
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED BY
THE NEVADA DISABILITY
DETERMINATION SERVICES**

June 2011

A-09-10-11090

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: June 27, 2011

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Inspector General

Subject: Administrative Costs Claimed by the Nevada Disability Determination Services
(A-09-10-11090)

OBJECTIVE

Our objectives were to (1) evaluate the Nevada Disability Determination Services' (NV-DDS) internal controls over the accounting and reporting of administrative costs; (2) determine whether costs claimed were allowable and funds were properly drawn; and (3) assess, on a limited basis, the general security controls environment.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act),¹ provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act,² provides benefits to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs.³ Disability determination services (DDS) in each State or other responsible jurisdiction perform disability determinations under both DI and SSI. A DDS is required to make disability determinations in accordance with Federal law and underlying regulations.⁴ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and

¹ *Social Security Act* § 223(a)(1); 42 U.S.C. § 423(a)(1).

² *Social Security Act* § 1602 and 1611; 42 U.S.C. § 1381a and 42 U.S.C. § 1382.

³ SSA, Program Operations Manual System (POMS), DI 00115.001 (May 2009).

⁴ *Social Security Act* §§ 221 and 1614; 42 U.S.C. §§ 421 and 1382c; see also 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, X-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations⁵ and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.⁶

An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the fiscal year (FY), each DDS is required to submit a *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) to account for program disbursements and unliquidated obligations.⁷ The SSA-4513 reports expenditures and unliquidated obligations for Personnel Service costs, Medical costs, Indirect costs, and All Other Non-Personnel costs.⁸

NV-DDS is called the Bureau of Disability Adjudication, a component of the Rehabilitation Division within the Nevada Department of Employment, Training and Rehabilitation (NV-DETR). Parent agencies, such as the NV-DETR, often provide such administrative services as accounting, purchasing, and personnel to the State-designated DDS.

In FYs 2008 and 2009, NV-DDS had about 102 employees and an authorized budget of about \$26.3 million for administrative costs. As of September 30, 2009, NV-DETR reported total disbursements of \$24 million and unliquidated obligations of \$2 million (see Appendix B).

⁵ 31 C.F.R. § 205.1 *et seq.*

⁶ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 650, and 6503.

⁷ SSA, POMS, DI 39506.201 and 202 (March 2002). POMS, DI 39506.200 B.4 (March 2002) provides, in part, that "Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated regardless of whether the goods or services have been received."

⁸ SSA, POMS, DI 39506.201 and 202 (March 2002).

RESULTS OF REVIEW

Generally, NV-DDS had adequate controls over the accounting and reporting of administrative costs. We also found that the costs NV-DDS claimed were generally allowable, and funds were properly drawn. However, we determined that NV-DDS and/or NV-DETR

- did not have support for \$152,956 in claimed medical costs;
- improperly charged \$396,022 in indirect costs from components that did not benefit SSA;
- improperly reported unliquidated obligations by approximately \$2 million;
- did not maintain adequate inventory records; and
- needed to improve controls to protect sensitive information.

UNSUPPORTED MEDICAL COSTS

NV-DDS did not have support for \$152,956 in claimed medical costs for FY 2009. According to SSA policy, State agencies must provide, through their accounting and statistical records, support for all obligations incurred in connection with making disability determinations. Furthermore, a State's records must permit verification by SSA and Federal audit.⁹ However, NV-DDS could not provide support for \$152,956 claimed on the SSA-4513 submitted for the period ended September 30, 2009. This occurred, in part, because of a systemic weakness in expenditure reporting for medical costs.

NV-DETR, which is responsible for submitting the SSA-4513, used the State of Nevada's Financial Data Warehouse to obtain the amounts to report for medical costs. However, for FY 2009, NV-DETR used amounts from a monthly cost expenditure report generated from NV-DDS' Versa system to prepare the SSA-4513. NV-DETR officials stated they were unable to retrieve the transaction details in Versa to reconcile the monthly expenditure report.

INDIRECT COSTS IMPROPERLY CHARGED TO SSA

NV-DETR charged SSA indirect costs from components that did not benefit NV-DDS. As a result, NV-DETR charged SSA \$396,022 in unallowable costs. Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.¹⁰ They also

⁹ SSA, POMS, DI 39509.005 B. (July 1996).

¹⁰ OMB Circular A-87, Attachment A, § C.3.a. (revised May 2004).

state that indirect cost pools should be distributed to benefiting programs on bases that will produce an equitable result in consideration of relative benefits derived.¹¹

Information Development and Processing

NV-DETR improperly charged \$278,661 (\$163,161 in FY 2008 and \$115,500 in FY 2009) for indirect costs from its Information Development and Processing (IDP) division. According to NV-DETR, IDP provides such services as processing personal computer equipment (for inventory purposes), maintaining telecommunications equipment, and supporting five personal computers. However, NV-DDS has a dedicated information technology (IT) team that provides systems support for NV-DDS operations. The dedicated IT team provides support for all SSA-purchased servers, computers, and printers and maintains the inventory of DDS equipment. In addition, NV-DETR directly charges SSA approximately \$230,000 per year for the dedicated IT team. Therefore, based on the services provided, we concluded that the \$278,661 in indirect costs from IDP duplicated the costs for the NV-DDS IT team, and any relative benefits received were minimal.

Research and Analysis

NV-DETR improperly charged \$117,361 (\$49,404 in FY 2008 and \$67,957 in FY 2009) for indirect costs from its Research and Analysis (R&A) division. According to NV-DETR, R&A provides such labor market information as development and analysis of labor force and industrial employment data; reports for employment service and unemployment insurance system; presentations on the economy; and occupation, wage, and projection information. Based on NV-DETR's explanation of the services provided, we concluded that R&A did not benefit NV-DDS. Accordingly, NV-DETR should not have charged these indirect costs to SSA.

UNLIQUIDATED OBLIGATIONS

We reviewed the unliquidated obligations reported at year-end to determine whether the amounts were supported by valid authorized obligations. Based on our review, we determined that NV-DETR did not accurately report unliquidated obligations. Specifically, NV-DETR overstated Medical costs by approximately \$607,000 and understated Personnel, Indirect, and All Other Non-Personnel costs by approximately \$1.4 million.

Medical Costs

NV-DDS overestimated unliquidated obligations for Medical costs for the SSA-4513s prepared by NV-DETR at the end of FYs 2008 and 2009. This occurred because NV-DDS did not review unliquidated obligations timely to deobligate funds no longer needed. Since NV-DDS did not accurately estimate the unliquidated obligations, SSA was unable to redirect these funds for other purposes. As shown in the table below,

¹¹ OMB Circular A-87, Attachment A § F.1. (revised May 2004).

NV-DDS overestimated unliquidated obligations for Medical costs by approximately \$607,000 in FYs 2008 and 2009.

Medical Cost Unliquidated Obligations			
	FY 2008	FY 2009	Total
Estimated & Reported	\$327,042	\$438,253	\$765,295
Actual	\$52,049	\$106,727	\$158,776
Overstated	\$274,993	\$331,526	\$606,519

According to SSA policy, valid unliquidated obligations should be supported by documents and records describing the nature of the obligations and supporting the amounts recorded. SSA policy further indicates that State agencies should review unliquidated obligations at least once each month and cancel those that are no longer valid.¹²

Personnel, Indirect, and All Other Non-Personnel Costs

NV-DETR understated unliquidated obligations for Personnel, Indirect, and All Other Non-Personnel costs at the end of FYs 2008 and 2009. This occurred because NV-DETR did not estimate obligations for the entire FY when it prepared its quarterly SSA-4513s. Instead, NV-DETR only estimated obligations for a few weeks following the end of the reporting quarter. As shown in the table below, NV-DETR underestimated unliquidated obligations for Personnel, Indirect, and All Other Non-Personnel costs by approximately \$1.4 million in FYs 2008 and 2009.

Personnel, Indirect, and All Other Non-Personnel Unliquidated Obligations			
	FY 2008	FY 2009	Total
Estimated & Reported	\$481,885	\$1,488,013	\$1,969,898
Actual	\$1,289,331	\$2,050,938	\$3,340,269
Understated	\$807,446	\$562,925	\$1,370,371

SSA's procedures state that unliquidated obligations represent obligations for which payment has not yet been made. Additionally, it states that unpaid obligations are considered unliquidated whether the goods or services have been received or not.¹³

INVENTORY CONTROLS

NV-DDS did not maintain adequate inventory records. Specifically, NV-DDS did not have a complete inventory list of SSA-purchased computer equipment or computer equipment that it had excessed. In addition, NV-DDS inventory records did not include all information required by SSA. According to SSA instructions, equipment inventory must include the following.

¹² SSA, POMS, DI 39506.203 A. (March 2002).

¹³ SSA, POMS, DI 39506.200 B.4 (March 2002).

1. Description
2. Source of funds used to purchase (for example, State vs. Federal)
3. Unit cost (for inventory purchased with State funds)
4. Inventory or serial number
5. Date purchased
6. Physical location, including building address and room or floor location¹⁴

NV-DDS' inventory listing did not include the source of funds used to purchase, date purchased, or the physical location for any of its computer equipment. Additionally, we found computers, monitors, laptops, servers, and printers that were not included on the inventory listing. Also, NV-DDS' procedures for disposing of computer equipment were inadequate. Specifically, NV-DDS had a storage room of equipment that was not in use and was awaiting disposal. This equipment should have been, but was not, on its inventory listing.

Most of these inventory errors occurred because of miscommunication between NV-DDS and NV-DETR regarding the tracking of computer equipment. At the time of our audit, NV-DDS and NV-DETR were resolving this issue. The State of Nevada had also identified inventory errors in a prior audit.

RISK OF UNAUTHORIZED ACCESS TO SENSITIVE INFORMATION

Our review disclosed that NV-DDS lacked physical security controls over personally identifiable information (PII). Specifically, NV-DDS did not keep sensitive records secured when cleaning services were provided during non-work hours. Although NV-DDS had a clean-desk policy; we found that its employees did not always adhere to the policy. For example, when staff left for the day, PII remained on desks and in unlocked bins overnight. These weaknesses increased the risk of unauthorized access and loss of sensitive information.

According to SSA policy, if offices are not cleaned during work hours, the DDS must take extra care to ensure documents containing PII are secured overnight,¹⁵ and the DDS should implement a clean-desk policy.¹⁶ Sensitive records awaiting destruction should be secured in locked bins or by other means to make the data unattainable to unauthorized personnel.¹⁷

¹⁴ SSA, POMS, DI 39530.020 B.1 (October 2002).

¹⁵ SSA, POMS, DI 39567.040 C. (October 2008).

¹⁶ SSA, POMS, DI 39567.020 A. (October 2008).

¹⁷ SSA, POMS, DI 39567.020 C. (October 2008).

CONCLUSION AND RECOMMENDATIONS

The costs claimed by NV-DDS were generally allowable. However, we found that NV-DDS and/or NV-DETR needed to improve controls over the (1) reporting of Medical costs, (2) reporting and review of unliquidated obligations, (3) inventory records, and (4) protection of sensitive information. Finally, we determined that NV-DETR should not charge SSA indirect costs for the IDP and R&A divisions.

We recommend that SSA:

1. Instruct NV-DETR to refund \$152,956 or provide supporting documentation for unsupported medical costs claimed for FY 2009.
2. Instruct NV-DETR to refund \$396,022 for unallowable indirect costs from IDP and R&A or provide documentation to support that the amounts charged were in accordance with the relative benefits received.
3. Identify and refund any unallowable indirect costs from IDP and R&A for FY 2010 to the present.
4. Ensure NV-DDS monitors and properly adjusts unliquidated obligations timely.
5. Instruct NV-DDS to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.
6. Ensure NV-DDS enforces its clean-desk policy and keeps all sensitive documents secure.

AGENCY COMMENTS

SSA agreed with all our findings and recommendations. SSA also commented that it would resolve each recommendation after we issued our final report.

NV-DETR generally agreed with Recommendations 4 through 6. For Recommendation 1, NV-DETR stated the \$152,956 represents outstanding (unpaid) authorizations and as such, a refund was not justified. For Recommendations 2 and 3, NV-DETR did not believe a refund of unallowable indirect costs was justified and provided an explanation of the IDP and R&A benefits it provided to NV-DDS. However, NV-DETR commented that it was open to any SSA suggestions and assistance in updating its cost allocation plan, should it be deemed necessary.

See Appendices C and D for the full text of SSA's and NV-DETR's comments.

OIG RESPONSE

To resolve Recommendation 1, we believe SSA should obtain appropriate evidence to support NV-DETR's assertion that the \$152,956 difference was attributed to unliquidated obligations. For Recommendations 2 and 3, we believe additional evidence is needed to determine whether the IDP costs were charged in accordance with the relative benefits received. We also believe the services provided by R&A do not benefit NV-DDS.

A handwritten signature in black ink, appearing to read "Pat O'Carroll Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – The Social Security Administration's Comments

APPENDIX D – Nevada Department of Employment, Training and Rehabilitation's
Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
IDP	Information Development and Processing
IT	Information Technology
NV-DDS	Nevada Disability Determination Services
NV-DETR	Nevada Department of Employment, Training and Rehabilitation
OMB	Office of Management and Budget
PII	Personally Identifiable Information
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
R&A	Research and Analysis
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Form

SSA-4513	State Agency Report of Obligations for SSA Disability Programs
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Scope and Methodology

We reviewed the administrative costs reported to the Social Security Administration (SSA) by the Nevada Disability Determination Services (NV-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) for Federal Fiscal Years (FY) 2008 and 2009. As of September 30, 2009, NV-DDS reported the following disbursements and unliquidated obligations on its SSA-4513.

Category	FY 2008	FY 2009
Disbursements		
Personnel Costs	\$7,174,010	\$7,086,796
Medical Costs	\$2,367,329	\$2,559,361
Indirect Costs	\$1,575,238	\$1,189,956
All Other Non-Personnel Costs	\$1,041,404	\$982,359
Total Disbursements	\$12,157,981	\$11,818,472
Unliquidated Obligations	\$0	\$1,926,266
Total Obligations	\$12,157,981	\$13,744,738

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent sections of SSA's Program Operations Manual System, and other criteria relevant to security controls, administrative costs claimed by NV-DDS, and drawdowns of SSA program funds.
- Interviewed employees from the SSA regional office; NV-DDS; and Nevada Department of Employment, Training and Rehabilitation (NV-DETR).
- Obtained an understanding of the internal control structure to plan the audit and determine the nature, timing, and extent of the tests to be performed.
- Obtained data from NV-DETR to support amounts reported on the SSA-4513 and tested the reliability of the data by comparing disbursements, by line item totals, with the amounts reported on the SSA-4513.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures reported on the SSA-4513.
- Examined the administrative expenditures claimed by NV-DDS for Personnel, Medical, Indirect, and All Other Non-Personnel costs in FYs 2008 and 2009.
- Examined indirect costs for FYs 2008 and 2009 based on the approved indirect cost allocation plan.
- Conducted a limited examination of NV-DDS' general security controls environment.

We determined the electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling or comparing them with the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data elements from the electronic files.

We performed audit work at NV-DDS and NV-DETR in Carson City, Nevada, and the San Francisco Regional Office in Richmond, California. We conducted fieldwork between June 2010 and April 2011. We conducted our 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.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on the SSA-4513: (1) Personnel, (2) Medical, and (3) All Other Non-Personnel costs. We obtained computerized data from NV-DETR and NV-DDS for FYs 2008 and 2009 for statistical sampling.

Personnel Costs

We randomly selected 1 pay period in FY 2009 and reviewed a random sample of 50 personnel and all medical consultants. We tested payroll records to ensure NV-DDS accurately paid its employees and adequately supported these payments.

Medical Costs

We reviewed 100 Medical cost items. Using a stratified random sample, we selected 50 medical payment records from each FY. We distributed the sample items between medical evidence of records and consultative examinations based on the proportional distribution of the total Medical costs for each year.

All Other Non-Personnel Costs

We selected 100 All Other Non-Personnel cost items. Using a stratified random sample, we selected 50 payment records for each FY. Before selecting the sample items, we sorted the transactions into the following categories: (1) Contracted costs, (2) Electronic Data Processing Maintenance, (3) Equipment Purchases, (4) Communication, (5) Applicant Travel, (6) NV-DDS Travel, (7) Supplies, and (8) Miscellaneous. We then distributed the sample items between categories based on the proportional distribution of the total Non-Personnel costs for each year.

The Social Security Administration's Comments

June 04, 2011

Subject: Signed Draft Report (A-09-10-11090) - SF Reply

Pat,

Thank you for the opportunity to review OIG's draft audit report on Administrative Costs claimed by the Nevada DDS. We reviewed the draft report and we found each of the recommendations valid and reasonable. As we generally do, we are deferring a final position on how each recommendation should be resolved until after the final report is issued and Nevada has had an opportunity to provide a response.

We appreciate the work performed by the OIG staff in the San Francisco Region.

Please let me know if you have any questions. Staff questions may be directed to Don Proffit at (510) 970-4713 or Sathya Sharma at (510) 970-8306, both in the San Francisco Center for Disability.

Pete

Nevada Department of Employment, Training and Rehabilitation's Comments

BRIAN SANDOVAL
Governor



LARRY J. MOSLEY
Director

OFFICE OF THE DIRECTOR

June 16, 2011

James J. Klein, SSA/OIG Director
Social Security Administration
Office of the Inspector General
1221 Nevin Avenue, 3rd Floor
Richmond, CA 94801


RE: Report # A-09-10-11090

Dear Mr. Klein:

Attached is the Nevada Department of Employment, Training and Rehabilitation's (DETR) response to the Office of Inspector General's (OIG) review and related findings entitled "Administrative Costs Claimed by the Nevada Disability Determination Services" (Audit Report #A-09-10-11090) dated May 6, 2011. With respect to the original 30 day deadline for this report, we again appreciate the extension of time that you approved for us (through June 20, 2011 - see attached confirming email dated May 31, 2011).

Please feel free to contact me at (775) 684-3911 if you have any questions.

Sincerely,



Larry J. Mosley
Director

Attachments

cc: Peter D. Spencer, Regional Commissioner, Social Security Administration (SSA)
Don Proffit, Project Manager, Center for Disability, SSA
Joseph Robbleto, SSA/OIG Audit Manager
Florina Docena, Acting Disability Program Administrator, Center for Disability, SSA
Jer Mitchell, Acting Budget Supervisor, Center for Disability, SSA
Regina Finley, Senior Auditor, SSA/OIG
Dennis Perea, Deputy Director, DETR
Maureen Cole, Administrator, DETR
Renae Olson, Chief Financial Officer, DETR
Duane E. Anderson, Chief Auditor, DETR

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Response To The Office Of Inspector General's (OIG)
Review And Related Findings Entitled
"Administrative Costs Claimed By The Nevada Disability Determination Services"
(Audit Report #A-09-10-11090)
Dated May 6, 2011

UNSUPPORTED MEDICAL COSTS

Recommendation

DETR should refund \$152,956 or provide supporting documentation for unsupported medical costs claimed for FY 2009.

DETR's Response

Based on our calculations it appears that the amount of \$152,956 noted by auditors as unsupported medical costs is essentially the difference between the amount reported as obligated per VERSA and the amount shown as actually expended (liquidated) in Nevada's state accounting system, DAWN/Advantage. This difference is the result of outstanding (unpaid) authorizations in the VERSA system awaiting liquidation as reported on the 4513. This difference does not represent costs claimed or paid, only reported as obligated during a mid-life funding period quarterly report. It should be noted that using the outstanding authorizations from VERSA is a practice that SSA has instructed DETR financial staff to follow.

An important point to make is that not all outstanding obligations are liquidated or paid. Some are later de-obligated, so no payment or only a partial payment would ever be processed.

During a quarter where funds are still being obligated for expense, DETR uses the VERSA report to reflect the amount of outstanding obligations as of the end of the quarter as Nevada's accounting system does not account for obligations. If there are outstanding obligations at the end of a quarter, they will not be liquidated until subsequent periods, or they will be de-obligated /modified.

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The way the process works is that BDA staff initially approve the estimated obligations and then when invoices /billings are received from the vendors /contractors, approve such invoices (as well as make changes to VERSA) and batch them for payment processing. BDA staff then submit the batched invoices to the DETR Financial Management (FM) Unit for a second approval before they are processed through DAWN /Advantage (the state accounting system) for payment. As a control feature, FM staff reconcile daily the approved batch totals processed in VERSA against the actual individual batches submitted for payment. No batch of invoices is submitted for payment unless it has been fully reconciled by FM staff. Because of this process, DETR staff cannot foresee situations where unsupported BDA expenses would have been paid because every payment recorded /reported in DAWN /Advantage was originally supported by an approved invoice (contained within a specific batch). Therefore, from a payment perspective, approved payments in VERSA would match against actual DAWN payments.

In summation, DETR staff recognize that differences exist in the VERSA system and have identified the main reasons for those differences (ie, unliquidated obligations, changes to original obligation, etc). Additionally, as explained above, DETR staff feel that no BDA costs have been paid for that were not fully supported, both in VERSA and in DAWN **and because of this, DETR staff does not feel the audit request for a refund of \$152,956 is justified.** Nonetheless, procedural changes have been made that will facilitate a more updated reporting of outstanding obligations on a daily basis. It is further reiterated that the 4513 report should not be used to determine actual allowable costs until such time as DETR staff has completed /submitted the final report and all obligations have been cleared /modified.

DETR respectfully requests that SSA consider DETR's response in its final determination.

IMPROPERLY CHARGED INDIRECT COSTS

Recommendation

DETR should refund \$396,022 in indirect costs that did not benefit SSA, (\$278,661 for IDP charges and \$117,361 for R&A charges).

DETR's Response

The OIG auditors determined that there was no benefit to BDA from DETR's Information and Data Processing Unit (IDP), as well as from DETR's Research and Analysis Unit (R&A), to justify charging BDA for indirect costs associated with these units. Little to no explanation was provided regarding the determining factors used by the auditors in making their recommendation to disallow these costs. It should be noted that BDA has only paid indirect cost charges in

June 16, 2011

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accordance with DETR's approved cost allocation plan (CAP), which is reviewed and approved by the Department of Labor every two years. This federally-approved plan has been in place with these same provisions to charge BDA these costs for many years.

With regard to the claim that there is no benefit to BDA from the IDP and R&A units and that no indirect costs should be charged to BDA on behalf of these units, the following support is provided to show these units do provide benefits to BDA:

IDP Benefits Provided to BDA

Even though it is true that BDA has dedicated IT staff, that dedicated staff does not perform every IT function independently of the IDP Unit. The IDP Unit provides support, maintenance, and management in the following areas, separate from, and in addition to, the services provided by the BDA IT staff:

- Maintenance /repair /modification of DETR Telecommunications
- Routers, switches, servers, and 133 phones
- Maintenance /repair /modification of DETR Network routers and switches for North and South locations
- Track and record the purchase of all state computer equipment, including printers
- Transfer of equipment between offices
- Disposal of obsolete /replaced equipment
- DETR accounting/bill paying computer system
- Maintenance /repair /modification of DETR HR recruitment computer system
- Maintenance /repair /modification of DETR network with associated updates as required
- Maintenance /repair /modification of DETR network copiers
- Nevada Employee Action and Timekeeping System (NEATS)
- Provide training

June 16, 2011

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- DETR NEATS help site for all DETR employees, including BDA employees
- Maintenance of NEATS accounts to accommodate time coding and processing
- Adminstrate and maintain three Outlook email addresses for BDA
- DETR IT help desk for all DETR employees, including BDA employees

This information shows that the IDP Unit provided and continues to provide critical services to BDA (separate and distinct from the BDA IT staff) in support of the IDP-related charges made. The statement made by the OIG auditors that any relative benefits received by BDA were “duplicative and minimal” is not an accurate representation of the situation and DETR **staff does not feel the audit request for a refund of \$278,661 is justified.**

IDP Indirect Discounted for BDA

Another factor is that DETR has already taken into account the fact that BDA has dedicated IT staff when charging indirect costs by making a further reduction in BDA’s allocation. The federally-approved CAP allocates indirect administrative charges across the agency by FTE count; however, because of BDA’s dedicated IT staff, DETR only uses twenty-five (25) percent of BDA’s FTEs in the calculation, which not only results in a lower allocation of costs to BDA, but also results in a higher allocation of IDP costs by percentage to the other benefitting programs within DETR.

R&A Benefits Provided to BDA

With regard to the OIG auditors’ assertion that the R&A Unit provides no benefit to BDA and that indirect costs were inappropriately charged, please consider the fact that R&A assists BDA in tracking, projecting and reporting unemployment rates and other economic indicators. The rise and fall of unemployment rates, etc. is a factor that directly impacts the number of disability applications that the Department receives and/or can anticipate to receive and has a major impact on BDA management’s planning /budgetary decision-making. With this information, BDA is better able to project future receipts and funding levels, which allow for the creation of spending plans and budgets. This also assists in planning increases and decreases in workload, which sometimes require that BDA ask for assistance from SSA in completing all applications in a timely manner. Without this information, BDA’s planning efforts would be negatively impacted and BDA would not be able to react quickly enough to provide services to disability applicants responsively.

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With respect to indirect costs, a portion of R&A's funding is received and processed according to the DETR federally-approved CAP. Please note that BDA's share of generally allocable R&A costs allocated through the CAP, represented only 1.8% of total R&A expenses in 2008. Though the benefit received from R&A may be difficult to measure, there are benefits being derived as noted above, hence, the Department feels that 1.8% of R&A's costs falls within the measure of reasonableness based on the utility of the information provided by R&A to all DETR agencies, including BDA. **DETR staff does not feel that the audit request for a refund of \$117,361 is justified.**

Prospective Adjustment and Technical Assistance with CAP Amendment

Since DETR has been operating under a federally-approved CAP for some time, without any indication from any federal partner that this cost structure was inappropriate, DETR respectfully requests that SSA re-consider the recommendation that DETR refund the indirect costs charged to BDA during the audited period based on the information provided. As always, DETR's BDA management remains open to any suggestions made by SSA staff that would help provide improvements, should they be deemed necessary. As such, DETR management respectfully requests technical assistance in updating the CAP narrative prior to its next scheduled submittal, which is due by December 31, 2011. If this was to occur, it is hoped that any proposed modifications made to IDP and R&A indirect rates /charges would then be adjusted progressively rather than retroactively.

DETR respectfully requests that SSA consider DETR's response in its final determination.

UNLIQUIDATED OBLIGATIONS

Recommendation

DETR staff need to monitor and adjust unliquidated obligations timely.

DETR's Response

This finding contends that DETR mis-calculated and mis-reported unliquidated obligations for 1) Medical Costs and for 2) Personnel, Indirect, and All Other Non-Personnel Costs.

Medical Costs

As instructed by SSA, DETR uses information from the VERSA system to calculate estimated medical costs for the SSA-4513 report; however, as previously mentioned, the actual expenditures are generally lower than the initial estimates based on a variety of reasons, such as

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clients not receiving anticipated services and/or for payment delays /modifications. DETR reported these estimated medical costs based on SSA recommended procedures.

However, with regard to the SSA policy of regularly reviewing unliquidated obligations in order to de-obligate funds, DETR BDA staff (as a way of decreasing the lag time variance) now review the situation on a daily basis and release funds that were previously obligated when it is determined that a client service will no longer be performed or has been decreased, etc. This practice should help increase the accuracy of VERSA's data when the 4513 reports are prepared; however, it will not completely eliminate discrepancies because there will always be a lag period between the time the obligation is originated versus the time when it is determined a change is necessary (ie, a service is no longer needed or some other change is required, etc). DETR BDA staff is open to any other suggestions that SSA staff might have relative to increasing the accuracy of DETR's projected obligations beyond this change.

Personnel, Indirect, and All Other Non-Personnel Costs

The State of Nevada's accounting system is not built to handle accrual accounting. It is DETR's understanding that Personnel costs should not be projected for a full 12 months, as reimbursement for Personnel costs cannot be assumed until the work to receive the reimbursement is performed, or rather, the personnel costs are earned. Additionally, personnel costs can vary greatly pay period to pay period. Using a budgeted cost based on FTEs to project personnel expenses is certainly possible, but this would always overstate the actual costs because of vacancies. Similar issues exist with Indirect and Other costs. DETR BDA staff would welcome any technical assistance from SSA to clarify which information should be used for this process.

INVENTORY CONTROLS

Recommendation

DETR needs to track SSA-purchased computer equipment with an inventory system that complies with SSA policies.

DETR's Response

DETR BDA management accept the finding and are taking steps to strengthen the inventory system. As noted by the auditor, the state of Nevada and its various departments are involved in an ongoing quality improvement process to make the statewide inventory system current,

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accurate, and uniform. DETR Financial Management staff are currently working with BDA staff in updating DETR BDA's inventory so that it matches /reconciles with the state's reported inventory.

However, with respect to ensuring that all BDA equipment reports a unit cost, this issue will require additional time /effort because cost information (available only to SSA) has not always been provided to DETR BDA staff. When SSA makes a bulk purchase of computer equipment and allocates a portion of that purchase to BDA, the equipment is not shipped with an invoice showing the per unit cost to SSA. In such cases, DETR staff have had little option but to bypass the unit cost and not include it in the inventory document. BDA staff have requested this cost information from SSA sources. However, it is possible that this information may not be provided in a timely manner, if at all. Nonetheless, DETR BDA staff (in conjunction with FM staff) are developing a process whereby these items are flagged and an explanation provided indicating why the unit cost is not available.

With this in mind, BDA management estimates that by September 30, 2011, all BDA inventory, including computers and computer-related equipment, should be recorded with a description of the item; identification or serial number; physical location; date purchased; source of funds, i.e., state or federal; and unit cost, when available. With respect to reconciling BDA's equipment inventory against the state's reported inventory records, DETR FM staff feel this effort will be done by June 30, 2011.

RISK OF UNAUTHORIZED ACCESS TO SENSITIVE INFORMATION

Recommendation

DETR needs to enforce its clean desk policy and keep all sensitive documents secure.

DETR's Response

DETR BDA management recognizes there are concerns with security over sensitive documents /information. However, security over this area is always given a high priority. BDA's office hours are from 6:00 A.M. to 5:30 P.M. when no overtime is authorized and from 6:00 A.M. to 6:30 P.M. when overtime is available. The security alarm system automatically arms at 7:45 P.M. nightly and remains armed until an authorized supervisor disarms it in the morning, thus preventing access to the premises by anyone during that time, including janitorial staff. The janitorial crews generally perform their work while BDA staff is present, but they may

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occasionally remain on site after office hours but before the alarm is activated. DETR BDA management believes that any potential risk that PPI (personally identifiable information) will be accessed by unauthorized persons is minimal. Nevertheless, the agency accepts the finding and is actively engaged in eliminating any such risk.

DETR BDA management is committed to protecting the claimants' PPI. To that end, management has re-emphasized the agency's clean desk policy, including the requirement to empty unsecured shredding bins into secure containers at the end of each work day. Supervisors have been tasked to enforce this policy and to take appropriate corrective action if there are violations.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Joseph Robleto, Audit Manager

Acknowledgments

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