LA14-18

# STATE OF NEVADA

## Performance Audit

### Department of Employment, Training and Rehabilitation Rehabilitation Division

2014


Legislative Auditor
Carson City, Nevada

# Audit Highlights

Highlights of performance audit report on the Rehabilitation Division issued on October 6, 2014. Report # LA14-18.

## Background

The Rehabilitation Division provides services to address disability assessment, training, treatment, and job placement for disabled Nevadans; bridging the gap between disability and self-sufficiency. The Division's mission is to bring Nevadans together to promote barrier-free communities in which individuals with disabilities have equal access to opportunities for quality work and self-sufficiency. The Division is comprised of three bureaus, which include Vocational Rehabilitation, Services to the Blind and Visually Impaired, and Disability Adjudication.

The Division is primarily funded through federal grants and general fund appropriations. Total revenues for fiscal year 2013 amounted to nearly $40.5 million. Expenditures from the same time period were nearly $39.4 million. The bureaus of Vocational Rehabilitation and Services to the Blind and Visually Impaired accounted for $21.6 million in revenues and $20.7 million in expenditures during fiscal year 2013. The Division provides vocational rehabilitation and blind and visually impaired services from 15 offices located throughout the State.

## Purpose of Audit

The purpose of our audit was to determine whether the Division (1) ensured vocational rehabilitation and blind and visually impaired service payments were properly approved, paid, monitored, and in accordance with Individual Plans of Employment, and (2) ensured Individual Plans of Employment were approved in accordance with Division policies and procedures.

This audit focused on the Division's vocational rehabilitation and blind and visually impaired services between July 1, 2011, and March 31, 2013. We expanded our scope to prior fiscal years and through June 30, 2013, for dental services.

## Audit Recommendations

This audit report contains 12 recommendations to improve oversight, policies and procedures, and controls over rehabilitation services provided to participants.

The Division accepted the 12 recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

# Rehabilitation Division

### Department of Employment, Training and Rehabilitation


## Summary

The Rehabilitation Division (Division) does not have adequate controls to ensure payments for vocational rehabilitation services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Division does not always ensure IPEs are approved in accordance with policies and procedures. For example, our review of rehabilitation activities found certain offices provided dental services at higher occurrence rates and as the sole or primary service. Had these offices incurred dental service rates similar to other offices, dental expenditures would have been $900,000 lower for fiscal years 2009 to 2013. These activities were not discovered by the Division because certain staff perform all of the functions for participant rehabilitation with little required oversight. Furthermore, when management review is required it is not always obtained and documented. These issues warrant stronger controls and review to ensure vocational rehabilitation activities are proper and utilized as intended.

The Division lacks controls over transportation activities to prevent or detect misuse, abuse, or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper. Our review of fuel cards and bus passes for the Southern District found the Division could not provide documentation detailing which participant, if any, received the fuel card or pass in 272 of 404 (67%) instances. These unaccounted for fuel cards and passes were worth nearly $19,000 of $24,000 reviewed. Transportation assistance can easily be misused and failure to establish adequate controls and enforce existing policies limits the Division's ability to ensure services are being used for intended purposes.


## Key Findings

Certain offices provided dental services at significantly higher occurrence rates than expected. For instance, the Ely office provided dental services to 41% of participants while most offices provided dental services to less than 7%. Nearly $378,000 or 35% of total service costs for the Ely office during fiscal years 2009 to 2013 were for dental services. (page 8)

Participants receiving dental services typically have a primary disability other than dental used for determining eligibility for vocational rehabilitation services. In several instances, dental services were the only, or vast majority, of all services rendered when other significant disabilities were noted for determining eligibility. (page 10)

Rehabilitation counselors are responsible for nearly all rehabilitation case activities with little required oversight by management. Current approval levels allow counselors to approve 97.6% of all expenditures resulting in a lack of adequate oversight of counselor duties required for a sound system of control. Counselors determine eligibility, prepare and approve IPEs, and approve invoices with little oversight. Implementing compensating controls or segregating counselor duties will reduce the risk of fraud and abuse occurring. (page 13)

Payments made from an outside bank account used to pay participants and vendors who are not established in the state accounting system were not always accurate or properly documented. Our review of eight direct purchases for a total of $16,909 identified four (50%) for $11,299 that were not adequately supported or properly authorized in the IPE. (page 16)

IPEs were not always approved by the proper authority within the Division. The Division has adopted approval levels regarding the estimated amount to be spent on an IPE but relies entirely on counselors to submit IPEs needing management approval for review and the Division does not track whether approval is granted. (page 18)

Fuel cards and bus passes purchased in bulk were not inventoried or safeguarded upon receipt and not always tracked or logged when distributed to technicians or participants. Additionally, a periodic count and reconciliation of these negotiable items was not conducted. (page 23)

Of the 60 direct fuel purchases reviewed, we could not find a signed participant receipt for 41 (68%). In one instance, the Division paid for the same purchase twice when it was duplicated on an invoice from a fuel retailer. (page 24)

Division staff rarely require participants to account for fuel assistance received in either the Northern or Southern Districts. Out of 84 fuel assistance transactions, mileage logs were not collected for 78 (93%). Mileage logs are a critical control to ensuring state and federal resources are being used for their intended purpose and participants are receiving assistance for approved services only. (page 25)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Rehabilitation Division of the Department of Employment, Training and Rehabilitation. This audit was conducted pursuant to 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.

This report includes 12 recommendations to improve oversight, policies and procedures, and controls over rehabilitation services provided to participants. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Paul V. Townsend, CPA
Legislative Auditor

August 27, 2014
Carson City, Nevada

# Rehabilitation Division
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# Introduction

## Background

The Rehabilitation Division (Division) is a division of the Department of Employment, Training and Rehabilitation. The Division provides services to address disability assessment, training, treatment, and job placement for disabled Nevadans; bridging the gap between disability and self-sufficiency. The Division's mission is to bring Nevadans together to promote barrier-free communities in which individuals with disabilities have equal access to opportunities for quality work and self-sufficiency.

The Division provides Vocational Rehabilitation and Services to the Blind and Visually Impaired from 15 locations throughout the State. Carson City serves as the administrative headquarters, however, the Administrator is currently located in Las Vegas.

The Rehabilitation Division is comprised of three bureaus, which include Vocational Rehabilitation, Services to the Blind and Visually Impaired, and Disability Adjudication. The Division also includes the Blind Business Enterprise of Nevada Program and the Office of Disability Employment Policy. Exhibit 1 details the functions of each bureau or office.

**Bureau and Office Functions** **Exhibit 1**

| | |
|---|---|
| Bureau of Vocational Rehabilitation | Designed to help people with disabilities become employed and to help those already employed perform more successfully through training, counseling, and other support methods. |
| Bureau of Services to the Blind and Visually Impaired | Helps individuals with vision disabilities make decisions about their future employment through evaluation and testing tailored to the participant's needs. The program also offers counseling and training to help individuals learn to maneuver safely with confidence. |
| Bureau of Disability Adjudication | Evaluates applications from individuals with permanent disabilities to determine if they are eligible for federal Supplemental Security Income or Social Security Disability Insurance. |
| Blind Business Enterprise of Nevada Program | Provides a priority right for individuals who are legally blind to operate food, beverage, and vending in federal, state, and local public buildings. |
| Office of Disability Employment Policy | Responsible for developing interagency employment policies and practices for people with disabilities and coordinating efforts with businesses to hire individuals with disabilities. |

Source: Agency website and budget information.

### Staffing and Budget

The Division operates from seven budget accounts and is primarily funded by general fund appropriations and federal grants; however, some revenue from other sources is collected. Exhibit 2 shows the Division's revenues by budget account and source for fiscal year 2013 and includes any amounts forwarded or reverted between fiscal years.

## Revenues by Budget Account
## Fiscal Year 2013

**Exhibit 2**

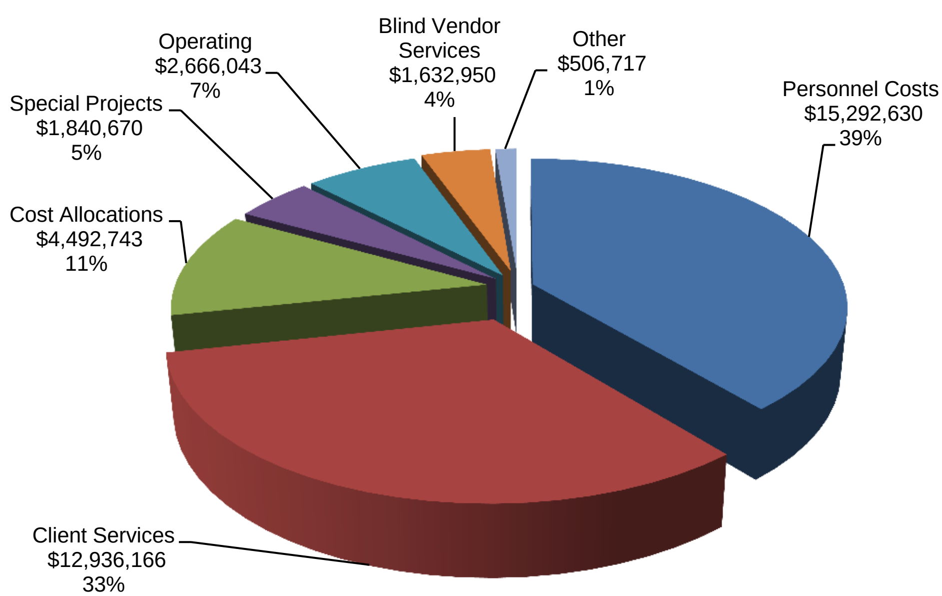
| | Blind Business Enterprise | Services to the Blind | Vocational Rehabilitation | Rehabilitation Administration | Disability Adjudication | Blind and Rehabilitation Gift Funds[1] | Totals |
|---|---|---|---|---|---|---|---|
| Appropriations | $ - | $ 589,186 | $ 2,137,179 | $ - | $ - | $ - | $ 2,726,365 |
| Federal Grants | 969,512 | 4,045,522 | 14,679,777 | 39,782 | 15,296,325 | - | 35,030,918 |
| Business Enterprise Fees | 1,431,919 | - | - | - | - | - | 1,431,919 |
| Gifts and Donations | - | - | 1,000 | - | - | 7,104 | 8,104 |
| Transfers | - | - | 141,822 | 28,108 | - | - | 169,930 |
| Cost Allocation Reimbursement | - | - | - | 1,100,685 | - | - | 1,100,685 |
| Other Revenue | 16,436 | - | 6,474 | - | 252 | 446 | 23,608 |
| **Total Revenues** | **$2,417,867** | **$4,634,708** | **$16,966,252** | **$1,168,575** | **$15,296,577** | **$ 7,550** | **$40,491,529** |
| Balance Forward from 2012 | 3,808,706 | - | 65,317 | 210,518 | - | 167,939 | 4,252,480 |
| Reversion of General Funds | - | (129,937) | (786,516) | - | - | - | (916,453) |
| Balance Forward to 2014 | (4,036,789) | - | (699) | (247,320) | - | (174,829) | (4,459,637) |
| **Revenue Used to Fund Operations** | **$2,189,784** | **$4,504,771** | **$16,244,354** | **$1,131,773** | **$15,296,577** | **$ 660** | **$39,367,919** |

Source: State accounting system.
[1] Transactions are reported in two separate budget accounts but presented as one in this exhibit due to the similarity of activity.

The majority of the Division's expenditures are for personnel costs and client services. Exhibit 3 shows the Division's expenditures by cost area and Exhibit 4 details the client service costs by service bureau for fiscal year 2013.

## Expenditures by Type
## Fiscal Year 2013

**Exhibit 3**




Source: State accounting system.

**Client Service Costs by Service Area** **Exhibit 4**
**Fiscal Year 2013**

| | Services to the Blind | Vocational Rehabilitation | Disability Adjudication | Totals |
|---|---|---|---|---|
| Client Services | $1,293,409 | $6,021,940 | $ - | $ 7,315,349 |
| Medical Determinations | - | - | 4,827,672 | 4,827,672 |
| Independent Living | - | 288,389 | - | 288,389 |
| Life Skills | 63,323 | - | - | 63,323 |
| Client Assistance/Training | - | 21,039 | - | 21,039 |
| Other | - | 420,394 | - | 420,394 |
| **Totals** | **$1,356,732** | **$6,751,762** | **$4,827,672** | **$12,936,166** |

Source: State accounting system.

In fiscal year 2013, the Division had 278 authorized positions. Exhibit 5 shows the breakdown of authorized and filled positions by budget account.

**Authorized and Filled Positions** **Exhibit 5**
**By Budget Account**
**As of June 30, 2013**

| Budget Account | Authorized Positions | Filled Positions |
|---|---|---|
| Blind Business Enterprise | 6 | 6 |
| Services to the Blind | 30 | 27 |
| Vocational Rehabilitation | 91 | 88 |
| Rehabilitation Administration | 14 | 13 |
| Disability Adjudication | 137 | 93 |
| **Totals** | **278** | **227** |

Source: State Human Resource Data Warehouse as of June 30, 2013 and Legislative Budget 2013.

### Rehabilitative Services

The Bureau of Services to the Blind and Visually Impaired and the Bureau of Vocational Rehabilitation, collectively referred to as vocational rehabilitative (VR) services in this report, are agencies of the Rehabilitation Division which are primarily concerned with vocational and other rehabilitation needs of individuals with disabilities. The Bureau of Services to the Blind and Visually Impaired provides a variety of services to eligible individuals, whose vision is not correctable by general eye care. These services include, counseling and training to help individuals learn to maneuver safely with confidence, assisting with job seeking and technology tools, and providing independent living programs for people over age 55. Similarly, the Bureau of Vocational Rehabilitation provides services such as medical restorations related to vocational goals, assistive technology in the workplace, transportation for vocational services, interpreters for those who are deaf or deaf-blind, career counseling and guidance, post-employment services, occupational licenses and supplies, and transition services for those in high school. Each Bureau employs rehabilitation counselors and technicians who assist program participants in understanding the rehabilitation process and accessing the Bureaus' programs. During federal fiscal year 2013, which spans from October 1, 2012, to September 30, 2013, the Division serviced 5,499 individuals in vocational rehabilitations.

VR services are a joint federal and state program. Typically about 80% of VR service costs are funded by the Federal Government with the remaining 20% required as a match by the State.

An applicant is eligible for VR services if it is determined that:

- The applicant has a physical or mental impairment.
- The physical or mental impairment constitutes or results in a substantial impediment to employment.
- The applicant requires VR services to prepare for, secure, retain or regain employment consistent with his or her unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.
- The applicant can benefit from VR services in terms of an employment outcome.
- The applicant has legal status to work in the United States.
- The applicant intends to achieve an employment outcome consistent with his or her unique strengths, resources, priorities, concerns, abilities, capabilities, interest, and informed choice.

Federal regulations require the identification of a specific employment outcome on the Individual Plan of Employment (IPE).

The IPE is a participant's roadmap to a successful employment outcome. While the IPE is not a contract, it is an agreement which details the anticipated employment outcome and specifies the services to be provided by the Division. In addition, it describes timelines, the criteria for evaluating progress toward the outcome, and the participant's responsibilities for reaching the employment outcome. Participants eligible for VR services are active and full partners in the VR process, making informed choices during the selection of an employment outcome, services needed to achieve the outcome, entities providing the services, and methods used to secure the services.

## 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 218G.010 to 218G.350. 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.

This audit included a review of the Division's vocational rehabilitation services provided through the Bureau's of Vocational Rehabilitation and Services to the Blind and Visually Impaired between July 1, 2011, and March 31, 2013. We expanded our scope to prior fiscal years and through June 30, 2013, for dental services provided to participants. The objectives of our audit were to:

- Ensure service payments were properly approved, paid, monitored, and in accordance with Individual Plans of Employment.
- Ensure Individual Plans of Employment were approved in accordance with Division policies and procedures.

# Additional Oversight of Rehabilitation Services Necessary

The Rehabilitation Division (Division) does not ensure payments for vocational rehabilitation (VR) services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Division does not ensure IPEs are approved in accordance with policies and procedures. For example, our review of VR activities found certain offices provided dental services at higher occurrence rates and as the sole or primary service. Had these offices incurred dental service rates similar to other offices, dental expenditures would have been $900,000 lower for fiscal years 2009 to 2013. These activities were not discovered by the Division because certain staff perform all of the functions for participant rehabilitation with little required oversight. Furthermore, when management review is required it is not always obtained and documented. These issues warrant stronger controls and review to ensure VR activities are proper and utilized as intended.

## Clearer Guidelines Needed Over Providing Dental Services

The Division needs to strengthen its controls and establish clearer guidelines regarding the provision of services not directly attributable to correcting primary disabilities for which participants are deemed eligible. Our review of VR expenditures found significant variations between office locations regarding the provision of dental services. Furthermore, participants provided these services were often not provided any other rehabilitative service even though eligibility was based on a non-dental disability. While policy allowed dental services to be provided it indicated dental services should be intermittent and addressed as part of a rehabilitation plan, not provided as the primary service. Finally, the Division should establish processes to review rate setting for routine services to ensure costs are appropriate and compare to rates paid by other governmental organizations providing similar services.

For fiscal years 2009 through 2013, the Division provided nearly $1.8 million in dental services to participants throughout the State. Exhibit 6 shows the amount of dental expenditures by year for fiscal years 2009 through 2013.

**Dental Services** **Exhibit 6**
**Fiscal Years 2009 Through 2013**

| Fiscal Year | Dental Expenditures | Percent of Total |
|---|---|---|
| 2009 | $ 613,756 | 34.5% |
| 2010 | 334,795 | 18.8% |
| 2011 | 262,950 | 14.8% |
| 2012 | 323,296 | 18.2% |
| 2013 | 242,957 | 13.7% |
| **Totals** | **$1,777,754** | **100.0%** |

Source: Rehabilitation Division's Rehabilitation Automated Information System of Nevada (RAISON).

Division policies specify dental services will be reviewed on a case-by-case basis and the service can be provided based on the good judgment of the rehabilitation counselor. Policy further clarifies that a counselor cannot determine a participant eligible only to correct an acute condition in the absence of a need for other substantial rehabilitation services. Finally, policies state that dental services should be provided in the most cost effective manner that will meet the participant's vocational needs.

**Dental Services Provided In Excess**

Certain offices provided dental services at significantly higher occurrence rates than expected. For instance, the Ely office provided dental services to 41% of participants while most offices provided dental services to less than 7% of participants. Nearly $378,000 or 35% of all service costs for the Ely office during fiscal years 2009 to 2013 were for dental services.

While the Ely office had the highest percentage of participants receiving dental services, other offices provided dental services to more participants than would be expected. Exhibit 7 provides the detail of the percentage of participants receiving dental services by office.

**Percent of Participants Receiving Dental Services by Office** **Exhibit 7**
**Fiscal Years 2009 Through 2013**

| Office | Participants Receiving Dental Services | Total Participants | Percent of Participants Receiving Dental Services |
|---|---|---|---|
| Ely | 136 | 332 | 40.96% |
| Reno Town Mall | 131 | 680 | 19.26% |
| Northern District | 324 | 3,080 | 10.52% |
| West Charleston Outreach | 66 | 1,031 | 6.40% |
| Winnemucca | 21 | 337 | 6.23% |
| Sparks Outreach | 38 | 616 | 6.17% |
| Maryland Parkway | 43 | 751 | 5.73% |
| Elko | 28 | 560 | 5.00% |
| Fallon | 24 | 664 | 3.61% |
| Carson City | 34 | 966 | 3.52% |
| Reno District | 5 | 315 | 1.59% |
| North Las Vegas | 13 | 877 | 1.48% |
| Henderson Outreach | 14 | 991 | 1.41% |
| Las Vegas District | 13 | 979 | 1.33% |
| Southern District | 66 | 5,667 | 1.16% |
| **Totals** | **956** | **17,846** | **5.36%** |
| **Totals** **(**Excluding the highest 3 offices**)** | **365** | **13,754** | **2.65%** |

Source: Rehabilitation Division's RAISON system.

The top three offices (Ely, Reno Town Mall, and Northern District) accounted for 62% of all participants receiving dental services even though they accounted for only 23% of statewide participants. These offices incurred dental expenditures at a minimum of nearly four times the average of the other 12 offices. These same offices had the highest total dental expenditures and dental expenditures per participant during fiscal years 2009 through 2013. Exhibit 8 shows total dental expenditures and dental expenditures per participant by office.

**Dental Service Expenditures by Office** **Exhibit 8**
**Fiscal Years 2009 Through 2013**

| Office | Dental Service Expenditures | Office Percent of Total Dental | Total Office Participants | Percent of Participants | Dental Service Expenditures Per Participant |
|---|---|---|---|---|---|
| Ely | $ 377,879 | 21.26% | 332 | 1.86% | $1,138.19 |
| Reno Town Mall | 220,786 | 12.42% | 680 | 3.81% | 324.69 |
| Northern District | 508,526 | 28.60% | 3,080 | 17.26% | 165.11 |
| Elko | 83,677 | 4.71% | 560 | 3.14% | 149.42 |
| West Charleston Outreach | 124,803 | 7.02% | 1,031 | 5.78% | 121.05 |
| Winnemucca | 37,683 | 2.12% | 337 | 1.89% | 111.82 |
| Sparks Outreach | 58,815 | 3.31% | 616 | 3.45% | 95.48 |
| Fallon | 54,500 | 3.07% | 664 | 3.72% | 82.08 |
| Maryland Parkway | 41,896 | 2.36% | 751 | 4.21% | 55.79 |
| Carson City | 44,375 | 2.50% | 966 | 5.41% | 45.94 |
| Henderson Outreach | 42,928 | 2.41% | 991 | 5.55% | 43.32 |
| North Las Vegas | 28,629 | 1.61% | 877 | 4.91% | 32.64 |
| Las Vegas District | 28,160 | 1.58% | 979 | 5.49% | 28.76 |
| Reno District | 8,077 | 0.45% | 315 | 1.77% | 25.64 |
| Southern District | 117,020 | 6.58% | 5,667 | 31.76% | 20.65 |
| **Totals / Average** | **$1,777,754** | | **17,846** | | **$ 99.62** |

Source: Rehabilitation Division's RAISON system.

Of the nearly $1.8 million spent on dental services, the top three offices accounted for $1.1 million (62%) of all dental expenditures. Furthermore, these offices also had the highest average dental expenditures per participant at $271, including all participants not just those receiving dental services. Excluding the top three offices, the average of all other offices was $49 per participant. Had dental expenditures per participant for the top three offices averaged that of all other offices, total dental service expenditures for the Division would have been $907,000 (51%) less during this time period.

**Disabilities Other Than Dental Not Addressed**

Participants receiving dental services typically have a primary disability other than dental used for determining eligibility for vocational rehabilitation services. In several instances, dental services were the only, or vast majority, of all services rendered when other significant disabilities were noted for determining eligibility. Even though Division policies allow for dental rehabilitation, policies specify services should be infrequent and not related to an acute condition.

As part of our analysis of Ely office dental expenditures, we reviewed the 50 participants with the most significant dental services and identified the disabilities for which these participants qualified for rehabilitation services. Additionally, we reviewed case expenditures for all 50 participants and determined the breakdown of services provided between dental services and all other VR services rendered to the participant. Exhibit 9 provides a breakdown of the 50 participants with the greatest amount of dental services, the disabilities noted, and dental and total case expenditures.

**Ely Top 50 Dental Cases** **Exhibit 9**
**Fiscal Years 2009 Through 2013**

| | Number of Cases | Dental Expenditures | Total Case Expenditures | Dental As A Percent of Total |
|---|---|---|---|---|
| Unknown – Application Prior to 07/01/2008 | 8 | $ 36,521 | $ 38,648 | 94.50% |
| Dental and Other Disability(s) | 23 | 133,963 | 141,408 | 94.73% |
| Dental as Only Disability | 9 | 41,490 | 42,789 | 96.97% |
| Dental Not Listed as a Disability | 10 | 48,442 | 63,113 | 76.75% |
| **Total Clients** | **50** | **$260,416** | **$285,958** | **91.07%** |

Source: Rehabilitation Division's RAISON system.

As shown in Exhibit 9, we found 10 (20%) participants in the Ely office who received dental services as a majority of all rehabilitative services rendered, but who qualified based on other disabilities. Of these 10 participants, 7 (70%) had at least 83% of total VR services rendered attributable to dental services. The Division paid $34,449 of total case expenditures of $39,115 for dental services for these 7 participants even though dental was not identified as an issue during eligibility.

Furthermore, our review found that 23 (46%) of the top 50 dental participants had at least one other disability for which the participant was determined eligible, but nearly 95% of all expenditures were exclusively for dental services. In one instance a participant was determined eligible on two separate occasions and had at least one other disability listed as justification for services. However, this participant's dental service expenditures accounted for nearly 97% of all case costs. By only providing dental services, the Division did not fully address the problems for which the individual qualified for services which could result in negative employment outcomes in the future.

Excessive dental services occurred because counselors determine and approve the majority of rehabilitation plans and payments with minimal required oversight. Additionally, existing Division policies were not followed, but policies were also not specific enough to provide adequate guidance regarding when dental would be an appropriate service. Finally, participants were referred to the Division specifically to attain dental services by employers and dental providers.

In September 2013, the Division issued letters to the three dental service providers for the Ely office notifying them that dental problems alone would no longer qualify a participant for rehabilitative services. As a result, dental expenditures for fiscal year 2014 are on track to be lower than that paid during fiscal years 2009 through 2013; but, the Ely office will still exceed that paid by other offices during fiscal years 2009-2013.

Division management modified policies and procedures related to dental services during our audit. New policies require another qualifying disability, other than dental, to be present in order for participants to qualify for VR services. However, management indicated that dental services could still be provided as the primary or significant service and that a disability other than dental was only necessary for a client to become eligible for services. Even though dental services can be expensive and may be significant, the requirement for another enabling disability should require rehabilitative services to focus primarily on the enabling disability for which the participant is determined eligible, and not dental.

## Rehabilitation Counselor Duties and Direct Payments Should be Better Monitored

Rehabilitation counselors are responsible for nearly all rehabilitation case activities with little required oversight by management. Current approval levels allow counselors to perform all IPE duties from determining participant eligibility and services, assisting in vendor selection, approving service authorizations, and reviewing and authorizing vendor invoices for payment. Moreover, when approvals beyond a counselor are required they are not always obtained. Finally, payments made to vendors or participants outside of the state's accounting system were not always accurate or properly documented. Improved controls and oversight will help the Division mitigate the risk of fraud and abuse occurring and going undetected.

### Current Authorization Levels Allow Counselors to Approve Most Transactions

Current approval levels allow counselors to approve 97.6% of all expenditures resulting in a lack of adequate oversight of counselor duties required for a sound system of controls. Moreover, best practices dictate that key duties and responsibilities should be segregated including responsibilities associated with authorizing transactions, processing and recording, and review.

Exhibit 10 provides a breakdown of the level of approval required for expenditures occurring between July 1, 2011, and March 31, 2013. Additional approval levels ($500 - $5,000) have been included to provide more detail regarding the expenditures requiring only counselor approval.

**Expenditure Approval Limits** **Exhibit 10**
**July 2011 Through March 2013**

| Position | Expenditure Approval Limit | Number of Expenditures | Direct Payments(1) | Total | Percent | Total Amount of Expenditures | Percent |
|---|---|---|---|---|---|---|---|
| | $ 500 | 25,928 | | 25,928 | 78.67% | $ 3,735,704 | 31.62% |
| | 1,000 | 3,027 | | 3,027 | 9.18% | 2,150,449 | 18.20% |
| | 2,000 | 2,476 | | 2,476 | 7.51% | 3,427,215 | 29.00% |
| | 3,000 | 445 | | 445 | 1.35% | 1,084,485 | 9.18% |
| | 4,000 | 225 | | 225 | 0.68% | 773,453 | 6.55% |
| | 5,000 | 54 | | 54 | 0.16% | 246,523 | 2.09% |
| Counselor III(2) | 6,000 | 11 | | 11 | 0.03% | 58,939 | 0.50% |
| Supervisor | 10,000 | 6 | | 6 | 0.02% | 42,124 | 0.36% |
| District Manager | 15,000 | 2 | 771 | 773 | 2.35% | 169,141 | 1.43% |
| Bureau Chief | 25,000 | 2 | 4 | 6 | 0.02% | 47,416 | 0.40% |
| Deputy Administrator | 30,000 | 2 | 4 | 6 | 0.02% | 70,089 | 0.59% |
| Administrator | $250,000 | - | 1 | 1 | 0.01% | 10,000 | 0.08% |
| **Totals** | | **32,178** | **780** | **32,958** | | **$11,815,538** | |

Source: Rehabilitation Division's RAISON system and state accounting system.

(1) Direct payments have different approval requirements because payments are not processed through the accounting system. As a result, all direct payments must be approved by Division management. District Managers have authorization to approve direct payments up to $1,500, the Bureau Chief up to $2,500, Deputy Administrators up to $5,000, and the Administrator up to $50,000.

(2) Counselor III's can approve expenditures up to $6,000. We provided transaction detail for amounts below $6,000 for clarity.

Counselors have the authority to approve all rehabilitation service orders and related vendor invoices unless individual IPE related expenditures exceed $6,000. The vast majority of transactions fall under this approval limit as only 12 of over 32,000 regular expenditures required approval by someone other than the counselor. Since only a handful of regular expenditures require review, reducing approval levels should not be overly burdensome. For instance, reducing the counselor approval threshold to $2,000 would increase the number of transactions requiring review by about 70 a year for each supervisor. Had this been the approval threshold during our audit period, the supervisor over the Ely Office would have been required to review 74 dental transactions during fiscal years 2009 to 2013; however, under adopted approval levels, only one dental transaction required additional reviews.

Segregation of duties is a basic building block for an internal control system. The principle of segregation of duties is based on shared responsibilities of key processes that disperses the critical functions of that process to more than one person or department.

Without adequate separation, fraud and error risk are far less manageable.

Division management indicated counselor duties and approval levels are designed to achieve maximum efficiency and segregating counselor duties would not be cost effective. Division management also indicated duties could not be reassigned as doing so would be overly burdensome to supervisory employees who oversee multiple counselors. While we understand the Division's position, we believe the risk of fraud and abuse occurring and going undetected is significant. Additionally, current approval levels and inadequate segregation of duties contributed to many of the issues we note in this report including excessive dental services, undocumented payments, IPE expenditures exceeding estimates, and undocumented transportation assistance. While counselors are professionals who are highly qualified, limited oversight and a lack of segregation of duties places the Division's resources at significant risk.

When adequate segregation of duties cannot be achieved without excessive cost, an agency can implement compensating controls. Compensating controls reduce the vulnerabilities in ineffectively segregated functions. Additionally, compensating controls can be implemented in combination to reduce risk to an acceptable level without resulting in excessive cost. Examples of compensating controls include:

- Detailed transaction reports: Management performs a high level review of detailed reports of transactions completed by employees that perform incompatible duties. If detailed transaction reports are voluminous, prioritization of the types of transactions can be done.

- Review sample transactions: On a periodic basis, a sample of transactions with supporting documents can be reviewed to ensure they are complete, appropriate, and accurately processed. This type of control can create a disincentive for the person performing the incompatible duties to process inappropriate or fraudulent activities.

- Review system reports: Review of system reports based on pre-determined or user based criteria. For example, reports can be for deleted or duplicated transactions, changes to data sets, and transactions exceeding specific dollar amounts.

- Analytical reviews: For example, comparing different records with predictable relationships and the analysis of unusual trends.

- Increase supervisory oversight: Where appropriate, increasing supervisory reviews through the observation of processes performed in certain functions and making inquiries of employees are good administrative controls that may help identify and address areas of concern.

The Division does have a system whereby a counselor's cases are reviewed for quality and adherence to policies and procedures. The Division represented that supervisors and the quality assurance function review about 25 cases from each counselor each year to evaluate employee performance and identify areas for program improvement. While these reviews are important, they are not designed to compensate for the inadequate segregation of duties associated with individual expenditure transactions. Specifically, most reviews have too limited of a focus on expenditures to serve as an effective deterrent and reviews are not designed to identify inappropriate or fraudulent activity and patterns. Furthermore, reviews with an expenditure component are completed of expenditure transactions from months or years earlier.

Even though our audit did not find fraud, the risk that inappropriate activities could occur is significant. Therefore, it is essential the Division implement compensating controls or segregate counselor duties, and increase oversight to mitigate these risks as much as possible.

**Direct Payments Not Adequately Documented**

Payments made from an outside bank account used to pay participants and vendors who are not established in the state's accounting system were not always accurate or properly documented. Our review of eight direct purchases identified four (50%) that were not properly authorized in the IPE or adequately supported. Errors included inadequate documentation that did not support the expense or amount paid.

While the Division strives to establish vendor agreements for rehabilitation service payments, some payments are made directly to vendors or participants for payment of goods or services from an outside bank account maintained by the Division. Typical payments may be for: tuition, transportation, housing, supplies, and relocation expenses. The total dollar value of the direct purchases we tested was $16,909, of which $11,299 was inadequately documented. Between July 1, 2011, and March 31, 2013, the Division incurred 780 direct payments for nearly $176,000 in service expenses.

The Division's policies and procedures address the issuance of service authorizations and payment approvals which include direct purchases. These policies state authorizations will be made prior to purchase, confirmation of the receipt of and satisfaction with the products or services will be verified, invoices and receipts will be reviewed, and approval of the invoice documents the Division's satisfaction with the service provided.

Documentation for direct payments was not always accurate or obtained prior to payment even though policies specify that confirmation of the service will be verified and invoices reviewed and approved prior to payment. Two examples of inadequacies in direct payments are detailed below:

- One participant was issued a check for $10,000 prior to submitting an invoice or receipt for the service. When the receipt was received, it was on an outdated form, not on school letterhead as specified by the rehabilitation counselor, stated incorrect dates for the service period, and showed a Portland address for the participant who lived in Reno. Furthermore, the Division did not obtain a copy of the original paying document from the participant or the vendor. This participant's case file also contained 5 pre-signed direct payment request forms and 12 receipts of service forms. This is a critical control weakness as these forms are used to verify participants receive services and could be used fraudulently with ease once signed.

- Another participant's IPE allocated $500 in fuel expenses for relocation. The participant was reimbursed nearly $900 for fuel purchases, parking, tolls, faxing, and auto repairs. Some of these expenses were incurred several weeks prior to the participant applying for the position for which relocation was necessary. In addition, several amounts were paid that occurred up to 4 weeks after his actual relocation. Further, the participant was reimbursed twice for three fuel purchases and once for a receipt that did not belong to him.

Direct payments are considered to be at higher risk for fraud and abuse because payments are not subjected to the same controls as those made through the state's accounting system. As such, the Division should monitor direct payments more closely and needs to strengthen controls to provide reasonable assurance that payments are proper and accurate.

**Tracking of Additional Approvals Needed for IPEs**

The Division does not have an adequate process in place to ensure IPEs are properly approved. As a result, IPEs were not always approved by the proper authority within the Division. The Division has adopted approval levels regarding the estimated amount to be spent on an IPE but relies entirely on counselors to submit IPEs needing management approval for review and the Division does not track whether approval was granted.

Eight cases of the 20 from our sample where an IPE was developed needed authorization above the counselor level. Two cases (25%) did not receive approval from the proper Division authority because the Division does not have a mechanism to track whether IPEs have been modified, developed, or approved by the proper authority. The following provides a brief summary of each case:

- One counselor modified an IPE totaling $24,000 by removing a category that had already incurred over $19,000 in actual expenditures. This adjustment was made to reduce the total estimated IPE cost to within the counselor's approval limit. Division management agreed that although the adjustment was made for a small overall increase, the counselor should not have eliminated the incurred expenses and should have forwarded the modified IPE to the Bureau Chief for review and approval.

- An IPE for $17,015 in estimated service costs for vehicle modifications was not documented as approved by the proper Division authority. While the counselor forwarded the IPE for approval the Division could not provide any documentation showing the IPE was actually approved.

As noted earlier in our report counselors have the ability to authorize the vast majority of all IPEs and the Division relies on them to forward those IPEs needing approval to supervisors for review. Since counselors perform a significant portion of the duties associated with case management, it is critical that approvals are received and adequately documented when required. Without such approvals, the Division lacks assurance funding is being used as intended and in line with its vision and mission.

**Individual Plans of Employment Authorized Amounts Overspent and Not Updated**

Actual costs associated with Individual Plans of Employment exceeded estimated amounts without being updated. We found 3 (15%) out of 20 IPEs where the total IPE or specific category cost significantly exceeded IPE estimates. While two of the amendments did not exceed the counselor approval limit, the remaining IPE estimated $5,100 in anticipated service costs, but incurred actual case costs of nearly $26,000. The accuracy of estimated costs determines whether the IPE needs management review and also helps ensure the IPE is meeting the needs of the participant.

The Code of Federal Regulations specifies that IPEs should be amended if there are substantive changes in the employment outcome, the VR services to be provided, or the vendors providing services. In addition, the Division's policies and procedures manual specifies the need for a regular review of IPEs to determine if any changes or corrections are needed.

The Division does not have a system that notifies management that actual expenditures have exceeded the amounts originally estimated. Furthermore, the Division has not established specific thresholds for rehabilitation counselors to follow regarding amending IPEs. Strengthening these processes will assist in monitoring counselor duties since counselors perform a significant number of functions that are pivotal to the Division's success.

## Recommendations

1. Develop specific policies and procedures for determining when dental services will be provided. Policies, procedures, and enhanced controls should address the circumstance under which dental services will be provided when eligibility is dependent upon disabilities other than dental.
2. Routinely monitor control systems to ensure policies and procedures are followed by staff.
3. Reduce approval levels for individual expenditure transactions to ensure oversight is adequate.
4. Implement compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregate rehabilitation counselor activities.
5. Strengthen controls over direct payments. Ensure appropriate supporting documentation is obtained and evaluated prior to payments being issued.
6. Develop controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy.
7. Develop policies and procedures detailing when IPE revisions are required and develop controls to ensure revisions are performed and submitted to the proper authority for review.

# Poor Controls Over Transportation Assistance

The Division lacks controls over transportation activities to prevent or detect misuse, abuse, or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper. Our review of fuel cards and bus passes for the Southern District found the Division could not provide documentation detailing which participant, if any, received the fuel card or pass in 272 of 404 (67%) instances. These unaccounted for fuel cards and passes were worth nearly $19,000 of $24,000 reviewed. Transportation assistance can easily be misused and failure to establish adequate controls and enforce existing policies limits the Division's ability to ensure services are being used for intended purposes.

## Division Does Not Adequately Oversee Fuel Assistance

The Division needs to strengthen its controls over the purchase, receipt, distribution, and monitoring of fuel cards and direct fuel purchases provided to participants for rehabilitation activities. In reviewing expenditure transactions we found the Division's process for the receipt and distribution of fuel cards to be significantly deficient. Furthermore, the Division did not require participants to account for fuel assistance by submitting receipts or mileage logs even though policies and participant notifications require this information. Since fuel assistance can be easily used for activities not related to rehabilitation services, it is important the Division adequately control and monitor these services to prevent fraud and abuse from occurring.

The Division provides transportation assistance to participants for medical and dental appointments, school, counseling, work assessment, and other vocational rehabilitation services needed to achieve an employment outcome. Assistance to participants is provided in one of two manners based on the district in which the participant is receiving services.

- Fuel Cards (Southern District) – The Southern District purchases $25 fuel cards in bulk from various fuel retailers. One or several fuel cards are provided to participants to purchase fuel for rehabilitation activities.

- Direct Fuel Purchases (Northern District) – The Northern District provides participants with vouchers for specific fuel retailers where the retailer will issue the participant a fuel card(s) or allow for the direct purchase of fuel. The retailers bill the Division for fuel cards issued or the actual amount of the purchase, depending on the service provided.

Between July 1, 2011, and March 31, 2013, the Division purchased $269,240 in fuel assistance for participants. Exhibit 11 provides the distribution of fuel purchases between the two districts. Fuel assistance was higher in the Northern District due to the lack of public transportation in many of the areas being served.

**Fuel Purchases** **Exhibit 11**
**July 2011 Through March 2013**

| | Fuel Purchases |
|---|---|
| Northern District | $172,289 |
| Southern District | 96,951 |
| **Totals** | **$269,240** |

Source: State accounting system.

Division policies indicate transportation services can be provided to participants to assist with activities related to vocational rehabilitation or eligibility assessments. While policies regarding transportation were modified during the scope of our audit, transportation services were always limited to the actual cost to the participant for VR activities. Policies stated transportation would not be authorized for normal travel expenses for everyday participant activities.

Policies effective in September and October of 2012 required participants receiving fuel assistance to provide the Division with a mileage log documenting the purpose and mileage of each vocational rehabilitation related trip. Additionally, policies state that additional fuel cards or authorizations would not be provided until the previous mileage log was received. The Division indicated fuel assistance would be limited to no more than that paid to state employees or 27 cents per mile.

**Fuel Cards Not Accounted for or Safeguarded in Southern District**

The Southern District had few controls over the purchase and distribution of fuel cards. Fuel cards, typically purchased in increments of 199 cards, were not inventoried or safeguarded upon receipt and not always tracked or logged when distributed to rehabilitation technicians and participants. Furthermore, the Division did not conduct periodic reviews or counts of fuel cards to ensure cards were accounted for. Moreover, the Division could not provide which participants received $1,000 (40 fuel cards) of the $2,850 (114 fuel cards) reviewed.

During our review of Individual Plans of Employment, we requested the Southern District provide documentation for fuel cards provided to participants. The Division was unable to provide specific information for the fuel cards requested because the records were disorganized and incomplete. For example, the Division did not have a complete record of fuel cards because they do not inventory them upon receipt. Additionally, documentation showing the distribution of fuel cards to rehabilitation technicians did not always indicate the name of the technician or the number of cards provided. Furthermore, documentation for different fuel card retailers was comingled and logs attached to documentation did not correspond to other supporting information.

Since the Division does not inventory cards upon receipt, we were unable to determine the total number of fuel cards purchased and distributed during the scope of our audit; however, we were able to review records for 114 fuel cards. Specifically, we identified the following:

- All 114 (100%) fuel cards could not be matched to a specific invoice or purchase order.

- 24 (21%) of the 114 fuel cards were verified as being received by the participant but were not accounted for as being received or distributed by the District in any of the documentation.

- 40 (35%) of the 114 fuel cards were accounted for as being received by the District and distributed to a rehabilitation technician but could not be traced to a participant receiving the card.

- 20 (17.5%) of the 114 fuel cards were shown to be distributed to a participant by the rehabilitation technician but were not accounted for by the District as being received.

Due to the weaknesses noted in the control system and a lack of policies and procedures over fuel cards, the Division cannot account for all fuel cards purchased and has limited to no assurance that fuel cards were actually distributed to participants. Since fuel cards are similar to cash in their negotiability, a good control system is needed to account for each card from the time of receipt to its distribution to a participant.

**Receipts for Direct Fuel Purchases Important**

The Northern District lacks assurance that bills from fuel retailers are accurate because signed receipts detailing participant purchases are not always obtained from participants or submitted with the vendor invoice. Of the 60 direct fuel purchases reviewed, we could not find a receipt for 41 (68%). In one instance, the Division paid for the same purchase twice when it was duplicated on an invoice from a fuel retailer. Without signed receipts, the Division cannot verify the accuracy of vendor invoices or be assured the service was received by the intended participant.

Direct fuel purchases amounted to over $172,000 for the Northern District during our scope period. Purchases are authorized by rehabilitation counselors who provide participants with a paper authorization to be presented to the selected fuel retailer. The fuel retailer provides a fuel card or creates a credit account for the participant based on the amount approved by the participant’s counselor. Fuel retailers prepare and bill the Division for all purchases made on the account periodically. Invoices received are processed in the same manner as all other Division invoices.

Invoices from fuel retailers were not always compared to receipts because receipts were not always submitted. Furthermore, when receipts were submitted they were not always signed by the participant. Without this support, the Division cannot be assured the fuel assistance was provided to the participant and invoices reflect the actual amount of assistance received. Requiring signed receipts from either the participant or the vendor is vital to ensuring invoices are accurate and proper.

**Division Not Enforcing Mileage Log Submission Requirement**
Division staff rarely require participants account for fuel assistance received in both the Northern and Southern Districts. Out of 84 fuel assistance transactions where participant files were reviewed, mileage logs were not collected for 78 (93%). Specifically, our review of fuel assistance identified the following regarding the Northern and Southern Districts:

- In the Northern District, 57 (95%) out of 60 fuel assistance transactions did not have a mileage log verifying the fuel was used for VR purposes.

- In the Southern District, 21 (87.5%) out of 24 fuel cards issued did not have a mileage log verifying the fuel was used for VR purposes.

During our review of fuel transactions, we found peculiarities that could not be fully explained. For instance, two direct purchase vendor invoices showed significant fuel purchases for one participant 24 hours apart. Additionally, one participant received several fuel cards during the service period, but also received five $25 fuel cards for use after the case was closed. Based on the rehabilitation services provided, these transactions did not appear reasonable. Without mileage logs we could not determine the appropriateness of these activities.

Mileage logs are a critical control to ensuring state and federal resources are being used for their intended purpose and participants are receiving assistance for approved services only.

Furthermore, mileage logs help ensure participants receive the fuel assistance, either through a direct purchase or the issuance of a fuel card, at the appropriate reimbursement rate since fuel can be used for personal activities as well.

## Bus Passes Not Accounted For or Safeguarded in Southern District

Similar to fuel cards, the Southern District had few controls over the purchase and distribution of bus passes. Bus passes, typically purchased in increments of 90, were not inventoried or safeguarded upon receipt and not always tracked or logged when distributed to rehabilitation technicians and participants. Furthermore, the Division did not conduct periodic reviews or counts of bus passes to ensure passes were accounted for. As a result, the Division could not provide which participants received nearly $18,000 of the $21,000 in bus passes reviewed.

Between July 1, 2011, and March 31, 2013, the Division purchased $330,370 in bus passes for participants. Exhibit 12 provides the distribution of bus passes between the two districts.

**Bus Passes** **Exhibit 12**
**July 2011 Through March 2013**

| | |
|---|---|
| Northern District | $117,687 |
| Southern District | $212,683 |
| **Totals** | **$330,370** |

Source: State accounting system.

During our audit, the Division was unable to provide information on specific bus passes provided to participants because records were disorganized and incomplete. Control deficiencies include bus passes not being inventoried upon receipt and incomplete or missing information regarding the distribution of passes. Based on a review of some provided documentation we found:

- 280 (97%) of 290 bus passes could not be matched to a specific invoice or purchase order.
- 150 (52%) of 290 bus passes identified as being received by the Division could not be located on distribution records. Distribution records identify the rehabilitation technician to whom passes are distributed to, as well as the participant who ultimately receives the pass for use.

- 82 (28%) of 290 bus passes identified as being received by the Division and distributed to a rehabilitation technician could not be traced to records identifying a participant receiving the pass.

The Division does not have policies and procedures governing the receipt and distribution of fuel cards or bus passes. Due to the weaknesses noted the Division cannot account for all bus passes purchased and has limited to no assurance that bus passes were actually distributed to participants. Since bus passes are easily transferred or converted to cash, a good control system is needed to account for each pass from the time of receipt to its distribution to a participant.

### Recommendations

8. Maintain an inventory by recording all fuel cards and bus passes upon receipt. Include identifying characteristics of each card or pass, purchase, and distribution information.
9. Perform inventory counts and reconciliations on a periodic basis so fuel cards and bus passes are accounted for and properly safeguarded.
10. Develop and enhance policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended.
11. Institute controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment.
12. Enforce existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance.

# Appendix A
## Audit Methodology

To gain an understanding of the Rehabilitation Division, we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Division's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division. We identified significant processes and controls over determining and approving participant services.

To determine whether the Division had adequate controls to ensure vendors providing vocational rehabilitation and blind services were properly approved, paid, and monitored we obtained a payment download from the Division's Rehabilitation Automated Information System of Nevada (RAISON) for July 1, 2011, to March 31, 2013. The download included the participant's case number, the vendor's name and vendor number, payment amount and date, and the payment authorization number.

We verified the data we received was accurate and complete by comparing the RAISON payment data to the state's accounting system. We identified discrepancies between the two systems and determined why those discrepancies existed. We judgmentally, based on office location, selected 21 transactions identified as being on one system but not on the other. We obtained supporting documentation for all 21 transactions and determined why the transactions were on one download and not the other. We incorporated expenditure payments from the state's accounting system into the RAISON download when appropriate.

In order to select our sample for vendor payment testing we randomly selected 100 client service vendor payments and we judgmentally selected an additional 25 transactions of 34,368 total transactions. Our judgmental selection was based on the total amount paid to vendors, expenditures by office location, direct payments to clients, and services that could easily be converted to personal use. We obtained supporting documentation for the 125 vendor payments and determined whether vendor payments were properly approved, vendors were approved to do business with the State, items or services provided were part of the participant's IPE, and whether documentation supported the amount paid and service provided.

During our review of participant service vendor transactions we found the Division's Ely office expended a significant portion of overall client services on two dental providers. As a result, we requested additional information from the Division regarding dental transactions. The Division provided information from the RAISON system regarding participant dental services and actual service payments to dental vendors from July 1, 2008, to June 30, 2013. We compared this download to other information to corroborate the accuracy of the information. We analyzed the information to determine dental services provided by office location, top clients receiving services, number of clients by office receiving services, and other analyses to understand the nature of dental services provided by the Division. We judgmentally selected an additional six Ely dental cases to review. We reviewed existing Division policies and procedures and Federal regulations regarding dental services and requested the Division provide clarification to us regarding this matter.

To determine whether the Division had adequate controls to ensure Individual Plans of Employment were approved in accordance with Division policies and procedures, we obtained a download from RAISON for all cases active at some point between July 1, 2011, and March 31, 2013. The download included the participant's case number, service office, application date, IPE date, closure date (if applicable), reason for closure (if applicable), and total case expenditures.

We verified the data was accurate and complete by randomly selecting 10 cases and comparing case information from RAISON to that found in paper files. In addition, we judgementally, based on office location, selected 10 paper files and verified the information was accurate in the RAISON download. Based on our work, we concluded the RAISON download for active cases between July 1, 2011, and March 31, 2013, to be complete and accurate.

In order to select our sample for IPE testing we randomly selected 15 cases and judgmentally selected an additional 10 cases of the 7,145 in total cases. Our judgmental selection was based on the 50 cases with the highest costs. We analyzed these cases based on closure information, office caseload, and total dollar value by office. Our selection included consideration for individual office trends such as a high percentage of cases with large expenditure totals and large caseloads.

Next, we obtained supporting documentation for the 25 cases and determined whether an IPE was written, IPEs received the proper level of management review and approvals, services provided were in compliance with IPEs, IPEs followed Division policies and procedures, and whether the plan appeared reasonable. In addition, we determined whether actual expenditures exceeded the service category or total IPE estimates.

During our review of IPEs we found the Division was unable to provide adequate documentation for certain fuel card and bus pass purchases. As a result, we requested additional information from the Division regarding these items. The Division provided copies of fuel card and bus pass inventory logs from the Southern District. We reviewed available documentation for 114 fuel cards and 290 bus passes. We reviewed available documentation to determine whether these items were adequately controlled by the Division. We also reviewed existing policies and procedures regarding monitoring and distributing fuel cards and bus passes and requested the Division provide clarification to us regarding this matter.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. We have not projected the errors noted in our samples to the population because our samples included randomly and judgmentally selected items. Judgmental selections were made based on an analytical review of data and known risk factors such as high dollar value items. Since a portion of our sample was based on these risk factors we do not think a projection of the errors would be appropriate.

Our audit work was conducted from February 2013 to February 2014. 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.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division. On August 5, 2014, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 32.

Contributors to this report included:

Shawn Heusser, MPA
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Shannon Ryan, CPA
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# Appendix B
## Response From the Rehabilitation Division

REHABILITATION DIVISION

DETR
Nevada Department of Employment, Training and Rehabilitation

BRIAN SANDOVAL
GOVERNOR

DENNIS PEREA
INTERIM DIRECTOR

SHELLEY HENDREN
ADMINISTRATOR

August 27, 2014

Paul Townsend, CPA, Legislative Auditor
Legislative Counsel Bureau, Legislative Building
401 S Carson Street
Carson City, Nevada 89701

Subj: DETR Response to LCB Performance Draft Audit Report Dated August 12, 2014

Dear Mr. Townsend:

The August 12, 2014 Legislative Counsel Bureau (LCB) performance *draft* audit report of the Rehabilitation Division's Bureau of Vocational Rehabilitation (BVR) had 12 principal findings. The Department of Employment, Training and Rehabilitation (DETR), Rehabilitation Division accepts all 12 recommendations (per attached listing). Additionally, the DETR Rehabilitation Division offers the following initial response that outlines all action steps already undertaken responsive to the findings.

Sections of the Rehabilitation Division's "Participant Services Policy and Procedures Manual" have been revised, and BVR staff have been trained in the new policies and procedures. If you have any questions regarding this response, please call me or Janice John, Deputy Administrator of Programs at (702) 486-0372, or Duane Anderson, Chief Auditor at (775) 684-3903.

Sincerely,

Shelley Hendren

Shelley Hendren,
DETR Rehabilitation Division Administrator

cc: Dennis A. Perea, Interim Director, DETR
Janice John, Deputy Administrator, Rehab. Division
Melaine Mason, Deputy Administrator, Rehab. Division
Duane E. Anderson, Chief Auditor

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2014 LEGISLATIVE COUNCIL BUREAU PERFORMANCE DRAFT AUDIT

DETR/REHABILITATION DIVISION RESPONSE TO DRAFT AUDIT

AUGUST 27, 2014

**Section I. - Additional Oversight of Rehabilitation Services Necessary**

Findings 1-7 Clearer Guidelines Needed Over Providing Dental Services

The Rehabilitation Division does not ensure payments for vocational rehabilitation (VR) services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Rehabilitation Division does not ensure IPE's are approved in accordance with policies and procedures.

Recommendation #1

Develop specific policies and procedures for determining when dental services will be provided. Policies, procedures, and enhanced controls should address the circumstance under which dental services will be provided when eligibility is dependent upon disabilities other than dental.

DETR's Response

In an effort to strengthen our provision of dental services to clients, the administrative team developed new policies and procedures for determining when dental services will be provided. These new policies address concerns statewide and give examples of when services are appropriate, the use of comparable benefits and conditions upon which dental services may stand alone as the qualifying disability. (Dental impairment as a sole disability includes a facial deformity involving the mouth and teeth, or the condition of TMJ/TMD only). These policies and procedures became effective on June 1, 2014, after approval by the Nevada State Rehabilitation Council (NSRC). Staff have received extensive training on the new policies and procedures via 2 formal statewide trainings. These new policies may be found in the Rehabilitation Division's "Participant Services Policy and Procedures Manual," "Section 12: Scope of VR Services," and by clicking on "Scope of Services Available." The new dental policies start on page 7. Link: Scope of VR Services

Recommendation #2

Routinely monitor controls systems to ensure policies and procedures are followed by staff.

DETR's Response

The Rehabilitation Division does have a multi-pronged system whereby counselors' cases are regularly reviewed for quality and adherence to policies and procedures.

Supervisors review a minimum of 15 cases per counselor per year.

The Division's Quality Control Team also facilitates or conducts regular case file reviews per calendar year, as noted below:

- Two comprehensive case file reviews (District-wide and State-wide) which review the entire case from application to closure. These reviews typically involve the review of two cases from each counselor's caseload--one case that was closed unsuccessfully and one case that was closed successfully (rehabilitated/employed).

- Four targeted reviews:
  1. An Eligibility Determination review which typically involves the review of one case from each counselor's caseload.
  2. An Assessment of Vocational Needs and Individualized Plan for Employment (IPE) Review which typically involves the review of one case from each counselor's caseload.
  3. A Case Documentation/Case and Expenditure Management and Case Closure Review which typically involves the review of two cases from each counselor's caseload-- one case that was closed unsuccessfully and one case that was closed successfully.
  4. A Transition case file review (students transitioning from school to work) which typically involves a review of 25% of all transition cases in "Service" status.

A total of 1,538 reviews have been completed since calendar year 2011:

| | |
|---|---|
| 2011: | 404 |
| 2012: | 463 |
| 2013: | 466 |
| 2014: | 205 (to date) |

In addition, in 2013 the Quality Control Team conducted a baseline review of case files with job developer and/or job coaching services. 71 files were reviewed. This review will be conducted on an annual basis. The next review of this type is scheduled for November, 2014.

Recommendation #3
Reduce approval levels for individual expenditure transactions to ensure oversight is adequate.

DETR's Response
This is currently being reviewed.

Recommendation #4
Implement compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregate rehabilitation counselor activities.

DETR's Response
We have ensured that our Field Accounting Assistants work performance standards include the following: "Monitors and reviews case service budget records for accounts 3265 & 3254. Adheres to internal control procedures, utilizes RAISON system to monitor monthly/quarterly case service budgets and outstanding authorizations. Identifies case expenditure problems and brings it to the attention of the Rehabilitation Manager as required." Other compensating controls are being reviewed and considered.

Recommendation #5
Strengthen controls over direct payments. Ensure appropriate supporting documentation is obtained and evaluated prior to payments being issued.

DETR's Response
Numerous changes were made to the Rehabilitation Division's "Participant Services Policy and Procedures Manual," after approval by the NSRC, and effective on June 1, 2014. "Section 18: Purchases and Payments of Goods and Services, Authorizations, Authority Levels and Cash Pays." Link: Purchases and Payments of Goods and Services, Authorizations, Authority Levels and Cash Pays

- Of specific note are the following:
  1. A direct citation from the State Administrative Manual (SAM) "1546-Circumventing: *Direct purchases shall not be made contrary to the requirements included in SAM, nor shall they be made in such a manner as to circumvent the intent of this chapter, nor shall related or similar items be purchased separately (by splitting purchases or by a series of smaller purchases) as a device to avoid these requirements."*
  2. On page 9, we also added a new policy under the heading: "8. Direct Authorizations (Cash Pays)," which states, in part, "Direct Authorizations are permitted in rare occurrences due to a unique situation, which may involve the required payment at the time of purchase wherein a Purchase Order will not be accepted by the vendor…Direct Authorizations cannot be used to circumvent the process and procedures outlined in Section 18. Direct Authorizations may be used only when the purchase utilizes a

vendor who has not been approved by the State of Nevada or a vendor who cannot submit the required paperwork to become an approved vendor… A receipt is required at the time the cash pay is requested and the receipt must reflect the exact amount of the direct authorization request."

- Additionally, existing policy states that Accounting Field Staff are not allowed to approve direct authorizations/cash payments.

Recommendation #6
Develop controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy.

DETR's Response
This is currently being reviewed.

Recommendation #7
Develop policies and procedures detailing when IPE revisions are required and develop controls to ensure revisions are performed and submitted to the proper authority for review.

DETR's Response
Federal regulations require that Division staff perform annual reviews of all open IPEs. The Rehabilitation Division's "Participant Services Policy and Procedures Manual," "Section 11: Individualized Plan for Employment (IPE)" outlines this mandate. The Division also developed a new report in its RAISON case management system, called the "Plan Cost Allocation Report," which may be run for any individual caseload, office, district or statewide. It provides the total cost of the current IPE, amount spent on goods and services in the IPE to date, total funds obligated, and total remaining authority. This tool allows supervisors to accurately track IPE spending.

Furthermore, the Division created an automated alert that directly notifies the District Manager and Bureau Chief any time expenditures exceed the amount approved in the IPE. This is used as a management tool to monitor counselor compliance with policy and procedures.

Automated Alert example:
-----Original Message-----
From: RAISON@Do.not.reply [mailto:RAISON@Do.not.reply]
Sent: Wednesday, June 25, 2014 9:53 AM
To: RAISON-AUTHO-CONTROL; Sheila Rasor
Subject: Agency Obligated Amount Exceeded

Staff Member ________has exceeded the Agency Amount ($2000) on the current IPE by issuing VR Authorization Number: 379031 in the amount of $71.05 for Case Master ID: 69221. $1950 has already been obligated toward this plan. Please direct _______ to update the plan to include current and future spending projections.

**Section II. - Additional Oversight of Rehabilitation Services Necessary**

Findings 8-12 Division Does Not Adequately Oversee Fuel Assistance

The Rehabilitation Division lacks controls over transportation activities to prevent or detect misuse, abuse or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Rehabilitation Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper.

Recommendation #8

Maintain an inventory by recording all fuel cards and bus passes upon receipt. Include identifying characteristics of each card or pass, purchase, and distribution information.

DETR's Response

The Division developed a log system for its offices statewide, to inventory and distribute bus passes and fuel cards to clients. For each bus pass and fuel card, the log identifies: a) the type; b) the amount; c) the recipient; d) applicable dates; as well as other pertinent information. (Please see attached sample log).

Recommendation #9

Perform inventory counts and reconciliations on a periodic basis so fuel cards and bus passes are accounted for and properly safeguarded.

DETR's Response

Before purchasing any new bus passes or gas cards, District Managers perform a visual audit of the logs to ensure that inventory has been distributed appropriately and that new inventory is warranted. The District Managers also ensure that inventory is kept in a safe, locked environment.

Recommendation #10

Develop and enhance policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended.

DETR's Response

Accounting maintains a binder with copies of all packing slip for bus passes and gas cards, to confirm receipt by Accounting. The distribution of the bus passes and gas cards are kept on a log sheet, as previously discussed. (A sample is attached). The logs are kept on a shared drive. There are separate documents for each pass or card type. Each log was created as an Excel spreadsheet, and each technician maintains their own, exclusive worksheet. Accounting fills in the receipt columns and the technicians fill in the distribution columns. The columns are password protected. Logs are reviewed by Accounting for missing information prior to the distribution of additional cards.

Recommendation #11

Institute controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment.

DETR's Response

The Southern District exclusively utilizes a vendor from whom it purchases gas cards that may only be used with that vendor and only for the purchase of gasoline. No other goods may be purchased with these gas cards. In the Northern District, the Division is working to establish the same relationship with a fuel provider in that area. Policies and procedures regarding gasoline purchases are currently being reviewed.

Recommendation #12

Enforce existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance.

DETR's Response

This is being implemented. The Division plans to add this requirement in its "Participant Services Policy and Procedures Manual." Additionally, all counselors' work performance standards will be amended to include their responsibility to "Ensure that all case expenditures are appropriate and follow federal regulations, state and internal policies and procedures."

# Rehabilitation Division's Response to Audit Recommendations

| | Recommendations | Accepted | Rejected |
|---|---|---|---|
| 1. | Develop specific policies and procedures for determining when dental services will be provided. Policies, procedures, and enhanced controls should address the circumstances under which dental services will be provided when eligibility is dependent upon disabilities other than dental | X | |
| 2. | Routinely monitor control systems to ensure policies and procedures are followed by staff | X | |
| 3. | Reduce approval levels for individual expenditure transactions to ensure oversight is adequate | X | |
| 4. | Implement compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregate rehabilitation counselor activities | X | |
| 5. | Strengthen controls over direct payments. Ensure appropriate supporting documentation is obtained and evaluated prior to payments being issued | X | |
| 6. | Develop controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy | X | |
| 7. | Develop policies and procedures detailing when IPE revisions are required and develop controls to ensure revisions are performed and submitted to the proper authority for review | X | |
| 8. | Maintain an inventory by recording all fuel cards and bus passes upon receipt. Include identifying characteristics of each card or pass, purchase, and distribution information | X | |
| 9. | Perform inventory counts and reconciliations on a periodic basis to ensure fuel cards and bus passes are accounted for and properly safeguarded | X | |
| 10. | Develop and enhance policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended | X | |
| 11. | Institute controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment | X | |

# Rehabilitation Division's Response to Audit Recommendations (continued)

| | Recommendations | Accepted | Rejected |
|---|---|---|---|
| 12. | Enforce existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance | X | |
| | TOTALS | 12 | 0 |