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OFFICE OF THE AUDITOR GENERAL**

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**PERFORMANCE AUDIT REPORT ON THE
ADMINISTRATION OF THE DISABILITY PENSION
SCHEME, MINISTRY OF LABOR AND SOCIAL
WELFARE**

Prishtine, 24 June 2009

TRANSMITTAL LETTER

Date: 24/06/2009

Honoured, Minister of MLSW ,Nenad RASHIQ

I am pleased to introduce you to a new audit approach just recently put in practice by my office: Performance Audit. In carrying out a performance audit we examine the way in which an institution has used its resources in carrying out its duties. A performance audit focuses on a specific programme or function and seeks to determine the extent to which the programme objectives have been achieved (effectiveness) and whether this has been done economically and efficiently.

Please find attached my Final Performance Audit Report on the pension disability programme within the Ministry of Labour and Social Welfare covering the period from July 2007 until June 2008.

In accordance with legal requirements, this report will be published. In response I foresee a report from you within 30 days addressing the measures planned meeting the recommendations given in our report

I appreciate the cooperation and courtesies extended to my staff during the audit. The Office of the Auditor General looks forward to cooperate with you also in the future.

Cc:Permanent Secretary-Eshref SHABANI

Cc:Chairperson of Budget and Finance Committee Gani KOCI

Cc:Chairperson for Health, Work and Social Welfare Committee Sadik IDRIZ

Cc:Director of DPA- Basri IBRAHIMI

Yours Sincerely,

Lars Lage OLOFSSON

Auditor General

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LIST OF ABBREVIATIONS

AI	Administrative Instruction
DPA	Department of Pensions Administration
IT	Information Technology
OAG	Office of Auditor General
MLSW	Ministry of Labour and Social Welfare

I. Executive Summary

The Department of Pensions Administration, within the Ministry of Labour and Social welfare, is responsible for administering the disability pensions program. The Department processes applications from claimants, determines eligibility, and makes pensions payments. Since the disability program was introduced in November 2003, 27 500 citizens have received pension payment from it. In 2007 and in 2008 the number of new pensioners was 1792 and 1907 respectively.

The Office of the Auditor General (OAG) has conducted a performance audit of this program with the objective of determining whether it has been managed in an efficient and effective manner. The audit focused on three main issues:

- whether the criteria for determining eligibility to disability pensions are applied in a reliable and consistent manner;
- whether decisions on eligibility are made in a timely manner;
- whether disability pensions are paid in the correct amount from the due date.

The main findings from our audit, which have been discussed with Pensions Department management, are set out below:

- The average time taken to process an application for a disability pension is 149 days compared with the legal requirement of 90 days;
- The Pensions Department Administrative Instruction (15/2004) for the disability pensions program specifies an allowable time of 180 days for processing applications, which contravenes legislation on the time allowed;
- Pensions Department management does not have access to the information they need to monitor the processing of applications and ensure timely decision-making;
- There are insufficient controls over the input of data and output generated from the IT application that is used to determine eligibility to disability pensions;
- There is insufficient segregation of duties between the authorization and payment of pensions;
- Disability pensions are paid on time and in the correct amount;
- Pensions Department should identify the reason for delays in considering appeals and ensure that all applicants are formally notified of the outcome.

We recommend :

That the Minister of Labour and Social Welfare initiate a development project addressing the shortcomings indicated in our audit.

In doing this a general Risk and Materiality Analysis of the whole system to identify the most critical processes for mismanagement, irregularities and frauds should be made and documented. We recommend the minister to strengthen management control and ensure that the Pension Department:

1. Take action to streamline the processing of applications, and remove any 'bottlenecks' and inefficiencies in the system, to ensure that applications are, wherever possible, processed within 90 days.
2. Ensure that its internal instruction for the time permitted to process applications is in line with relevant legislation.
3. Identify, and make available, the information needed by management to oversee the processing of applications to ensure timely completion of the process.
4. Provide assurance for the accurate assessment of eligibility, Pensions Department management should introduce controls over the input and processing of data.
5. Ensure that there is proper segregation of duties between the authorization and payment functions.
6. Identify the reason for delays in considering appeals and ensure that all applicants are formally notified of the outcome of these.
7. Will annually make a Study - sampling some 100 recipients to check whether they are correctly assessed and processed by the Pensions Department for eligibility and that they are still alive.

II. Background

Law No.03/L-075, Article 3.4 provides for the Auditor General to conduct performance audit. In carrying out a performance audit, the Auditor General examines the way in which the Ministry has used its resources in carrying out its duties. A performance audit focuses on a specific program or function and seeks to determine the extent to which the program objectives have been achieved (effectiveness) and whether this has been done economically and efficiently.

The Department of Pension Administration, within the Ministry of Labour and Social Welfare, is responsible for managing all pensions programs within the Republic of Kosovo. Disability pensions are paid in accordance with Law No. 2003/23, promulgated with Regulation 2003/40, effective from 6 November 2003.

Persons are entitled to a disability pension if they are diagnosed medically as ‘disabled’, have permanent residency in Kosovo, and if they are between 18 and 65 years of age. The monthly pension is 40 euros, in line with the basic pension. Since November 2003 some 27,500 people have benefitted from the disability pensions scheme. In 2007 and in 2008 the number of new pensioners was respectively 1792 and 1907.

III. Study objective and main issues

The objective of the performance audit was to determine whether the Department’s arrangements for processing applications for disability pensions, and determining eligibility, ensure that those citizens entitled to a disability pension receive their pensions on a timely basis. Within this, we examined:

- whether the criteria for determining eligibility to disability pensions are applied in a reliable and consistent manner;
- whether decisions on eligibility are made in a timely manner;
- whether disability pensions are paid in the correct amount from the due date.

IV. Audit Scope

The scope of the study was limited to disability pensions applications made in two regional centres, Prishtin and Gjilan, in the 12 month period July 2007 to June 2008.

V. Methodology

The study methodology comprised a review of systems and controls, examining documents, testing a selection of small number of transactions, and interviews with relevant staff. The specific audit tasks carried out were:

- reviewing of existing laws and regulations to identify eligibility criteria and the timeframe allowed for processing applications;
- reviewing internal instructions and guidance issued to staff;

- assessment of the adequacy and effective operation of internal controls over the processing of applications;
- review of management reports produced by the Department to establish whether they contain sufficient information to enable management to identify delays in processing applications;
- testing a sample of 41 applications to determine if they were processed in a timely manner and whether the decision on eligibility (approval or disapproval) was correct;
- interviews with relevant officials in the Department and regional centres.

The limited number of samples used can be explained by the fact that this is the first time the office have carried out an audit with this approach. This also limits the possibilities to generalise our conclusions. But, at the same time our findings clearly indicates a number of shortcomings, important for the ministry to analyse more in depth.

VI. Findings

The average time taken to process an application is 149 days compared with the legal requirement of 90 days

- We sought to determine whether applications are processed within the time allowance of 90 days specified by the law (No. Law 2003/23). We interviewed the staff engaged in processing applications (about the procedures followed and the way applications progress through the various stages of the system) and reviewed a selection of 24 applications.
- From our review of processed applications, we found that the average time taken by the Department to process an application, from the submission of the application to notification of the decision, was 149 days – 59 days (65 per cent) longer than permitted.
- We looked at the time taken by applications to complete each stage of the process, from submission of application to notification of decision, and found that there was no one particular stage that contributed unduly to the overall delay – delays occurred at each stage.

Conclusion: Applicants for disability pensions are experiencing severe delays in receiving a decision on their application.

Recommendation no.1 Pensions Department should take action to streamline the processing of applications, and remove inefficiency in the system, to ensure that applications are, wherever possible, processed within 90 days.

The Pensions Department Administrative Instruction (15/2004) contravenes legislation on the time allowed to process an application

While investigating the reason for delays in processing applications, we established that the Department's Administrative Instruction (15/2004) allows for a period of six months (180 days) for processing applications. As such, the Department's internal instruction contravenes the law on the time allowed to process an application.

Conclusion: The Department's internal instruction provides for twice as much time to process an application than is provided for by the law.

Recommendation no.2 The Department should ensure that its internal instruction for the time permitted to process applications is in line with relevant legislation.

Pensions Department management does not have access to the information they need to monitor the processing of applications

- We sought to establish whether the Department's management has access to information on how long it takes to process applications and whether they investigate any delays. In this regard, we interviewed relevant officials and reviewed available reports.

- We found that the information contained in reports is not sufficient for management to identify any delays in the application process. Management receive monthly and annual reports from the 'registration section', 'decisions section' and 'payments section' setting out the total number of applications dealt with. This information does not include the amount of time an application takes to complete each stage.

Conclusion: Pensions Department management does not have the information needed to identify weaknesses in the system and to take corrective action.

Recommendation no.3 Pensions Department should identify, and make available, the information needed by management to oversee the processing of applications to ensure timely completion of the process.

Pension Department shall introduce in the register a possibility to see or study where in the process each application is presently. Key Performance Indicators on this aspect - timing - should be introduced and followed by management.

There are insufficient controls over the computerized determination of eligibility

- Once an application has been considered by the Medical Commission, relevant information and data is entered into a computerized application to determine eligibility to a disability pension. The computer program produces an overall score and this is used to determine eligibility.

- Given the significance of this application, it is important that controls exist over the input of data and over its processing. Input control should comprise an independent verification of all data input. Processing control should comprise management carrying out regular sample checks to verify that the application is producing the results that would be expected from the data input. Neither of these controls is in place.

Conclusion: There is a complete absence of control over the computerized assessment of eligibility.

Recommendation no.4 To provide assurance for the accurate assessment of eligibility, Pensions Department management should introduce controls over the input and processing of data.

There is insufficient segregation of duties between the authorization and payment of pensions

- We sought to establish whether there is adequate segregation of duties between officials involved in authorizing and calculating/paying payments. According to the internal instruction (AI13/2004), the authorization of payments should be carried out by the head of 'payments section' while the calculation and payment functions are carried out by the 'IT section'.

However, we found that both the authorization function and the payment function were being carried out by the 'IT section'.

Conclusion: The lack of proper segregation of duties increases the risk of unauthorized payments.

Recommendation no. 5 Pensions Department should ensure that there is proper segregation of duties between the authorization and payment functions.

Disability pensions are paid on time and in the correct amount

- From testing a selection of applications, we determined that pensions are paid in the correct amount of 40 euros per month and that payments are backdated to the date of application. Applications that were rejected did not result in payment.

Consideration of appeals by unsuccessful applicants takes too long

- We sought to determine whether appeals against decisions were considered on a timely basis – within 60 days as required by the law. We interviewed relevant officials and examined a selection of eight cases.

- We found that not all appeal decisions are notified to applicants within 60 days. In addition, the formal process of notifying an applicant about the outcome of an appeal, particularly if it is a refusal, is not always carried out.

Conclusion: The appeals process is subject to delays and not all applicants are formally notified of the outcome.

Recommendation no.6 Pensions Department should identify the reason for delays in considering appeals and ensure that all applicants are formally notified of the outcome.

General monitoring and follow-up

There is a general need of up-grading the Management's general monitoring and follow-up in a more systematic approach.

Recommendation no.7 Pensions Department should make an annual Study - sampling some 100 recipients to check whether they are correctly assessed and processed by the PD for eligibility and whether they are still alive.

Our overall conclusion and recommendation is:

That the Minister of Labour and Social Welfare initiate a development project addressing the shortcomings indicated in our audit. In doing this a general Risk and Materiality Analysis of the whole system to identify the most critical processes for mismanagement, irregularities and frauds should be made and documented