RESPONSE

Additionally, the key agency indicator “Percentage change of square footage reviewed for health care construction projects” does not provide any information to the Governor, Legislators and citizens about how the Division is attaining its goals and mission, nor does it help define strategies for achieving the Division’s goals to:

- Facilitate compliance with licensure, certification, and Health Care Finance Program requirements related to health care facility construction.
- Facilitate compliance with the life safety code.
- Improve compliance with licensure, certification, and Health Care Finance Program requirements related to health care facility construction.
- Improve compliance with the life safety code.

The Governor, Legislators, and the citizens of North Carolina should consider the clarification provided above when evaluating the Division of Health Service Regulation’s response to the audit findings.

[This Page Left Blank Intentionally]



North Carolina Department of Health and Human Services

2001 Mail Service Center • Raleigh, North Carolina 27699-2001

Tel: 919-733-4534 • Fax: 919-715-4645

Beverly Eaves Perdue, Governor

Lanier M. Cansler, Secretary

April 11, 2011

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

We have reviewed your report on the findings and recommendations that resulted from fieldwork on the performance audit titled "*Department of Health and Human Services – Division of Health Service Regulation – Key Agency Indicators*". The following represents our response to the Audit Findings and Recommendations.

1. NO CLEAR RELATIONSHIP BETWEEN KEY INDICATORS AND AGENCY GOALS

The Division of Health Service Regulation's (Division) key agency indicators are not meaningful measures of the Division's performance. Specifically, one of the key agency indicators is not clearly linked to the Division's goals and do not provide a method for the Governor, Legislators, and management to measure the Division's progress in achieving its goals. Additionally, two of the key agency indicators are not used for decision making by agency management which further suggests that the indicators do not measure Divisional goal-achievement. The lack of a clear relationship between the indicators and agency goals is explained in part by the Division's lack of a written strategic plan.

Key Agency Indicators Not Clearly Linked To Goals

Performance measures can help direct and motivate employee behavior toward the achievement of agency goals if the measures are clearly linked to the agency's goals.

Only one of the three key agency indicators links to one of the Division's stated goals. The indicator "Percentage of licensed nursing home surveys conducted within the federally established timelines" provides information that links to the goal related to licensing and regulating health care facilities to ensure the health, safety, and welfare of individuals residing in or receiving services.

However, the Division's other two agency indicators are not clearly linked to its stated goals. The indicators may provide some information on the results of the use of state and federal resources such as "Percentage change of square footage reviewed for health care construction projects" and "Percentage of patient encounters with licensed Emergency Medical Service (EMS) providers in conformance with the standard of care established by the North Carolina College of Emergency Physicians' protocols," but neither of these indicators are clearly linked to the Division's goals to:

- Help protect the health, safety and welfare of patients and residents being served by health care facilities and agencies through the approval of Nurse Aide I (NAI) educational programs, assuring that only individuals who pass state competency to provide nursing related services are listed on the NAI Registry, and through the timely investigation of allegations of abuse and neglect against unlicensed healthcare workers and the listing of substantiated allegations.
- Facilitate and improve compliance with licensure, certification, and Health care Finance Program (HFA) requirements related to health care facility construction and compliance with the life safety code.
- Contain increasing health care costs by preventing unnecessary duplication of medical facilities.
- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need using demographic and statistical analyses to guide local planning for specific health care facilities and services.
- Provide individuals, institutions, state and local government agencies, and community leadership with policies and projections of need to guide local planning for specific health care facilities and services.
- Provide grants to upgrade the preparedness of North Carolina's health care system to respond rapidly and effectively to bioterrorism, outbreaks of infectious disease, and other public health threats or emergencies.

The Government Accountability Office (GAO) recommends that agencies link performance measures to agency goals. The GAO states:

"Performance goals and measures should align with an agency's goals and mission. A cascading or hierarchal linkage moving from top management down to the operational level is important in setting goals agency wide, and the linkage from the operational level to the agency level provides managers and staff throughout an agency with a road map that (1) shows how their day-to-day activities contribute to attaining agency wide goals and mission and (2) helps define strategies for achieving strategic and annual performance goals."

The GAO notes that failure to link performance measures to goals can create behaviors and incentives that do not support organizational goals.

Key Agency Indicators Do Not Measure Goal Achievement

The National State Auditors Association states, "Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved."

However, none of the Division's three key agency indicators are outcome measures that clearly measure the Department's success in achieving its stated goals. None of the indicators clearly or directly measure the Department's success in achieving its goals as listed above.

The state budgeting process requires state agencies to provide outcome-based key indicators. Instructions from the Office of State Budget and Management (OSBM) state:

"Key indicators should be outcome-based and inclusive of various programs, activities, and funds in order to provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

The state budget instructions include examples of outcome-based measures such as:

- Employment rate for 13 weeks following training program;
- Annual return on short-term investments;
- Teenage birth rate;
- Percentage of psychiatric hospital patients indicating satisfaction with hospital services;
- Percentage of tested training school residents who passed the GED;
- Percentage of welfare recipients who are employed three months after receiving job training; and
- Elder abuse recidivism rate.

A lack of outcome-based performance measures can prevent decision-makers from determining whether the agency is achieving its goals and whether the agency is effectively achieving the desired social, civic, economic, or environmental impact.

Key Agency Indicators Are Not Used For Decision Making

Performance measures can provide useful information for decision-makers. The National State Auditors Association states, "A good process for developing performance measures would include assessing each performance measure by asking 'Is the measure useful to others [i.e. decision-makers]?' "

One of the Division's key agency indicators is not used for decision making by management and legislators which suggests that the indicators may not be useful. Division management did not describe any instances where the key agency indicator "Percentage of patient encounters with licensed Emergency Medical Service (EMS) providers in conformance with the standard of care established by the North Carolina College of emergency Physicians' protocols" was used to make operational or strategic decisions. Members of the House Appropriations Subcommittee and the

Senate Appropriations Committee on Health and Human Services did not describe any instances where the Division's key agency indicators were used to make decisions. Additionally, personnel from the General Assembly Fiscal Research Division did not indicate they used the key indicators when making decisions.

Performance measures should be useful for decision-making. The Government Finance Officers Association (GFOA) states, "Performance measures should be monitored and used in managerial decision-making processes." Furthermore, OSBM budget instructions require agencies to develop a set of key agency indicators that "impact and link to budget decisions."

If the performance measures are not useful for decision-making, the Division may waste time and effort collecting the data and calculating the measures. Additionally, the Governor, Legislators, and management may not have the information they need to evaluate the Division's performance and make resource allocation decisions.

No Written Strategic Plan

The Division has not developed a written strategic plan to ensure that key agency indicators are clearly linked to goals, measure goal-achievement, and are useful for decision making. In part, strategic planning includes preparing a mission statement, agreeing on a small number of broad goals, developing strategies to achieve the goals, creating an action plan, developing measurable objectives, and incorporating performance measures to "provide an important link between the goals, strategies, actions, and objectives stated in the strategic plan."

Strategic planning is a best practice recommended by the GFOA and the Governor of North Carolina. The GFOA recommends that "all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals." Furthermore, the Governor's Executive Order No. 3 states:

"Each department shall develop a strategic planning process and continually update a strategic plan in compliance with guidance from the Office of State Budget and Management (OSBM) and the Governor's Policy Office. Departments shall submit their plans annually to OSBM and the Governor's Office. The plans shall include clear, concise, and focused statements of at least the following:

- (a) The mission of the department.
- (b) The goals of the department.
- (c) The strategies for achieving department goals.
- (d) Measures that demonstrate how well the goals are being achieved.
- (e) A description of the department strategic planning process."

Failure to perform strategic planning and develop a written strategic plan could prevent a state agency from effectively and efficiently fulfilling its mission, achieving its goals, and serving the citizens of North Carolina.

Recommendation: Division management should create a written strategic plan that clearly explains how the Division's mission, goals, and strategies are linked to and measured by the key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Division's performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement. Management should require the measures to be reported periodically, monitor the measures, and use the measures in decision making.

Agency Response: *The Department agrees that the Division of Health Service Regulation (DHSR) does not currently have a written strategic management plan. However, the Department of Health and Human Services (DHHS) is in the process of developing a Department-wide strategic plan, of which the DHSR strategic plan will be a component. The Division respectfully disagrees with the Auditor's opinion stated above with regards to the relationship between key indicators and agency goals. DHSR believes the Office of Emergency Medical Services (OEMS) use of the measure "Percentage of patient encounters with licensed EMS providers in conformance with the standard of care established by the North Carolina College of Emergency Physicians' protocols" does directly link to the goal "Provide grants to upgrade the preparedness of North Carolina's health care system to respond rapidly and effectively to bioterrorism, outbreaks of infectious disease, and other public health threats or emergencies." Through the use of "real time" data from the Patient Care Report (PCR) to the State's Department of Public Health Surveillance System, the EMS Section can determine where there are weaknesses in service provision. By identifying these weaknesses, the Office of EMS can target Duke Endowment grants to assist these systems in upgrading their equipment, training, etc. to improve their capabilities to respond rapidly and effectively to public health threats. Additionally, the Construction Section's use of the measure "Percentage change of square footage reviewed for health care construction projects" does directly link to the goal "Facilitate and improve compliance with licensure, certification, and Health care Finance Program (HFA) requirements related to health care facility construction and compliance with the life safety code." By reviewing potential construction plans under consideration by the Medical Care Commission, the Construction Section is ensuring the healthcare facility construction plans comply with licensure, certification and HFA of the life safety codes.*

However, DHSR management will work with the Department to ensure the plan clearly documents the linkage by rewording the Division's goals in the DHHS strategic plan and will strive to include target measures and achievement dates. Additionally, the Division will work with the Department to ensure the plan includes performance measures that clearly measure the Division's success in achieving its stated goals. The Division will continue to use identified key indicators for decision making to reach documented goals. The anticipated date of completion for the Division's strategic management plan with goals and indicators revised as needed is September 30, 2011.

2. NO KEY AGENCY INDICATORS REPORTED FOR TWO STATE FISCAL YEARS

The Division of Health Service Regulation (Division) did not report updated key agency indicators to the Office of State Budget and Management (OSBM) for state fiscal years 2008-09 and 2009-10. It should be noted that OSBM did not require state agencies to update key agency indicators for fiscal years 2008-10.

The Division reported two of the three key agency indicators on its website, the North Carolina DHHS Open Window, for fiscal year 2008-09. However, only one of the measures, "Percentage of licensed nursing home surveys conducted within the federally established timelines," was reported accurately.

Key agency indicators provide important information to the Governor, Legislators, and management so that they can understand the agency's goals and evaluate agency performance. The state budgeting instructions define the purpose of key indicators:

"Developed in conjunction with an agency's mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years."

Failure to report on key agency indicators limits operational transparency and the ability of the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations.

Recommendation: The Division should select and report on key agency indicators to OSBM at least annually so that current information is available for evaluative and decision-making purposes.

OSBM should enforce their requirement that agencies update key agency indicators annually.

Agency Response: *The Department agrees with the finding and recommendation. In meeting the requirements of Executive Order Number 3, the Department will report key agency indicators to the Office of State Budget and Management (OSBM) on an annual basis or as OSBM requires. We will also list the key indicators on the North Carolina Department of Health and Human Services (DHHS) Open Window website. The anticipated date of completion for corrective action is September 30, 2011.*

3. CONTROLS DO NOT ENSURE ACCURATE, COMPLETE, AND CONSISTENT DATA

The Division of Health Service Regulation (Division) has not established policies and procedures necessary to ensure that key agency indicator data is accurate, complete, and consistent. Specifically, the Division does not have policies and procedures in place to ensure that (1) source data for the key indicators is collected in a consistent manner, (2) errors are not introduced when

performance data is processed, and (3) key agency indicators are reviewed for accuracy and consistency before they are reported.

Performance Data Collection

The Division does not have policies and procedures in place to ensure that the source data for the key agency indicators is collected in a consistent manner. Specifically, the Division does not have:

- Written procedures and methodology for collecting performance data for one of the three key agency indicators reviewed; and
- Review procedures to ensure adherence to data collection procedures for two of the three key agency indicators reviewed.

The Division does have documented staff training in proper data collection procedures.

The Government Accountability Office recommends that government agencies clearly document internal controls, review and validate the propriety and integrity of performance measures and indicators, and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions imply that an agency should have policies and procedures in place to ensure consistent performance data collection. The state budget instructions require, "An agency's measures should be consistent over time so that the data presented are easy to compare from year to year."

If source data is not collected in a consistent manner from period to period, the results may not be comparable and may not be legitimate.

Performance Data Processing

The Division does not have policies and procedures in place to ensure that errors are not introduced in the performance measurement process when data is entered, transcribed, or transferred during the reporting process. Specifically, the Division does not have:

- Written procedures and methodology for entering performance data for one of the three key agency indicators reviewed;
- Written procedures for checking data for obvious inaccuracies, checking data consistency, and checking data against source documents for two of the three key agency indicators reviewed; and
- Documented staff training in proper data entry procedures for one of the three key agency indicators reviewed.

The Government Accountability Office recommends that government agencies clearly document policies and procedures and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions require, "Data for performance indicators should be accurate, on file, and auditable."

Without written procedures and trained staff, reported performance measurement information may be incomplete, inaccurate, and invalid.

Performance Data Reporting

The Division does not have policies and procedures in place to ensure that performance data is reported accurately. Specifically, the Division does not:

- Require responsible officials to certify that proper procedures were followed in collecting and calculating the three key agency indicators reviewed; and
- Require responsible officials to certify that data accuracy has been checked before being reported.

State budget instructions require data for performance indicators to be accurate.

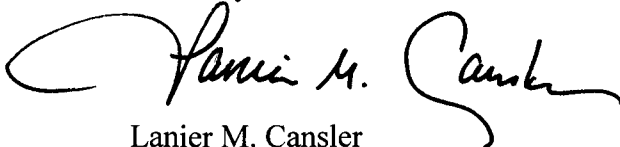
Requiring responsible officials to certify that proper procedures were followed and that data accuracy was checked will help ensure that performance measurement information is complete, accurate, and valid.

Recommendation: The Division should develop written policies and procedures for performance data collection and processing. The Division should require management to review the key agency indicators and certify that procedures were followed and that the dashboard measures are complete, accurate, and valid.

Agency Response: *The Department agrees with the stated finding and recommendation. The Division will develop policies and procedures documenting existing procedures whereby management reviews key agency indicators and ensures the data is complete, accurate and valid. The Department will include in the policies the implementation of a certification to document management review and authorization of the key indicators and related data collection methods. The anticipated date of completion for corrective action is September 30, 2011.*

If you need any additional information please contact Monica Hughes at (919) 855-3720.

Sincerely,



Lanier M. Cansler

The Honorable Beth Wood
April 11, 2011
Page 9 of 9

PRJ:mh

Cc: Dan Stewart, CPA
Mike Watson
Maria Spaulding
Eddie Berryman, CPA
Laketha M. Miller, CPA

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647