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We have completed an audit of the Rehabilitation Division, Bureau of Disability Adjudication. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Rehabilitation Division and Bureau of Disability Adjudication for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA
Legislative Auditor

April 22, 2008
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION
REHABILITATION DIVISION
BUREAU OF DISABILITY ADJUDICATION

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION BUREAU OF DISABILITY ADJUDICATION

Background

The Bureau of Disability Adjudication is part of the Rehabilitation Division of the Department of Employment, Training and Rehabilitation. The mission of the Bureau is to provide quality, timely, professional disability decisions to individuals in Nevada who claim benefits under Social Security disability programs. The Bureau makes determinations on the medical eligibility of claims associated with Titles II and XVI of the Social Security Act.

Social Security Disability Insurance (SSDI) benefits were established in 1954 under Title II of the Social Security Act. Title II provides benefits to individuals who are “insured” by virtue of their contributions to the Social Security trust fund through the Social Security tax on their earnings. In 1972, disability benefits were expanded with the passage of Title XVI which provides Supplemental Security Income (SSI) to individuals who are disabled and have limited income and resources. Each state is responsible for designating an agency to develop medical evidence and render an initial determination on whether the claimant is or is not disabled under the law. In December 2006, 46,966 disabled Nevadans received nearly \$49 million in Title II benefits and 25,884 disabled Nevadans received nearly \$13 million in Title XVI benefits.

The Bureau’s main office is located in Carson City, with a satellite office located in the federal Social Security Administration office in Las Vegas. As of June 30, 2007, the Bureau had 85 of its 103 authorized full-time positions filled. During fiscal year 2007, the Bureau had total expenditures of nearly \$10.9 million. The Bureau is 100% federally funded through the Social Security Administration.

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DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION BUREAU OF DISABILITY ADJUDICATION

Purpose

The purpose of this audit was to evaluate the Bureau's financial and administrative activities, including whether activities were carried out in accordance with applicable state and federal laws, regulations, and policies; and to evaluate the Bureau's productivity and timeliness in rendering disability determinations. We reviewed the Bureau's financial and administrative activities for the 21 months ended March 2007 and activities through September 2007 for certain audit issues. In addition, we included activities for federal fiscal years 2005 through 2007 for areas related to disability determinations.

Results in Brief

The Bureau of Disability Adjudication generally complied with applicable state and federal laws, regulations, and policies. However, it could improve several financial and administrative functions. Better controls will help the Bureau improve safeguards over sensitive claimant information, equipment, and expenditures. In addition, the Bureau needs to improve timeliness in rendering disability determination decisions. The Bureau's productivity and accuracy rates have ranked favorably with regional and national averages for the past several years. However, the Bureau's processing times have exceeded national averages. Better planning may improve the Bureau's ability to meet national averages for processing time.

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Principal Findings

- Beginning in November 2001, the Bureau included social security numbers on payments to medical providers for medical examination records and consultative examinations. The Bureau was unaware that this resulted in claimants' social security numbers being included on the state's Integrated Financial System. This information was not accessible to the public, was located behind the state firewall, and there was no evidence indicating it was compromised. However, it did not require separate passwords for employees at other state agencies to view. As of July 2007, the data warehouse contained more than 257,000 documents with nearly 80,000 unique claimant social security numbers. The Department of Employment, Training and Rehabilitation, working with the Controller's Office, was able to remove the social security numbers from the website in September 2007. (page 12)
- During fiscal year 2007, the Bureau consistently took between 15 and 25 days longer than the national average to process initial claims. While processing time has increased, the Bureau's productivity and accuracy have remained consistent with national averages. Our review of 100 claims found that initial claims were held an average of 17 days before being assigned to an adjudicator. In addition, we found it took 26 days for the Bureau to receive a medical examination record and 33 days to receive a consultative examination. Finally, we found the Rehabilitation Division's strategic plan does not include strategies, goals, or measures to assist the Bureau in reducing processing times. Better planning

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may help improve the Bureau's disability determination processing times. (page 13)

- The Bureau did not add computer hardware purchased by the Social Security Administration (SSA) to the state's fixed asset listing, and has not attached state identification tags to the hardware. Because the purchases are initiated and paid for by the SSA, the computer hardware has SSA identification tags. Per the Code of Federal Regulations, the State has title to equipment purchased and is responsible for monitoring the equipment. As of June 2007, the Bureau had over 130 computers, servers, and scanners not included on the statewide inventory. (page 20)
- The Bureau can improve its controls over the disposal of excess equipment. In April 2007, the Bureau disposed of 90 computers through the Department of Employment, Training and Rehabilitation. Although Social Security Administration policy specifies state disposal practices prevail, the policy also specifies that federal procedures must be followed for the cleanup of electronic records. The Bureau maintained documentation of the electronic cleanup of each computer. However, documenting the cleanup and maintaining the documentation are not included in the Bureau's policies and procedures. In addition, because the computer hardware did not have state identification tags and was not on state inventory lists, its disposal was not adequately documented. (page 21)
- The Bureau can improve its oversight of fixed assets. During fiscal years 2006 and 2007, the Bureau did not ensure all applicable equipment was included in annual inventory reporting to the State Purchasing Division. Although the Bureau has two inventory

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DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION BUREAU OF DISABILITY ADJUDICATION

listings containing fixed assets, annual inventories have only been completed for one of the fixed asset listings. In addition, the Bureau has not ensured that all the necessary changes noted on property disposition reports have been made. Furthermore, staff responsible for inventory were unaware of the Bureau's possession of a \$17,000 mail machine and had it incorrectly removed from the fixed asset listing. (page 22)

- The Bureau can improve controls over payments for medical records and consultative examinations. Although Bureau procedures require a review of all payments, there is not a requirement to document the review. Our review of 30 payment batches found 16 (53%) did not have evidence that the review had been completed. For the 14 batches with identified errors, 7 contained unresolved errors, resulting in the Bureau paying for services without adequate documentation and paying for the same service more than once. Although the dollar amount associated with these errors was not significant, controls are important. Between July 1, 2005, and March 31, 2007, the Bureau processed over 83,000 payments totaling \$3.5 million for consultative examinations and medical records. (page 23)

Recommendations

This report contains eight recommendations to improve the Bureau's processes. This includes recommendations to strengthen controls over claimants' personally identifiable information and develop a plan for reducing initial determination processing times and backlogs. We also included recommendations to improve the Bureau's

EXECUTIVE SUMMARY

DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION BUREAU OF DISABILITY ADJUDICATION

controls over fixed assets and strengthen controls over payments for medical determinations. (page 32)

Agency Response

The Bureau, in response to our audit report, accepted the eight recommendations. (page 29)

Introduction

Background

The Bureau of Disability Adjudication is part of the Rehabilitation Division of the Department of Employment, Training and Rehabilitation (DETR). The mission of the Bureau is to provide quality, timely, professional disability decisions to individuals in Nevada who claim benefits under the Social Security disability programs. The Bureau makes determinations on the medical eligibility of claims associated with Titles II and XVI of the Social Security Act.

Social Security Disability Insurance (SSDI) benefits were established in 1954 under Title II of the Social Security Act. Title II provides benefits to individuals who are “insured” by virtue of their contributions to the Social Security trust fund through the Social Security tax on their earnings. In 1972, disability benefits were expanded with the passage of Title XVI which provides Supplemental Security Income (SSI) to individuals who are disabled and have limited income and resources. In December 2006, 46,966 disabled Nevadans received nearly \$49 million in Title II benefits and 25,884 disabled Nevadans received nearly \$13 million in Title XVI benefits. Exhibit 1 shows the number of recipients and dollars received during December 2004, 2005, and 2006.

**Nevada Social Security Disability Recipients
December 2004, 2005, and 2006**

December	<u>Disabled Workers--Title II</u>		<u>Disabled Workers--Title XVI</u>		Recipients of Both SSDI and SSI Benefits ⁽²⁾
	Number ⁽¹⁾	Dollars ⁽¹⁾	Number	Dollars	
2004	43,649	\$41,433,000	24,112	\$11,368,000	10,459
2005	45,203	\$45,003,000	24,876	\$11,927,000	10,955
2006	46,966	\$48,734,000	25,884	\$12,818,000	11,317
Average	45,273	\$45,056,667	24,957	\$12,037,667	10,910

Source: Social Security Administration State Statistics 2004, 2005, and 2006 reports.

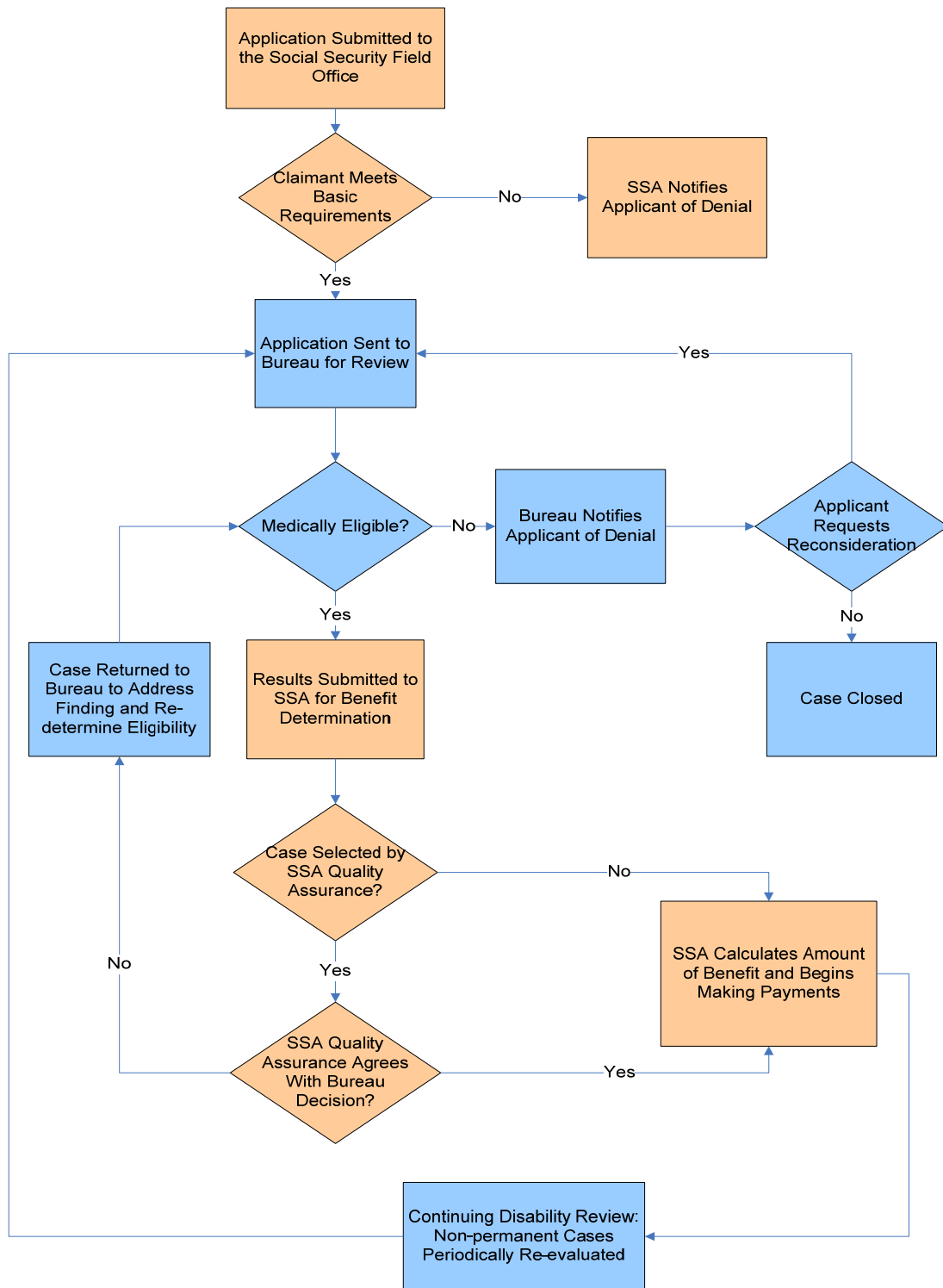
Note: ⁽¹⁾ Does not include spouses or children of disabled workers.

⁽²⁾ Individuals included in both the SSDI and SSI columns.

Each state is responsible for designating an agency to develop medical evidence and render an initial determination on whether the claimant is or is not disabled under the law. These agencies are typically referred to as Disability Determination Services (DDS), and are fully funded by the federal government. The Bureau is part of the Social Security Administration's San Francisco Region, which also includes California, Arizona, and Hawaii.

The Social Security Administration (SSA) sends disability claims to the Bureau for initial eligibility determination, reconsideration of denied claims, and continuing disability reviews. Initial claims are for individuals not currently receiving disability benefits. Reconsideration claims are for individuals who received a denial on their initial claims and are asking for the claim to be reviewed again. Continuing disability reviews (CDR) are completed for individuals already receiving disability benefits. The Bureau periodically completes CDRs to determine if an individual has medically improved to the point of no longer being eligible for disability benefits. Exhibit 2 summarizes the processes followed by the Bureau for making a determination on initial and reconsideration claims.

Disability Determination Process



Source: Bureau Management and Social Security Administration.

The Bureau's main office is located in Carson City, with a satellite office located in the federal SSA office in Las Vegas. As of June 30, 2007, the Bureau had 85 of its 103 authorized full-time positions filled. Adjudicators and adjudicator supervisors make up 64 of the Bureau's total authorized positions.

During fiscal year 2007, the Bureau had total expenditures of nearly \$10.9 million. The Bureau is 100% federally funded through the Social Security Administration. Exhibit 3 shows the Bureau's expenditures for fiscal year 2007.

Exhibit 3

**Expenditures
Fiscal Year 2007**

Category Description	Expenditures	Percent of Total Expenditures
Personnel	\$ 5,818,683	53.42%
Medical Determination	\$ 2,286,639	20.99%
Operating	\$ 1,346,436	12.36%
Cost Allocations	\$ 1,332,856	12.24%
Information Services	\$ 55,728	0.51%
Equipment	\$ 25,487	0.23%
Out of State Travel	\$ 14,302	0.13%
In State Travel	\$ 8,238	0.08%
Training	\$ 4,129	0.04%
Total	\$10,892,498	

Source: State Accounting System.

Scope and Objectives

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

The objectives of our audit were to:

- evaluate the Bureau's financial and administrative activities, including whether activities were carried out in accordance with applicable state and federal laws, regulations, and policies; and
- evaluate the Bureau's productivity and timeliness in rendering disability determinations.

We reviewed the Bureau's financial and administrative activities for the 21 months ended March 2007 and activities through September 2007 for certain audit issues. In addition, we included activities for federal fiscal years 2005 through 2007 for areas related to disability determinations.

Findings and Recommendations

The Bureau of Disability Adjudication generally complied with applicable state and federal laws, regulations, and policies. However, it could improve several financial and administrative functions. Better controls will help the Bureau improve safeguards over sensitive claimant information, equipment, and expenditures. In addition, the Bureau needs to improve timeliness in rendering disability determination decisions. The Bureau's productivity and accuracy rates have ranked favorably with regional and national averages for the past several years. However, the Bureau's processing times have exceeded national averages. Better planning may improve the Bureau's ability to meet national averages for processing time.

Social Security Numbers Accessible Through the Integrated Financial System

Between November 2001 and July 2007, claimant social security numbers were included on the state's Integrated Financial System data warehouse. Although this information was not accessible to the public and was located behind the state firewall¹, it did not require separate passwords for employees at other state agencies to view. As of July 2007, the data warehouse contained more than 257,000 documents with nearly 80,000 unique claimant social security numbers.

Beginning in November 2001, social security numbers were included on payments to medical providers for medical examination records and consultative examinations. This was done to assist medical providers in identifying the claimant for whom the payments were made. The Bureau was unaware that the social security numbers were also included on the Integrated Financial System's transaction records. Upon notification, the Bureau made changes to its processes to eliminate claimants' social security numbers on payment transactions.

The Bureau is required to inform the Social Security Administration (SSA) when claimants' personally identifiable information, such as social security numbers, has possibly been compromised. The SSA determined it was not necessary for the Bureau

¹ A device used to prevent access unless the access has been specifically allowed based on rules created by the Department of Information Technology security staff.

to inform claimants, but recommended that access to the information be restricted to prevent disclosure of the social security numbers. In addition, the Bureau's Counsel from the Attorney General's Office believed there was not a need to notify the claimants because there was no evidence of a breach of security of information.

The Department of Employment, Training and Rehabilitation, working with the Controller's Office, was able to remove the social security numbers from the data warehouse in September 2007. Although there was no evidence that the social security numbers had been compromised, procedures should be established to help ensure personally identifiable information is more secure in the future. The Bureau did not review information on the Integrated Financial System for personally identifiable information. Periodic reviews of transaction records will help provide reasonable assurance that sensitive information, such as social security numbers, is safeguarded.

Recommendation

1. Establish procedures to periodically review the state's Integrated Financial System's records to ensure personally identifiable information is not included.

Better Planning May Reduce Processing Times

Better planning may improve the Bureau's disability determination processing times. In recent years, the Bureau's processing times have exceeded national averages. The Rehabilitation Division's strategic plan does not include consideration for the Bureau to meet national averages for processing times of Title II (SSDI) and XVI (SSI) claims. Longer processing times mean qualified individuals filing initial claims or requesting reconsideration of denied claims may wait longer to receive benefits.

Mixed Results for Bureau Performance Statistics

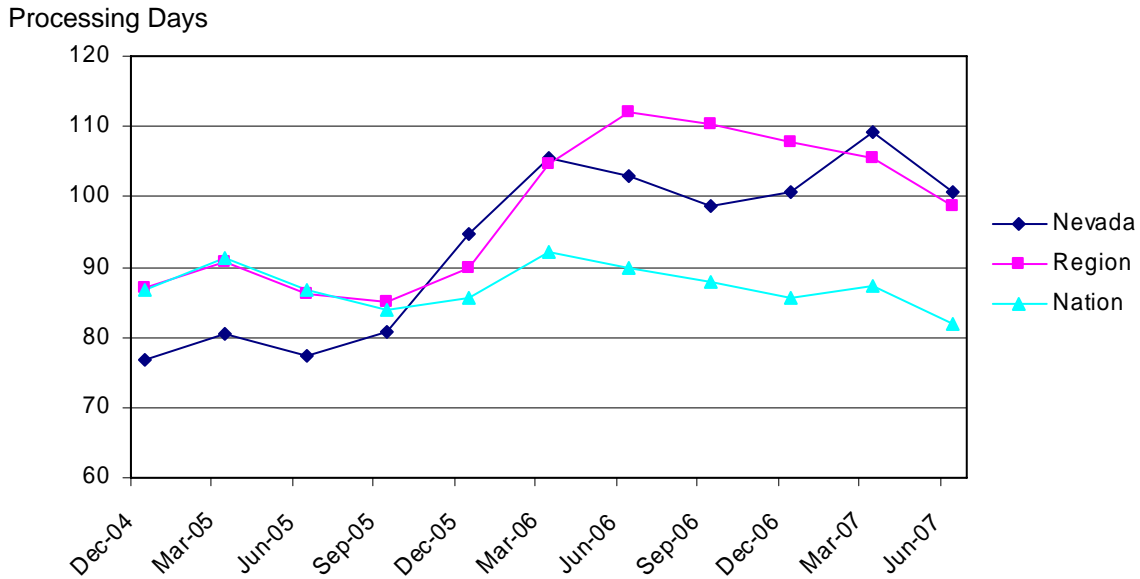
In recent years the Bureau's productivity and accuracy have remained consistent with national averages. However, the Bureau's processing time has increased to 15-25 days more than the national averages.

Determination Processing Time Has Increased in Recent Years

Between October 2005 and June 2007, the time to process initial disability claims increased. During fiscal year 2007, the Bureau consistently took between 15 and 25 days longer than the national average to process initial claims. Exhibits 4 and 5 compare the Bureau's Title II (SSDI) and Title XVI (SSI) initial claim processing times with the San Francisco Region and the national averages for each quarter between December 2004 and June 2007.

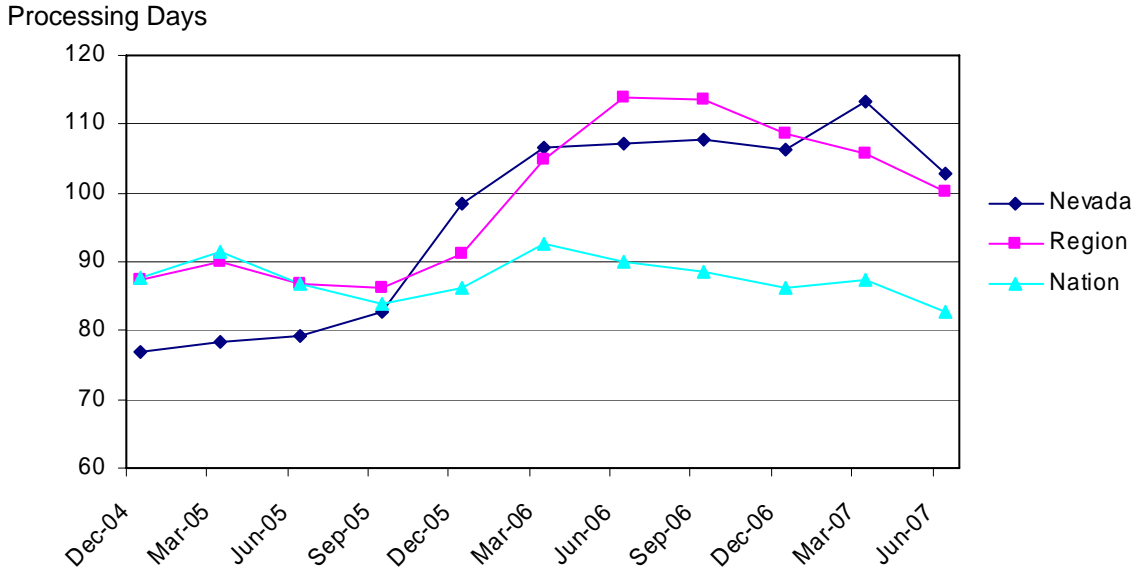
Exhibit 4

**Title II (SSDI) Processing Days
Quarters Ended December 2004 Through June 2007**



Source: SSA Disability Determination Services Performance Reports.

**Title XVI (SSI) Processing Days
Quarters Ended December 2004 Through June 2007**



Source: SSA Disability Determination Services Performance Reports.

For all federal fiscal year 2005 quarters (October 1, 2004, through September 30, 2005), the Bureau processed both Title II and XVI claims in fewer days than the San Francisco Regional average and national average. However, for federal fiscal years 2006 and 2007 through June 2007, the Bureau consistently took more days to process initial claims than the national average. For federal fiscal year 2007 quarters included in our audit, the Bureau took between 15 and 25 days longer than the national average to process initial claims. In addition, in 4 of the 7 federal fiscal year 2006 and 2007 quarters included in our audit, the Bureau’s processing times were greater than the San Francisco Region’s averages.

Other Bureau Performance Statistics Consistent With National Averages

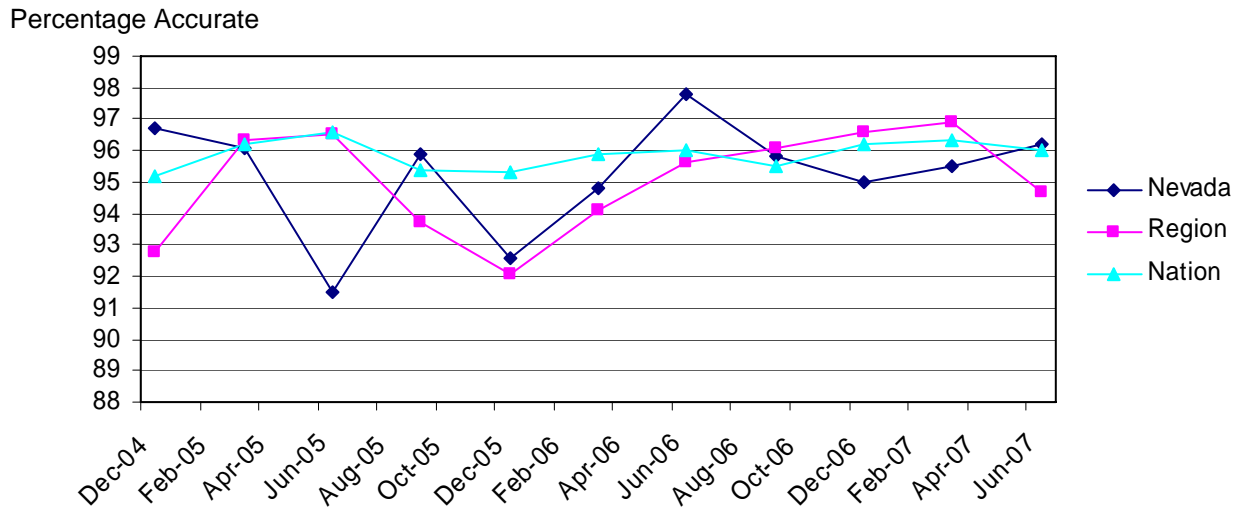
The Bureau’s production per work year was consistent with national averages during federal fiscal year 2007. The Social Security Administration relies on production per work year for monitoring the productivity of states’ disability determination proceedings. Production per work year is determined by comparing the number of full-time positions with the number of claims processed. The federal fiscal year 2007 production per work year was 245 for Nevada and the national average was 248.9.

SSA reports indicate that for 7 out of 11 quarters from federal fiscal years 2005 through June 2007, the Bureau's accuracy rate either exceeded or was within 1 percentage point of the San Francisco Regional averages and national averages. Each month, the SSA selects a sample of claims from the Bureau to monitor accuracy. The claims are reviewed to ensure the correct decision was reached.

For federal fiscal years 2005 through June 2007, the national average accuracy rate was approximately 96%. During the same time period, the Bureau's accuracy rate ranged from 92% to 98%. Exhibit 6 compares the Bureau's accuracy rate with the San Francisco Region and national average.

Exhibit 6

**Initial Determination Accuracy
Quarters Ended December 2004 Through June 2007**

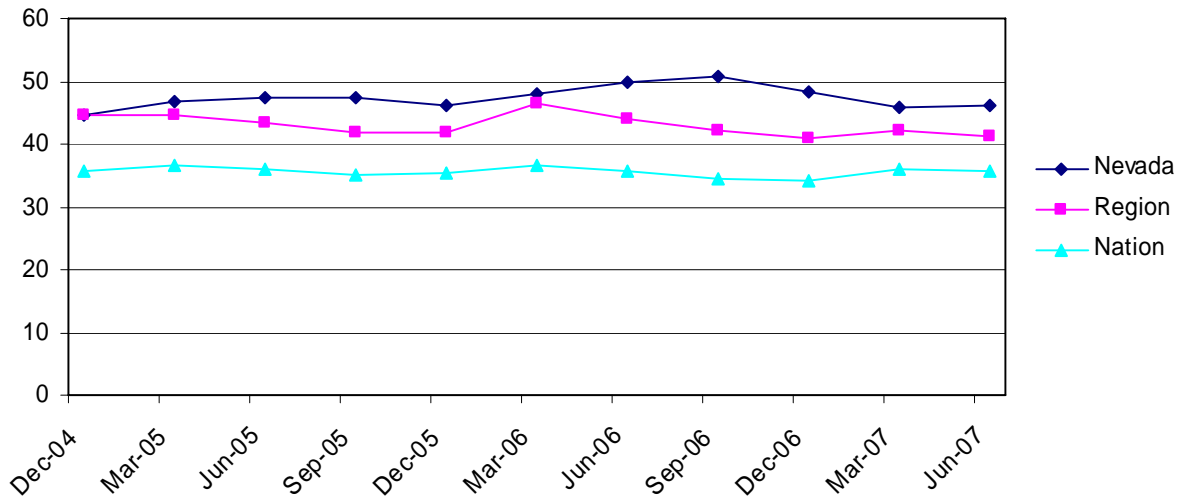


Source: SSA Net Accuracy Summary Reports.

Nevada has consistently had one of the highest initial determination allowance rates in the nation. Allowance rates are based on the percentage of claims resulting in benefits for claimants on their initial request for disability. Exhibit 7 shows the comparison between Nevada's initial claim allowance rate and the San Francisco Region and nation.

**Initial Determination Approval Rates
Quarters Ended December 2004 Through June 2007**

Percentage Approved



Source: SSA Disability Determination Services Performance Reports.

Several Factors Contributed to the Increase in Processing Times

According to Bureau management, the increased processing time during federal fiscal years 2006 and 2007 was caused by changing to paperless files, vacant positions, and the lack of adjudicator experience. Beginning in the spring of 2005, Nevada was one of the first states to begin receiving electronic files for new claims. According to Bureau management, the learning curve associated with this new process contributed to increases in processing times.

Bureau management also reported its high turnover rate was caused by the change to paperless files because many adjudicators did not want to learn the new program and processes. Bureau management reported that it typically takes about 2 years for an adjudicator to become proficient in the determination process. During fiscal years 2006 and 2007, a high percentage of the Bureau’s adjudicators had less than 2 years experience. An April 2007 Social Security Administration report compared adjudicator experience throughout the nation. Exhibit 8 compares Nevada adjudicator experience with the San Francisco Region and the nation.

**Adjudicator Experience
April 2007**

	Less Than 2 Years	2 to 5 Years	5 to 10 Years	10 to 20 Years	Over 20 Years
Nation	21.7%	23.5%	24.3%	18.4%	12.1%
Region	28.1%	21.9%	22.3%	19.0%	8.7%
Nevada	42.9%	26.5%	14.3%	10.2%	6.1%

Source: Social Security Administration.

The percentage of Nevada’s adjudicators with less than 2 years of experience was nearly double the national average, and was approximately 50% higher than the San Francisco Region. In addition, nearly 70% of the Bureau’s adjudicators had less than 5 years of experience.

Analysis of Claims Processing

We reviewed 100 claims received by the Bureau between October 1, 2005, and September 30, 2006, to gain an understanding of the number of days it took for processing claims, including assigning claims to an adjudicator (backlog), and receiving medical examination records and consultative examinations. Exhibit 9 shows a breakdown of the types of claims included in the sample, the average number of days claims were on the backlog, and processing time.

**Processing Time
Sample of 100 Claims**

Type of Claim	Number of Claims	Average Days on Backlog	Average Days to Process
Initial	68	17	93
Reconsideration	20	160	248
Continuing Disability Review	9	243	333
Hearing ⁽¹⁾	3	18	48
All Claims Sampled	100	66	141

Source: Bureau of Disability Adjudication, Claimant Case Narratives.

⁽¹⁾ Occasionally the Bureau is responsible for requesting medical examination records and consultative examinations for hearings and forwarding information to a hearing officer or administrative law judge who issues a decision.

During federal fiscal year 2006, the San Francisco Region's guidance to the Bureau emphasized that the most critical SSA goal is the number of pending initial claims, which is the number of claims that have not received a determination. Based on this guidance and other directives, Bureau management focused efforts on processing initial claims. Initial claims were held by the Bureau for an average of 17 days before an adjudicator was available to begin reviewing the claim. However, reconsiderations were held for an average of 160 days, and continuing disability reviews (CDR) were held for 243 days before being assigned to an adjudicator. Reconsideration and CDR claims were held to meet the SSA's initial claims pending goal.

Claims held by the Bureau prior to being processed may require additional work and resources before making a disability determination. When claims are held, it may be more difficult to contact the claimant as addresses and phone numbers may have changed. We noted several examples of claimants moving to another state before a determination was made. In addition, medical examination records may expire resulting in the need for consultative examinations. Our review found it took an average of 26 days from request to receipt of medical examination records. For consultative examinations it took approximately 33 days from request to receipt of the results. If a second examination was needed, it took an average of 48 days to complete. Each of these activities adds processing time and increases resource needs.

Strategic Plan Does Not Consider Timeliness of Bureau Determinations

The Bureau relies on the Rehabilitation Division's strategic plan. The Rehabilitation Division's mission statement is to:

Provide needed services for people with disabilities to work and live independently and to provide quality disability determinations to individuals who claim benefits under the Social Security Disability program.

Although the Division's mission statement is to provide quality disability determinations, the plan does not provide any strategies, goals, or measures specific to the Bureau. Each year the Bureau submits a spending plan to the SSA outlining medical, personnel, and indirect costs for the upcoming year. The spending plan discusses some of the Bureau's projections and goals for the number of cases cleared and productivity. However, the plan does not discuss specific strategies for meeting those goals.

Inclusion of the Bureau's goals in the Division's strategic plan should provide greater opportunity for the development of specific strategies for reducing the length of time to process disability determinations.

Recommendation

2. Develop a plan for reducing initial determination processing times and the backlog for pending claims.

Better Controls Over Fixed Assets Needed

The Bureau's controls over fixed assets could be improved. Federally purchased computers are not included on the Bureau's state fixed asset listings, even though federal policies direct states to monitor equipment. In addition, the Bureau needs to strengthen controls over the disposal of excess equipment to ensure compliance with state and federal laws and regulations. Finally, the Bureau needs to monitor changes to fixed asset listings and ensure annual inventories are completed for all applicable items.

Computer Hardware Not Included on Fixed Asset Listings

The Bureau has not added computer hardware purchased by the Social Security Administration to its fixed asset listing. The Bureau does not purchase computer hardware in the same manner as other state agencies. Purchases of computer hardware are initiated and paid for by the SSA. At no point in the process are funds transferred from the SSA to the Bureau to pay for computer hardware. Computers are tagged with a SSA identification number prior to delivery to the Bureau.

The Code of Federal Regulations (CFR) specifies that the State will have title to equipment purchased for disability program purposes. In addition, the CFR places responsibility with the State for ensuring equipment has identification tags and is included in inventory processes. Furthermore, the State Administrative Manual requires equipment valued over \$1,000 and computers with licensed software be included on the statewide inventory and have state identification tags attached. Finally, NRS 333.220 requires agencies to conduct an annual physical inventory of equipment and reconcile their inventory with the records of the State Purchasing Division.

As of June 2007, the Bureau had over 130 computers, servers, and scanners not included on the statewide fixed asset listing. The Bureau monitors these items with an

internal inventory and the SSA can electronically verify their existence. However, because the State has title to and is responsible for the equipment, the State Purchasing Division needs to be periodically informed of the equipment's status.

Controls Over the Disposal of Excess Equipment Could Be Improved

The Bureau's controls over the removal of 90 computers in April 2007 were not adequate. When new computer equipment is purchased, the SSA makes a determination whether the Bureau is to return or dispose of the old equipment. The Bureau received new computers from the SSA in fiscal year 2007 and was instructed to dispose of the old ones.

The disposal of the 90 computers was not adequately documented. The computers did not have state identification tags and were not on the state's fixed asset listing when they were removed from the Bureau. Although the Bureau maintained a list of computers, including serial numbers, the property disposition report used for moving the computers from the Bureau to the Department of Employment, Training and Rehabilitation (DETR) did not include serial numbers. Better documentation is needed to ensure all computers are accounted for and either reassigned by DETR or disposed of through the State Purchasing Division. This is particularly important as these computers did not have state identification tags and were not included on state fixed asset listings. As of June 2007, the computers were still in the possession of DETR's central office with plans to use the computers in DETR training and resource centers.

In addition, the Bureau needs to document its procedures for the disposal of computers and other equipment. When the SSA decides to dispose of computer equipment, SSA policy specifies that state practices and procedures prevail. However, SSA policy also specifies that, when disposing of computers, federal procedures must be followed in handling the cleanup of electronic records. To do this, the Bureau sanitizes all data from the computers' hard drives. The SSA highlighted the importance of electronic cleanup of data in June 2006 by requesting the San Francisco Region temporarily stop disposing of computers until the procedures were reviewed.

Prior to the removal of 90 computers in April 2007, the Bureau completed the federally required cleanup of all electronic files on the computers. Although not federally required, the Bureau maintained documentation of the electronic cleanup of

each computer. However, the process to document the cleanup of electronic files is not included in the Bureau's policies and procedures. Documentation of these procedures is important to help ensure strong controls over the cleanup of sensitive data.

Annual Inventory Not Complete

During fiscal years 2006 and 2007, the Bureau did not ensure all applicable equipment was included in annual inventory reporting to the State Purchasing Division. The Bureau bases its review on fixed asset listings provided by the Rehabilitation Division. Although the Bureau has two listings containing fixed assets, annual inventories have only been completed for one of the fixed asset listings. In addition, the Bureau has not ensured that all the changes noted on property disposition reports have been made by the State Purchasing Division.

During the fiscal year 2006 inventory, the Bureau reported several items were no longer in the Bureau's possession. These items were included on property disposition reports sent to the State Purchasing Division. For the fiscal year 2007 inventory, three of these items were still included on the Bureau's fixed asset listing. The Bureau should periodically monitor fixed asset listings to ensure items are removed.

During our review of the Bureau's inventory, we identified an additional fixed asset location code assigned to the Bureau. The seven items included on this listing had not been included in the Bureau's fiscal years 2006 and 2007 inventories. Our review found three of the items were laptop computers that had been sent to DETR in June 2006 and were awaiting disposal from the State Purchasing Division. Three other items were assigned to another agency and had been incorrectly included on the Bureau's listing. The remaining item, a \$17,000 mail machine, was still at the Bureau. However, when Bureau staff became aware of the additional fixed asset listing, they were unaware the mail machine was at the Bureau and had it removed from the fixed asset listing. Furthermore, the mail machine did not have a visible state identification tag. Because of the mail machine's value, it needs to have a state identification tag attached and be included on the fixed asset listing.

Recommendations

3. Ensure computers and other applicable equipment purchased by the Social Security Administration have state identification tags and are included on state fixed asset listings.
4. Document policies and procedures for ensuring federal regulations are followed for the disposal of excess equipment.
5. Report annually to the State Purchasing Division on the status of all applicable equipment, and ensure any identified changes are properly reflected on State Purchasing Division fixed asset listings.
6. Update procedures to ensure that all fixed asset location codes are included in annual inventories.

Medical Determination Payment Controls Could Be Improved

The Bureau can improve controls over payments for medical records and consultative examinations. Between July 1, 2005, and March 31, 2007, the Bureau processed nearly 83,000 payments totaling \$3.45 million for consultative examinations and medical records. Procedural weaknesses allow the payment of the same invoice more than once and payment of invoices after they have been identified as inappropriate or lacking necessary documentation.

Individual payments are processed in batches with hundreds of other transactions several times a week. Current procedures call for Bureau staff to complete a review of batches to identify missing documentation or errors. This is referred to as the redline review process. The Bureau does not document whether or not a batch received a redline review. The only way to determine if the review has been completed is if an error, or redline, was identified in the batch. In addition, the Bureau lacks procedures to ensure identified redlines are resolved prior to processing payments.

Our review of 30 batches found 16 (53%) did not have evidence that the redline review had been completed. For the 14 batches with identified redlines, 7 contained unresolved errors. This resulted in the Bureau paying for services without adequate documentation and paying for the same service more than once. Although the dollar

amount associated with these errors was not significant, controls are important as the Bureau processes payments for approximately 50,000 consultative examinations and medical records each year. Many of these errors occurred after the Bureau hired two new staff members to process these payments. Internal control standards stress the importance of documented procedures for adequately safeguarding resources. More specific procedures would have provided greater assurance that redlines were properly documented and corrected.

Unresolved redlines resulted in variances between the amounts reported being transferred to the Controller's Office and the total amount of individual batches. Procedures do not require the Bureau to compare batch totals with transfers to the Controller's Office. Had this comparison been made, the Bureau would have known if identified redlines had been corrected.

Recommendations

7. Update procedures over the payment of medical determinations to include documenting redline reviews and necessary corrections.
8. Compare the amount paid for medical records and consultative examinations on each batch with the amount transferred to the Controller's Office.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Bureau of Disability Adjudication, we interviewed management and staff, reviewed applicable federal and state laws and regulations, and policies and procedures significant to the Bureau's operations. We also reviewed the Bureau's financial information, budgets, legislative committee minutes, and other information describing the activities of the Bureau. Our review included the general and financial control environment, and programmatic areas.

To determine if the Bureau's financial and administrative activities were carried out in accordance with applicable state and federal laws, regulations, and policies, we reviewed the Bureau's monitoring of property and equipment, expenditures, and overtime.

We documented the process used by the Social Security Administration for purchasing of computers and other equipment. This included a review of the federal requirement for monitoring and disposing of excess equipment. We reviewed the Bureau's disposal of 90 computers during fiscal year 2007 to determine if it was completed in compliance with federal and state laws and regulations.

We also evaluated the Bureau's fiscal years 2006 and 2007 annual equipment inventories. We reviewed the existence of all items included on the Bureau's fiscal year 2007 inventory. Next, we obtained the Bureau's internal inventory lists of federally purchased equipment. We judgmentally selected 10 items from the Bureau with a value greater than \$1,000 or that met other requirements to be included on fixed asset listings. We determined if each item was on either the state's fixed asset listing or the Bureau's internal inventory. In addition, we determined whether each item included in our sample had identification tags from either the Social Security Administration or State.

To assess the Bureau's controls over expenditures, we determined if only current employees had access to the integrated financial system and if adequate segregation of duties existed. We judgmentally selected 25 non-medical determination expenditures made between July 1, 2005, and March 31, 2007. Our sample focused on larger transactions from a variety of budget accounts and included five travel claims. In addition, we randomly selected payments for 20 consultative examinations and 10 medical examination records between July 1, 2005, and March 31, 2007. We tested all 55 transactions for proper recording, approval, and compliance with laws, regulations, policies, and procedures. For consultative examinations and medical examination records, we determined if the amount transferred to the Controller's Office matched the amount of the individual payments.

Next, we randomly selected six medical contractors to determine if contracts had received proper authorizations. In addition, for each contractor we randomly selected one payment from each quarter between July 1, 2005, and March 31, 2007, to evaluate compliance with contract terms and state laws and regulations.

To determine if overtime was granted in compliance with policies and procedures and was approved by the Social Security Administration, we randomly selected four pay periods from fiscal years 2006 and 2007 through March 31, 2007. For each pay period we tested whether Bureau and Department procedures were followed for overtime and compensatory time. In addition, we reviewed approvals from the Social Security Administration for the overtime. Finally, we evaluated the number of vacant adjudicator positions at the time of the overtime.

To evaluate the Bureau's productivity and timeliness in rendering disability determinations, we reviewed the Bureau's processes for issuing disability determinations. In addition, we reviewed the Bureau's use of performance indicator results and strategic planning in meeting its disability determination goals and objectives.

To evaluate the Bureau's processing of disability determinations we worked with Bureau and Rehabilitation Division management to obtain permission from the Social Security Administration for access to case narratives. We randomly selected 100 claims received by the Bureau during federal fiscal year 2006, and obtained the case

narratives from the Bureau's case management system. From the case narratives, we identified the type of claim (initial, reconsideration, continuing disability review, or hearing) and documented the time it takes the Bureau to issue a decision. In addition, we determined the length of time the claim was held by the Bureau before being assigned to an adjudicator. Next, we documented the time it takes to request and receive medical examination records and consultative examinations. Furthermore, we calculated the average number of days to process each claim, by type. Finally, we reviewed the 10% of initial and reconsideration claims with the shortest and longest process times to identify certain activities' impact on processing time.

To identify the Bureau's productivity and timeliness in rendering disability determinations, we obtained historical information from Social Security Administration reports. We compared the Bureau's accuracy rates, processing times, and approval rates with the San Francisco Region and national averages.

To evaluate the Bureau's use of strategic planning to meet goals and objectives, we reviewed annual spending plans and directives from the Social Security Administration. In addition, we reviewed the Rehabilitation Division's strategic plan to identify plans for meeting the Bureau's goals and objectives for processing disability determinations.

Next, we reviewed the Bureau's methodology for calculating performance indicators results for fiscal year 2006. In addition, we determined if the calculations were accurate based on the methodology used. Finally, we reviewed state budget instructions to determine if only state fiscal year information can be used to report performance indicators.

Our audit work was conducted from March to October 2007 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Employment, Training and Rehabilitation, and to the Administrator of the Rehabilitation Division. On April 10, 2008, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 29.

Contributors to this report included:

Shawn Heusser
Deputy Legislative Auditor

Jane Bailey
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Response From the Rehabilitation Division

REHABILITATION
DIVISION



JIM GIBBONS
Governor

LARRY J. MOSLEY
Director

MICHAEL T. COLEMAN, Ed.D
Administrator

April 17, 2008

Paul Townsend, CPA
Legislative Counsel Bureau
401 South Carson City
Carson City, NV 89701

Re: Legislative Counsel Bureau Audit Findings April 2008.

Dear Mr. Townsend:

The Department of Employment, Training, and Rehabilitation, (DETR) Rehabilitation Division, Bureau of Disability Adjudication (BDA) has reviewed the audit recommendations of the audit of BDA, which were formally reviewed with us by you and your staff on April 10, 2008. We are in agreement with all recommendations and have included our planned corrective actions in this response.

I want to express my appreciation to you and your staff for completing a well-balanced review of our operations and for allowing us the opportunity to identify areas of concern to focus your review. The audit resulted in recommendations that I believe that will enhance the efficiency and effectiveness of the administration of BDA and provide equitable reporting for all concerned parties.

Recommendation 1

Establish procedures to periodically review the State's Integrated Financial System's records to ensure personally identifiable information is not included.

Response:

When we were made aware that personal identifiable information was included on the State's Integrated Financial System Data Warehouse we took swift and appropriate action.

- 1. Processes and systems were changed to eliminate the claimant's social security numbers on payment transactions.*
- 2. Working with the Controller's office the social security numbers were removed from the Data Warehouse in September 2007.*
- 3. Periodic reviews of transaction records will be conducted by Rehabilitation Division staff to ensure that sensitive information such as social security numbers is safeguarded.*

Recommendation 2

Develop a plan for reducing initial determination processing times and the backlog for pending claims.

Response: Reducing initial determination processing time is a primary goal of the Bureau of Disability Adjudication (BDA) and state performance indicators will continue to measure this goal. Many factors make this a challenging goal: Nevada's tremendous population growth (over 30% since 2000); staff turnover due to retirements and normal attrition; the new electronic case management system and new staff growing in their knowledge, skills and abilities to adjudicate claims. A multiple prong strategy is in place to address this challenge which includes: working closely with Social Security Administration's Regional Office to secure additional resources; the Rehabilitation Division Strategic Plan will be enhanced to address BDA's primary goal of timely and accurate decisions; rebuilding BDA's leadership team; learning from other state's promising practices and on-going training and staff development. This increased staff capacity will allow for claims to be processed in a more timely and efficient manner.

Recommendation 3

Ensure computers and other applicable equipment purchased by the Social Security Administration have state identification tags and are included on state fixed asset listings.

Response: BDA will work with the State Purchasing Division to properly tag and account for all fixed assets over \$1000.00. In addition to this, all computers and monitors will be tagged with State fixed asset ID tags and properly accounted for.

Recommendation 4

Document policies and procedures for ensuring federal regulations are followed for the disposal of excess equipment.

Response: BDA does follow federal regulations for the disposal of excess equipment. BDA's policies and procedures are being revised to improve documentation of these processes with particular emphasis on the clean-up of electronic files and the disposal of excess equipment.

Recommendation 5

Report annually to the State Purchasing Division on the status of all applicable equipment, and ensure any identified changes are properly reflected on State Purchasing Division fixed asset listings.

Response: BDA's fixed asset inventory procedures have been revised and strengthened to ensure that all applicable equipment is listed accurately and appropriately on the State Purchasing Division's fixed asset listings.

Recommendation 6

Update procedures to ensure that all fixed asset location codes are included in annual inventories.

Response: BDA's fixed asset inventory procedures have been revised and strengthened assure all fixed asset location codes are included in annual inventories.

Recommendation 7

Update procedures over the payment of medical determinations to include documenting redline reviews and necessary corrections.

Response: BDA procedures related to the payment of medical determinations have been revised and implemented to include documentation of the redline reviews and making appropriate corrections and revisions.

Recommendation 8

Compare the amount paid for medical records and consultative examinations on each batch with the amount transferred to the Controller's Office.

Response: BDA's procedures for reviewing and auditing the amount paid for medical records and consultative examinations on each batch with the amount transferred to the Controller's Office have been revised and implemented.

Again, I would like to thank the Legislative Counsel Bureau audit staff for their professionalism and dedication in providing a valuable service to the Division.

If you have additional questions please contact me at 775-684-4040.

Sincerely,



Michael T. Coleman Ed.D.
Administrator

cc: Larry J. Mosley, Director, Department of Employment, Training & Rehabilitation
Marty Ramirez, Chief Financial Officer, DETR
Cecilia Colling, Deputy Administrator, Rehabilitation Division

Rehabilitation Division Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Establish procedures to periodically review the state's Integrated Financial System records to ensure personally identifiable information is not included.....	<u> X </u>	<u> </u>
2	Develop a plan for reducing initial determination processing times and the backlog for pending claims.	<u> X </u>	<u> </u>
3	Ensure computers and other applicable equipment purchased by the Social Security Administration have state identification tags and are included on the state fixed asset listings	<u> X </u>	<u> </u>
4	Document policies and procedures for ensuring federal regulations are followed for the disposal of excess equipment.....	<u> X </u>	<u> </u>
5	Report annually to the State Purchasing Division on the status of all applicable equipment, and ensure any identified changes are properly reflected on State Purchasing Division fixed asset listings	<u> X </u>	<u> </u>
6	Update procedures to ensure that all fixed asset location codes are included in annual inventories.....	<u> X </u>	<u> </u>
7	Update procedures over the payment of medical determinations to include documenting redline reviews and necessary corrections.....	<u> X </u>	<u> </u>
8	Compare the amount paid for medical records and consultative examinations on each batch with the amount transferred to the Controller's Office.	<u> X </u>	<u> </u>
	TOTALS	<u> 8 </u>	<u> 0 </u>