FISCAL YEAR 2013 MONITORING REPORT ON THE OKLAHOMA DEPARTMENT OF REHABILITATION SERVICES VOCATIONAL REHABILITATION PROGRAM

U.S. DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES
REHABILITATION SERVICES ADMINISTRATION

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SECTION 1: EXECUTIVE SUMMARY

Background

Section 107 of the Rehabilitation Act of 1973, as amended (Rehabilitation Act), requires the Commissioner of the Rehabilitation Services Administration (RSA) to conduct annual reviews and periodic on-site monitoring of programs authorized under Title I of the Rehabilitation Act to determine whether a state vocational rehabilitation (VR) agency is complying substantially with the provisions of its State Plan under section 101 of the Rehabilitation Act and with the evaluation standards and performance indicators established under Section 106. In addition, the commissioner must assess the degree to which VR agencies are complying with the assurances made in the State Plan Supplement for Supported Employment (SE) Services under Title VI, part B, of the Rehabilitation Act.

Through its monitoring of the VR and SE programs administered by the Oklahoma Department of Rehabilitation Services (ODRS) in federal fiscal year (FY) 2013, RSA:

- reviewed the VR agency's progress toward implementing recommendations and resolving findings identified during the prior monitoring cycle (FY 2003 through FY 2007);
- reviewed the VR agency's performance in assisting eligible individuals with disabilities to achieve high-quality employment outcomes;
- recommended strategies to improve performance and required corrective actions in response to compliance findings related to three focus areas, including:
  - organizational structure requirements of the designated state agency (DSA) and the designated state unit (DSU);
  - transition services and employment outcomes for youth with disabilities; and
  - the fiscal integrity of the VR program;
- identified emerging practices related to the three focus areas and other aspects of the VR agency's operations; and
- provided technical assistance to the VR agency to enable it to enhance its performance and to resolve findings of noncompliance.

The nature and scope of this review and the process by which RSA carried out its monitoring activities, including the conduct of an on-site visit from November 26, 2012 through November 30, 2012, is described in detail in the FY 2013 Monitoring and Technical Assistance Guide for the Vocational Rehabilitation Program.

Emerging Practices

Through the course of its review, RSA collaborated with ODRS, the State Rehabilitation Council (SRC), the Oklahoma Independent Board of Commissioners, the Technical Assistance and Continuing Education (TACE) center and other stakeholders to identify the emerging practices below implemented by the agency to improve the performance and administration of the VR program.

- **Human Resources Development:** ODRS operates a comprehensive 18-month staff development program for non-supervisors that promotes the development of consumer-centered problem solving and leadership skills.
- **Quality Assurance:** ODRS employs a successful Cold Case Unit designed to locate and reengage consumers who are classified as lost or inactive within its service delivery system.
- **Improvement of Employment Outcomes:** ODRS has a Benefits Planning Unit, employing Social Security Administration (SSA) certified planners that assisted an average of 127 VR consumers annually between FY 2010 and FY 2012 to make an informed decision to cease receiving SSA benefits as a result of securing and maintaining employment at the requisite level of substantial gainful activity (SGA).

A more complete description of these practices can be found in Section 3 of this report.

Summary of Compliance Findings

RSA's review resulted in the identification of compliance findings in the focus areas specified below. The complete findings and the corrective actions that ODRS must undertake to bring itself into compliance with pertinent legal requirements are contained in Section 6 of this report.

- ODRS lacks sufficient record-keeping and internal controls to ensure that personnel costs for VR staff working concurrently on another program, i.e., the Independent Living Older Individuals Who Are Blind Program, are properly assigned and traceable to both programs in accordance with federal regulations, and lacks sufficient record-keeping and internal controls to ensure that VR funds are used solely for the provision of VR services or for the administration of the VR program in compliance with federal statutes.
- ODRS lacks sufficient internal controls, including adequate contract language and monitoring procedures, to consistently ensure that VR funds are used properly and efficiently in compliance with federal statutes for only allowable VR expenditures, including specified and measurable contractual costs.
- ODRS did not meet federal regulations requiring recipients of federal funds to accurately report the financial results of all federally-assisted activities.

Development of the Technical Assistance Plan

RSA will collaborate closely with ODRS and the University of Arkansas Center for the Utilization of Rehabilitation Resources for Education, Networking, Training and Service (CURRENTS) to develop a plan to address the technical assistance needs identified by ODRS in Appendix A of this report. RSA, ODRS and CURRENTS will conduct a teleconference within 60 calendar days following the publication of this report to discuss the details of the technical assistance needs, identify and assign specific responsibilities for implementing technical assistance and establish initial timeframes for the provision of the assistance. RSA, ODRS and

CURRENTS will participate in teleconferences at least semi-annually to gauge progress and revise the plan as necessary.

Review Team Participants

Members of the RSA review team included David Steele (Fiscal Unit); Joe Doney (Technical Assistance Unit); Joan Ward (Data Collection and Analysis Unit); Pamela Hodge (Independent Living Unit); Sandy DeRobertis, Zera Hoosier and Ed West (Vocational Rehabilitation Unit). Although not all team members participated in the on-site visit, each contributed to the gathering and analysis of information, along with the development of this report.

Acknowledgements

RSA wishes to express appreciation to the representatives of ODRS for the cooperation and assistance extended throughout the monitoring process. RSA also appreciates the participation of the SRC, the Oklahoma Independent Board of Commissioners, the Client Assistance Program and advocates, and other stakeholders in the monitoring process.

SECTION 2: PERFORMANCE ANALYSIS

This analysis is based on a review of the programmatic and fiscal data contained in Tables 2.1 and 2.2 below and is intended to serve as a broad overview of the VR program administered by ODRS. It should not be construed as a definitive or exhaustive review of all available agency VR program data. As such, the analysis does not necessarily capture all possible programmatic or fiscal trends. In addition, the data in Table 2.1 measure performance based on individuals who exited the VR program during federal fiscal years 2007 through 2011. Consequently, the table and accompanying analysis do not provide information derived from ODRS open service records including that related to current applicants, individuals who have been determined eligible and those who are receiving services. ODRS may wish to conduct its own analysis, incorporating internal open caseload data, to substantiate or confirm any trends identified in the analysis.

Performance Analysis

VR Program Analysis

Table 2.1
ODRS Program Performance Data for FY 2007 through FY 2011

All Individual Cases Closed	Number, Percent, or Average	2007	2008	2009	2010	2011	Change from 2007 to 2011	Agency Type 2011
TOTAL CASES CLOSED	Number	8,050	5,486	6,465	6,353	9,523	1,473	273,950
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	18.3%	100.0%
Exited as an applicant	Number	1,101	749	749	1,222	1,658	557	45,694
	Percent	13.7%	13.7%	11.6%	19.2%	17.4%	50.6%	16.7%
Exited during or after trial work experience/extended evaluation	Number	7	10	17	15	17	10	1,910
	Percent	0.1%	0.2%	0.3%	0.2%	0.2%	142.9%	0.7%
TOTAL NOT DETERMINED ELIGIBLE	Number	1,108	759	766	1,237	1,675	567	47,604
	Percent	13.8%	13.8%	11.8%	19.5%	17.6%	51.2%	17.4%
Exited without employment after IPE, before services	Number	158	277	294	209	415	257	8,173
	Percent	2.0%	5.0%	4.5%	3.3%	4.4%	162.7%	3.0%
Exited from order of selection waiting list	Number	67	219	175	0	0	-67	2,978
	Percent	0.8%	4.0%	2.7%	0.0%	0.0%	-100.0%	1.1%
Exited without employment after eligibility, before IPE	Number	1,651	626	2,120	1,515	2,428	777	62,559

	Percent	20.5%	11.4%	32.8%	23.8%	25.5%	47.1%	22.8%
TOTAL EXITED AFTER ELIBIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	1,876	1,122	2,589	1,724	2,843	967	73,710
	Percent	23.3%	20.5%	40.0%	27.1%	29.9%	51.5%	26.9%
Exited with employment	Number	2,218	2,246	1,689	2,292	2,812	594	80,711
	Percent	27.6%	40.9%	26.1%	36.1%	29.5%	26.8%	29.5%
Exited without employment	Number	2,848	1,359	1,421	1,100	2,193	-655	71,925
	Percent	35.4%	24.8%	22.0%	17.3%	23.0%	-23.0%	26.3%
TOTAL RECEIVED SERVICES	Number	5,066	3,605	3,110	3,392	5,005	-61	152,636
	Percent	62.9%	65.7%	48.1%	53.4%	52.6%	-1.2%	55.7%
EMPLOYMENT RATE	Percent	43.78%	62.30%	54.31%	67.57%	56.18%	28.33%	52.88%
Transition age youth	Number	3,031	2,254	2,562	2,186	3,169	138	97,282
	Percent	37.7%	41.1%	39.6%	34.4%	33.3%	4.6%	35.5%
Transition aged youth employment outcomes	Number	825	978	789	847	950	125	29,062
	Percent	37.2%	43.5%	46.7%	37.0%	33.8%	15.2%	36.0%
Competitive employment outcomes	Number	2,086	2,080	1,521	2,091	2,583	497	76,087
	Percent	94.0%	92.6%	90.1%	91.2%	91.9%	23.8%	94.3%
Supported employment outcomes	Number	110	272	191	184	182	72	8,194
	Percent	5.0%	12.1%	11.3%	8.0%	6.5%	65.5%	10.2%
Average hourly wage for competitive employment outcomes	Average	$10.22	$10.85	$11.07	$10.80	$10.97	$0.75	$11.21
Average hours worked for competitive employment outcomes	Average	35.6	35.7	34.6	34.4	34.4	-1.2	31.4
Competitive employment outcomes at 35 or more hours per week	Number	1,501	1,511	1,006	1,370	1,675	174	39,622
	Percent	67.7%	67.3%	59.6%	59.8%	59.6%	11.6%	49.1%
Employment outcomes meeting SGA	Number	1,545	1,562	1,079	1,531	1,928	383	48,900
	Percent	69.7%	69.5%	63.9%	66.8%	68.6%	24.8%	60.6%
Employment outcomes with employer-provided medical insurance	Number	936	795	566	702	887	-49	19,640
	Percent	42.2%	35.4%	33.5%	30.6%	31.5%	-5.2%	24.3%

VR Performance Trends

Positive Trends

ODRS's VR program performance improved in a number of areas. The number of consumers who achieved employment increased by 594, or 26.8 percent, between FY 2007 and FY 2011, from 2,218 individuals to 2,812 individuals. Additionally, for the same period, the number of consumers who achieved supported employment (SE) increased by 65.5 percent. There were 110 individuals, or 5.0 percent, who achieved SE in FY 2007 compared to 182 individuals, or 6.5 percent, in FY 2011. ODRS also exhibited improvement in the quality of its outcomes. The number of individuals who achieved competitive employment increased by 23.8 percent between FY 2007 and FY 2011, from 2,086 individuals to 2,583 individuals. Likewise, the number of consumers who achieved competitive employment working at 35 or more hours per week increased by 11.6 percent between FY 2007 and FY 2011, from 1501 individuals to 1675 individuals. Performance in this area was 10.5 percentage points, or 21.4 percent, above the combined agency average of 49.1 percent in FY 2011 of individuals who achieved competitive employment working at 35 or more hours per week. Additionally, the number of individuals who achieved employment with earned wages equivalent to or greater than the level of SGA increased by 383, or 24.8 percent, between FY 2007 and FY 2011, from 1,545 to 1,928. Performance in this area was eight percentage points, or 13.2 percent, above the combined agency average of 60.6 percent for FY 2011. Finally, although there was a 5.2 percent decline between FY 2007 and FY 2011 in the number of individuals who achieved employment with employer-provided medical insurance, from 936 individuals in FY 2007 to 887 individuals in FY 2011, ODRS's percentage of 31.5 is 7.2 percentage points, or 29.6 percent, above the combined agency average of 24.3 percent for FY 2011.

Trends Indicating Potential Risk to the Performance of the VR Program

The total number of service records closed by ODRS increased by 1,473, or 18.3 percent, between FY 2007 and FY 2011, from 8,050 consumers to 9,253 consumers. Of these closures, those receiving services decreased by 10.3 percentage points between FY 2007 and FY 2011, from 5,066 individuals, or 62.9 percent, receiving services (out of a total of 8,050 closures), to 5055 individuals, or 52.6 percent, receiving services (out of a total of 9,523 closures). ODRS also incurred a 6.6 percentage point increase in the percentage of individuals exiting after eligibility but prior to receiving services, from 23.3 percent in FY 2007 to 29.9 percent in FY 2011. Likewise, the agency’s percentage of consumers exiting after eligibility in FY 2011, but prior to receiving VR services was three percentage points greater than the combined agency average of 26.9 percent. Additionally, although the percentage of applicants that ODRS determined to be ineligible in FY 2011, 17.6 percent, was consistent with the combined agency average of 17.4 percent, the number of individuals ODRS determined ineligible increased by 567, or 51.2 percent, between FY 2007 and 2011, from 1,108 individuals to 1,675 individuals. Finally, although ODRS’s employment rate increased by 23.79 percentage points, or 54.34 percent, between FY 2007 and FY 2010, from 48.78 percent to 67.57 percent, and, ODRS’s employment rate in FY 2011 of 56.18 percent was 3.3 percentage points, or 6.2 percent, higher than the combined agency average of 52.88, ODRS’s employment rate decreased by 11.4 percentage points, or 16.9 percent, between FY 2010 and FY 2011, from 67.57 to 56.18 percent.

As summarized above and further indicated by Table 2.1, ODRS experienced multiple upward and downward spikes in its reported programmatic data for the FY 2007 through FY 2011 review cycle. ODRS suggested that these fluctuations are attributable, in part, to extensive organizational management changes, large scale service-delivery efforts, implementation of a new case management system, and the effects of additional funding available through the

American Recovery and Reinvestment Act of 2009. Further reference to these changes and their reported impact on ODRS's performance is provided in Sections 3 and 4 below.

Fiscal Analysis

VR Fiscal Profile	Quarter	2008	2009	2010	2011	2012
Grant amount	4th	41,092,320	42,098,298	41,092,230	43,404,870	44,256,861
	Latest/ Final*	41,092,320	42,098,298	41,092,230	43,404,870	34,518,729
Total outlays	4th	29,484,192	20,504,553	20,693,609	30,756,954	33,822,477
	Latest/ Final*	52,213,915	53,492,159	41,092,230	32,549,806	8,267,246
Total unliquidated obligations	4th	0	0	0	0	0
	Latest/ Final*	0	0	0	0	0
Federal share of expenditures	4th	18,362,597	9,110,692	9,572,014	19,009,469	22,698,544
	Latest/ Final*	41,092,320	42,098,298	41,092,230	22,698,544	5,823,986
Federal share of unliquidated obligations	4th	0	0	0	0	0
	Latest/ Final*	0	0	0	0	0
Total federal share	4th	18,362,597	9,110,692	9,572,014	19,009,469	22,698,544
	Latest/ Final*	41,092,320	42,098,298	41,092,230	22,698,544	5,823,986
Recipient share of expenditures	4th	11,121,595	11,393,861	11,121,595	11,747,485	11,978,075
	Latest/ Final*	11,121,595	11,393,861	0	10,705,404	5,352,702
Recipient share of unliquidated obligations	4th	0	0	0	0	0
	Latest/ Final*	0	0	0	0	0
Agency actual match (total recipient share)	4th	11,121,595	11,393,861	11,121,595	11,747,485	11,978,075
	Latest/ Final*	11,121,595	11,393,861	0	10,705,404	5,352,702
Agency required match (total recipient share required)	4th	4,969,801	2,465,791	2,590,647	5,144,875	5,912,144
	Latest/ Final*	11,121,555	11,393,821	11,121,531	5,912,144	788,816
Over/under match (remaining recipient share)	4th	-6,151,794	-8,928,070	-8,530,948	-6,602,610	-6,065,931
	Latest/ Final*	-40	-40	11,121,531	-4,793,260	-4,563,886
MOE **	4th					
	Latest/ Final*		11,393,861		10,705,404	
Unobligated funds qualifying for carryover	4th	22,729,723	32,987,606	31,520,216	24,395,401	21,558,317
	Latest/ Final*	0	0	0	20,706,326	28,694,743

Total federal program income earned	4th	1,835,489	1,170,372	2,220,524	1,628,227	2,135,373
	Latest/ Final*	1,835,489	442,148	2,492,300	2,135,373	1,065,485
Total indirect costs	4th	1,319,702	1,127,954	1,450,412	2,502,871	2,211,656
	Latest/ Final*	2,531,134	2,989,972	2,880,113	2,211,656	7,579

Table 2.2
ODRS Fiscal Performance Data for FY 2008 through FY 2012

***Denotes Final or Latest SF-269 or SF-425 Submitted**
**** Based upon Final or Latest SF-269 or SF-425 Submitted**

RSA reviewed fiscal performance data from federal FY 2008 through federal FY 2012. Based on the data in the table above, the agency matched its grant award in each fiscal year reviewed except for FY 2010. The deficiency in match for FY 2010 was due to a reporting error (see additional details in Finding 3, Section 6 of this report). ODRS was able to carry over unexpended federal funds in FYs 2008 - 2012 for an additional federal fiscal year. The agency receives its match directly from state appropriations.

Issues were identified in relation to the accurate reporting of program income and indirect costs (see additional details in Finding 3 in Section 6 of this report).

SECTION 3: EMERGING PRACTICES

While conducting the monitoring of the VR program, the review team collaborated with ODRS, the SRC, the Oklahoma Independent Board of Commissioners, the TACE, and agency stakeholders to identify emerging practices in the following areas:

- strategic planning;
- program evaluation and quality assurance practices;
- financial management;
- human resource development;
- transition;
- the partnership between the VR agency and SRC;
- the improvement of employment outcomes, including supported employment and self-employment;
- VR agency organizational structure; and
- outreach to unserved and underserved individuals.

RSA considers emerging practices to be operational activities or initiatives that contribute to successful outcomes or enhance VR agency performance capabilities. Emerging practices are those that have been successfully implemented and demonstrate the potential for replication by other VR agencies. Typically, emerging practices have not been evaluated as rigorously as "promising," "effective," "evidence-based," or "best" practices, but still offer ideas that work in specific situations.

As a result of its monitoring activities, RSA identified the emerging practices below.

1. Human Resource Development – WINGS

ODRS, in partnership with the University of Arkansas CURRENTS, offers a human resource development program known as WINGS (Wicked Innovations Next Generation). This intensive 18-month classroom-style management training program encourages individuals currently not employed in a supervisory capacity to focus on “serving” consumers as their central work tenet while exploring the use of innovation as a methodology for changing existing practices or structures. The WINGS’ curriculum likewise promotes the development of creative problem-solving skills and leadership potential through hands-on team activities. Participants utilize self-assessment tools and 360-degree feedback to assist in creating their own personal leadership development plan. Sessions include activities to generate program improvement projects and training in team dynamics. In addition, participants identify their individual strengths as well as what they will contribute to team projects. Sessions incorporate servant leadership principles from “Seven Habits of Highly Effective People” (first published in 1989 by Steven R. Covey).

Of the 11 individuals enrolled in the initial class in FY 2011, 10 completed the program and 8 were promoted into management positions. There are 24 individuals enrolled in the current class, including four future VR leaders from the Arkansas Division of Services for the Blind.

The WINGS class commencing in FY 2013 will be open to partners from other rehabilitation agencies, including the American Indian Vocational Rehabilitation programs.

2. Quality Assurance – Cold Case Unit

The ODRS Cold Case Unit was created in 2010 to research inactive cases, contact lost consumers and re-engage them in the VR program. Division of Vocational Rehabilitation (DVR) and Division of Visual Service (DVS) counselors refer consumers classified as lost or inactive to ODRS's Cold Case Unit which is comprised of three people, two of which canvass the state, going door-to-door in the hope of reconnecting with consumers. Prior to dispersing these inactive cases to unit members, initial electronic searches (using public records and social media) are conducted.

ODRS's Cold Case team achieved 1,025 resolutions for the agency's consumers since 2010. Of these, 605 clients were successfully located and re-engaged with their VR counselor. Another 102 clients were successfully employed when located and were deemed successful closures. Likewise, as a direct result of reallocating previously designated funds to new clients, the unit significantly contributes to increasing the number of individuals served.

3. Improvement of Employment Outcomes – Benefits Planning Unit

ODRS implemented a statewide Benefits Planning Unit in FY 2010 comprised of a manager and six SSA-Certified Benefits Planners (CBPs). These specialists are required to actively visit all VR staff within their respective coverage areas as well as every Workforce Oklahoma office in hopes of maximizing potential referrals. After receiving the requisite documentation from SSA pursuant to signed consumer release forms for each VR applicant, and analyzing this information, CBPs prepare and discuss individualized benefits' reports. CBPs provide consumers referred by DVR and DVS counselors, as well as applicants referred by Workforce Oklahoma offices, with information regarding the importance of reaching SGA level employment, techniques for maximizing income, up-to-date information regarding SSA work incentives, and information regarding processes for retaining medical benefits while maximizing supports from other social services programs, i.e., Veterans Benefits and Oklahoma's Supplementary Nutrition Assistance Program.

The number of SSA beneficiaries that ODRS has successfully helped SSA to remove from its recipient list doubled annually since the agency implemented the Benefits Planning Unit – namely, from a yearly average between FY 2007 and FY 2009 of 63 successful employment outcomes obtained by SSA beneficiaries that met SGA requirements, to a yearly average of 127 successful closures between FY 2010 and FY 2012. Likewise, ODRS reports that several hundred SSA beneficiaries are helped each year to secure employment while continuing to maintain their benefits.

Cost reimbursement revenue generated by ODRS through SSA averaged $1,934,903 per year between FY 2010 and FY 2012. Accordingly, as the average salary and benefits package for ODRS' CBPs is approximately $40,000 per year, the Benefits Planning Unit is self-sustaining.

A complete description of the practices described above can be found on the RSA website.

SECTION 4: RESULTS OF PRIOR MONITORING ACTIVITIES

This section is designed to address ODRS's progress toward implementing RSA's VR and SE program recommendations from the prior monitoring review. ODRS's prior review was in FY 2008; the on-site portion of which occurred between May 19 and May 23 of 2008. ODRS reported throughout the course of the FY 2013 review that it is undergoing an agency-wide bottom-up redesign strategy of the entire VR and SE program, including the culture of the VR and Visual Services (VS) Divisions. Of its present day team of 11 senior administrators, only two of them were members of its management team during the FY 2008 review. Nine members of ODRS's current management team, including the Division Directors for VR and VS, were not on its management team prior to FY 2009, the midpoint of the current review cycle.

Though ODRS reports that it did not consider RSA's recommendations from the FY 2008 review in its ongoing redesign strategy, its management team reported both ongoing challenges and substantial progress with respect to performance issues that closely align with each of the program and fiscal observations identified in the monitoring report dated October 24, 2008. Accordingly, this section summarizes the extent to which ODRS's organizational redesign has addressed the overall performance concerns identified by the observations.

OBSERVATION UPDATES

Employment Outcomes: RSA recommended that ODRS develop and implement a strategic plan to increase the number of successful employment outcomes achieved, and to meet or exceed Indictor 1.2 (meeting or exceeding a 55.8 percent employment rate (the percentage of consumers with employment outcomes after services)).

Update: ODRS reported that its current mission statement places greater focus on helping consumers to obtain substantial gainful employment and further independence. Reflecting this emphasis, the annual number of employment outcomes achieved by ODRS increased by 594, or 26.78 percent, since FY 2007, the last year of the prior review cycle. Likewise, subsequent to five consecutive years of failing Indicator 1.2, ODRS has consistently passed Indicator 1.2 since FY 2007, including exceeding the combined agency average of 52.88 percent in FY 2011 by 3.3 percentage points (56.18 versus 52.88), or 6.24 percent.

Transition-Age Youth: RSA recommended that ODRS develop and implement a strategic plan to reverse a downward employment outcome trend.

Update: ODRS hired its first transition coordinator in FY 2009 and is working on a plan to update its SEA agreement. Agency staff and stakeholders consistently referenced a heightened statewide commitment to serving transition-age youth since the prior review, including serving students in custody of the Office of Juvenile Affairs taking part in three statewide training schools for youth classified as delinquent or youthful offenders. ODRS's total expenditures for transition-age youth increased from $4,177,899 in FY 2006 (the last year prior to the current review cycle) to $13,071,613 in FY 2011 (the last year of the current review cycle).

There has been an increase in the number of providers using work study with paid work assessments. Most of these are done in partnership with LEAs pursuant to an increase from 85 cooperative agreements in FY 2006, to 220 cooperative agreements in FY 2011. The number of work experience opportunities administered by LEAs with transition-age youth wage subsidies funded by the agency, likewise expanded during the current review cycle – namely, from 85 work experience opportunities in FY 2006 to 1860 in FY 2011.

ODRS does not offer specific transition services for out-of-school youth. Rather, individualized services are offered to out-of-school youth by VR counselors with general caseloads.

Order of Selection: RSA recommended evaluating ODRS's order of selection (OOS) plan, and developing strategies to effectively measure its capacity to serve all eligible consumers. Some or all categories were closed throughout the FY 2008 review cycle, and RSA observed substantial variability in the number of individuals on ODRS's wait list during that period.

Update: ODRS informed RSA that it evaluates the OOS on a regular basis and formally in an agency-wide management forum once per month, facilitated, in part, by ODRS's conversion since 2010 of approximately 99 percent of its active and closed cases into a paperless system which is accessible by a case management system which was implemented since the previous review. All expenditures and allocations are reportedly reviewed monthly. ODRS reported that it uses estimates of spending for current authorizations and projects case costs on a month to month basis. ODRS's model, as reported, projects numbers based on clinical, programmatic and fiscal decisions. Local program managers, using ODRS's case management system, are involved with this process for planning purposes. ODRS stated that this 'just in time' projection model using data and fiscal analysis has allowed for the movement of approximately 900 cases from the wait list into active case services. ODRS explained how the waiting list is being decreased due to this process and accurate projections have allowed them to serve more consumers over the course of time. Currently over 115,000 open and closed cases, including millions of accessible data points regarding consumers, vendors, services, case activities and expenditures, are searchable from kiosks in every field office.

ODRS kept all priority groups open during FY 2010 and FY 2011. The agency attributes this, in part, to new OOS projection strategies and funds received under the federal stimulus package.

Planning: RSA recommended in FY 2008 that ODRS develop and implement an integrated fiscal and program planning process which incorporates a heightened level of cross-division collaboration and increased use of data analysis.

Update: ODRS demonstrated during the FY 2013 monitoring review that it uses data-driven decision making for program and fiscal planning goals and objectives, including increasing the quality and quantity of services for consumers with most significant disabilities. ODRS reported that it utilizes systematic planning with many community groups, including engaging them in policy analysis. ODRS likewise reported that staff at all levels are involved with the planning processes through regular statewide meetings, frequent visits to local area offices for face to face discussions, focus groups and management's open door policies.

The agency and stakeholders reported that the number of community rehabilitation programs (CRPs) utilized has not significantly increased in the last few years though ODRS is actively pursuing outreach activities to engage more CRPs, including those operating in each of its border states. The agency has used several strategies to increase CRP involvement including implementing an outcome based payment structure, including a two-tiered system of payment through which service providers are paid substantially higher fees for serving consumers designated as more significantly disabled.

Communication: RSA recommended in FY 2008 that ODRS evaluate its communication systems and develop a communication plan, including training and policy development processes, pursuant to this analysis.

Update: RSA observed improvements in agency-wide communication and multiple communication initiatives during the current review. However, management, staff and stakeholders consistently referenced ongoing and persistent communication challenges.

The executive director reportedly visited all of ODRS's employees (approximately 1100) within his first year of employment to share his vision and gather input from the field. Likewise, since FY 2009, ODRS's management reported that it increased and redesigned all communications with agency staff, including increasing the frequency of newsletters to staff and initiating monthly agency update videos. ODRS's management, staff and stakeholders indicated that transparency is a major priority of the new administration, evidenced by regular independent audits and greatly increased involvement of the SRC. ODRS reduced its policy and procedure manual by more than one-third and trained its staff in the new policies and procedures. The agency redesigned staff training with an emphasis on training new leadership.

ODRS is reported to be one of two statewide VR agencies that adopted a servant leadership model. From this perspective, ODRS reported that management works to build a solid foundation or shared goals by listening deeply to understand the needs and concerns of others. The focus of servant leadership is on sharing information, building a common vision, self-management, high levels of interdependence, learning from mistakes, encouraging creative input from every team member, and questioning present assumptions and mental models.

In addition to encouraging attendance at national and regional professional development and leadership development conferences, ODRS recently developed a Program Manager Academy. It provides ongoing leadership activities for new hires through executive managers.

The agency created the Innovations Unit whose purpose is to encourage and support new program and operational ideas from staff at all levels. This is done without management approvals and encourages staff to think innovatively.

The agency incorporates grand rounds which is an agency-wide process of case reviews. Statewide teams review clinically difficult cases allowing for open consultation and resolution of problematic decisions. The agency stated that AIVRS programs are using this process as well.

Quality Assurance: RSA recommended in FY 2008 that ODRS expand its quality assurance (QA) processes with heightened input from the Agency's program and fiscal staff so as to promote ongoing qualitative improvements in program services and outcomes.

Update: ODRS reported that its QA processes were restructured since FY 2008 pursuant to an agency-wide study. Its report took 12 months to complete with input from all levels of staff. Subsequently, ODRS redesigned its case review process and incorporated a QA Unit to review all cases so as to ensure they meet federal standards and guidelines. Supported by a business intelligence system which was operationalized in 2009, managers access and analyze open and closed case records to facilitate program performance improvements, to identify trends and anomalies, and to assess the quality and cost-effectiveness of VR services. ODRS reported that best practices are stressed and that a reduction of fundamentally duplicated VR services resulted.

The Oklahoma SRC conducts customer satisfaction surveys and reports results back to ODRS. Customer satisfaction surveys are done on CRP involvement with consumer input. Customer satisfaction surveys are also completed by SE consumers to gauge SE performance as well. The agency stated its new leadership has input into the QA process. A Program Manager II (PM II) does statewide QA training to focus on increased case services and employment outcomes. This PM II works at individual unit levels to increase the quality of case-services. ODRS likewise operationalized an online QA training system in FY 2009.

Fiscal Policies: RSA recommended in FY 2008 that ODRS revise its fiscal unit operations' manual, and systematically review implemented policies to determine if they achieve their intended results.

Update: The agency reported throughout the current review that internal controls are used at all levels of fiscal management and that these controls have been consistently deployed since FY 2009. Self-monitoring is reported to be done via an internal measurement system that utilizes data and program info to make decisions. State and internal audits of the VR program are said to have resulted in no significant findings, and these State and internal audits are reported to have identified no issues pertaining to internal controls. However, pursuant to on-site review of the available fiscal documentation, ODRS was not able to demonstrate with a reasonable level of consistency that services were rendered per contract for specific VR purposes. Additional information regarding these and other ongoing fiscal compliance concerns are provided in Section 6, Finding 2, Internal Controls and Contract Monitoring.

ODRS likewise reported utilizing a minimalist approach to policy development and deployment. Though the agency reported that its fiscal policies have all been redesigned with an eye to internal controls, ODRS does not have sufficient fiscal controls to ensure that VR funds are used properly and efficiently and only for allowable VR expenditures. Additionally, ODRS has not monitored contract payments and payments to consumers to a level necessary to ensure the funds are spent solely for allowable VR expenditures. Further information regarding these ongoing fiscal policy concerns is provided in Section 6, Finding 2, Internal Controls and Contract Monitoring.

Case/Data Management and Report Functions: RSA recommended in FY 2008 that ODRS provide a heightened level staff training regarding its case management/database system.

Update: ODRS reported that it designed its process and procedures for staff development and training of those not present in FY 2008. Staff training is reported to incorporate all levels of staff. Online systems are present to deploy training, and to facilitate program management, planning and oversight of data pertaining to consumers, vendors, services, case activities and related expenses, including authorized expenditures and actual expenditures. Over 115,000 open and closed cases from FY 2002 to present are included within this agency-wide data system.

Access to Services in Rural Areas: RSA recommended in FY 2008 that ODRS consider partnerships to improve access to VR services in rural areas.

Update: Heightened quality and improved access to VR services in both rural and remote areas was consistently reported throughout the current review period by the SRC, VR counselors, CRPs, school personnel, tribal partners and other rural and remote stakeholders, despite repeated reference to ongoing infrastructure limitations which are endemic to rural and remote service delivery. The agency's case management system is capable of tracking eligible consumers co-served by both ODRS and AIVRS programs, and both agency staff and tribal partners spoke of an outstanding level of communication and partnership which improved exponentially since FY 2009. If consumers advise counselors they are being served by both programs, then that information is entered in the system. If this information is discovered later in the case development, it can be added. There is currently no process for cross checking between AIVRS programs and ODRS to ensure all co-served consumers are being tracked.

Carryover: RSA recommended in FY 2008 that ODRS reduce the agency's use of carryover funds for program and fiscal planning, develop fiscal resource management plans which take into consideration carryover funds when planning categories to be served under the OOS, and develop management plans which redirect VR funds to support the costs of currently needed VR services instead of using them for carryover activities.

Update: Monthly budgets have been strategically projected and used. Recent reports show that carryover is not an issue.

Checks and Balances: RSA recommended in FY 2008 that ODRS develop a check and balances system for the processing of purchased services.

Update: Agency executive level managers report that internal controls are high and consistently utilized. They likewise report that outside auditors were used to improve fiscal controls. However, pursuant to the current on-site review, ODRS was not able to demonstrate, with a reasonable level of consistency, that services were offered per contract for specific VR purposes. Additional information regarding this and other ongoing fiscal compliance concerns is provided in Section 6, Finding 2, Internal Controls and Contract Monitoring.

SECTION 5: FOCUS AREAS

A. Organizational Structure Requirements of the Designated State Agency (DSA) and Designated State Unit (DSU)

The purpose of this focus area was to assess the compliance of ODRS with the federal requirements related to its organization within Oklahoma government and the ability of the ODRS to perform its non-delegable functions, including the determination of eligibility, the provision of VR services, the development of VR service policies, and the expenditure of funds. Specifically, RSA engaged in a review of:

- the progress of ODRS toward the implementation of recommendations related to these requirements identified in prior monitoring reports (see Section 4 above);
- compliance with statutory and regulatory provisions governing the organization of the ODRS under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which ODRS exercises responsibility over the expenditure and allocation of VR program funds, including procurement processes related to the development of contracts and agreements;
- procedures and practices related to the management of personnel, including the hiring, supervision and evaluation of staff; and
- the manner in which ODRS participates in the state's workforce investment system.

In the course of implementing this focus area, RSA consulted with the following agency staff and stakeholders:

- ODRS director and chief of staff;
- ODVR and ODVS administrators;
- ODRS staff members responsible for the fiscal management of the VR program;
- Oklahoma SRC Chairperson and executive committee;
- Members of the Independent Commission;
- Client Assistance Program staff members; and
- TACE center representatives.

In support of this focus area, RSA reviewed the following documents:

- diagrams, organizational charts and other supporting documentation illustrating the DSU's position in relation to the DSA, its relationship and position to other agencies that fall under the DSA, and the direction of supervisory reporting between agencies;
- diagrams, tables, charts and supporting documentation identifying all programs from all funding sources that fall under the administrative purview of the DSU, illustrating the number of full-time equivalent (FTE) staff working on each program;

- the number of full-time employees (FTEs) in each program, identifying the specific programs on which they work and the individuals to whom they report, specifically including:
    - individuals who spend 100 percent of their time working on the rehabilitation work of ODRS;
    - individuals who work on rehabilitation work of the ODRS and one or more additional programs/cost objectives (e.g., one-stop career centers); and
    - individuals under ODRS that do not work on VR or other rehabilitation within the DSU.
- sample memoranda of understanding (MOUs) and/or cost allocation plans with one-stop career centers; and
- documents describing Oklahoma procurement requirements and processes.

Overview

ODRS is the designated state agency and an independent department within the Oklahoma state government. ODRS consists of five program divisions: Vocational Rehabilitation, Visual Services, Disability Determination, Oklahoma School for the Blind, and Oklahoma School for the Deaf. ODRS is supported by two administrative divisions: one Management Services Division comprised of Central/Departmental Services, the Human Resources Unit, the Payroll and Retirement Office, Information Services, Policy Development and Program Standards; and one Financial Services Administration Unit comprised of Federal Accounting and Reporting and Financial Operations.

The Oklahoma Commission for Rehabilitation Services oversees ODRS. The commission consists of three members: one member appointed by the President Pro Tempore of the Oklahoma State Senate; one member appointed by the Speaker of the Oklahoma House of Representatives; and one member to be appointed by the Governor. Members serve three years and have legal authority and responsibility to govern the Department of Rehabilitation Services; appoint and remove the Director of the Department of Rehabilitation Services; approve programs, policy and budgets; and perform the necessary functions of a governing board. ODRS Executive Director of Rehabilitation Services is the board-appointed state director and is responsible for the supervision, management, maintenance, and improvement of the department.

The ODRS Vocational Rehabilitation Service program is the largest ODRS program with 347 employees, 313 (90.2 percent) of who spend 100 percent of their time in the VR program. ODRS operates 38 statewide offices that provide vocational assessments, counseling, job training, assistive technology, orientation and mobility training, and job-placement assistance to adults and transition-age youth.

The ODRS Visual Service program is comprised of seven field offices, the Business Enterprise Program and the Oklahoma Library for the Blind and Physically Handicapped. Specialty services help individuals with visual and hearing impairments obtain a high school education through the Oklahoma School for the Blind and the Oklahoma School for the Deaf.

B. Transition Services and Employment Outcomes for Youth with Disabilities

The purpose of this focus area was to assess ODRS's performance related to the provision of transition services to, and the employment outcomes achieved by, youth with disabilities and to determine compliance with pertinent federal statutory and regulatory requirements.

> Section 7(37) of the Rehabilitation Act defines "transition services" as a coordinated set of activities for a student, designed within an outcome-oriented process, that promotes movement from school to post-school activities, including post-secondary education, vocational training, integrated employment (including supported employment), continuing and adult education, adult services, independent living, or community participation. The coordinated set of activities shall be based upon the individual student's needs, taking into account the student's preferences and interests, and shall include instruction, community experiences, the development of employment and other post-school adult living objectives, and when appropriate, acquisition of daily living skills and functional vocational evaluation.

In the course of implementing this focus area, RSA identified and assessed the variety of transition services provided in the state, including community-based work experiences and other in-school activities, and post-secondary education and training, as well as the strategies used to provide these services. RSA utilized five-year trend data to assess the degree to which youth with disabilities achieved quality employment with competitive wages. In addition, RSA gathered information related to the coordination of state and local resources through required agreements developed pursuant to the Individuals with Disabilities Education Improvement Act of 2004 (IDEA) and the Rehabilitation Act, and communities of practice. RSA also gathered information regarding emerging practices initiated by the VR agency in the area of services to youth with disabilities, as well as technical assistance and continuing education needs of VR agency staff.

To implement this focus area, RSA reviewed:

- the progress toward the implementation of the summarized organizational redesign strategies identified by ODRS related to the provision of transition services identified in the prior monitoring report from FY 2008 (see Section 4 above);
- formal interagency agreements between the VR agency and the state educational agency (SEA);
- transition-related VR service policies and procedures;
- VR agency resources and collaborative efforts with other federal, state and local entities;
- other cooperative agreements;
- sample agreements between the VR agency and local education agencies (LEA), if applicable; and
- samples of other cooperative agreements.

To assess the performance related to the provision of transition services and the outcomes achieved by youth with disabilities, RSA reviewed ODRS relevant data from FY 2007 through FY 2011, describing:

- the number and percentage of youth with disabilities who exited the VR program at various stages of the process;
- the amount of time spent in key phases of the VR process, including eligibility determination, development of the individualized plan for employment (IPE) and the achievement of a vocational goal;
- the number and percentage of youth with disabilities receiving various VR services, including, among others, assessment, university and vocational training, transportation, rehabilitation technology and job placement; and
- the quantity, quality and types of employment outcomes achieved by youth with disabilities.

To provide context for the agency's performance in the area of transition, RSA also compared the performance of ODRS with the national average of all combined agencies as appropriate.

As part of its review activities, RSA met with the following DSA and DSU staff and stakeholders to discuss the provision of services to youth with disabilities:

- ODRS executive director and chief of staff;
- ODVR and ODVS administrators;
- ODVR data management staff;
- VR and VS counselors and transition staff;
- ODRS transition coordinator serving as the liaison with the SEA and other agencies;
- state and local school personnel, including special education teachers and guidance counselors;
- ODRS benefits planners;
- ODRS Cold Case Unit staff;
- ODRS Innovation Unit staff;
- SRC Chairperson and executive committee
- SRC transition committee;
- members of the Oklahoma Independent Board of Commissioners;
- One Stop Workforce Center managers;
- Oklahoma Commission on Children and Youth representative for delinquents or youthful offenders in the custody of the Office of Juvenile Affairs attending training schools;
- Department of Commerce One Stop representatives associated with Work Keys;
- AIVRS representatives; and
- TACE representatives.

RSA's review of transition services and employment outcomes achieved by youth with disabilities did not result in the identification of observations and recommendations.

Technical Assistance

During the course of monitoring activities, the RSA review team provided technical assistance (TA) to ODRS in the area of transition services and employment outcomes for youth with disabilities under its Tech-Now contract.

Section 103 (b) of the Rehabilitation Act and its implementing regulations at 34 CFR 361.49 allow for the provision of VR services for the benefit of groups of individuals with disabilities. During the course of monitoring activities, RSA provided TA to ODRS regarding the prevailing statutory authority to provide services to groups through local community rehabilitation providers (CRPs), i.e., Tech-Now, Inc. Tech-Now is reported to provide substantial consultation and TA to public school teachers and other school personnel whom offer credit-bearing classes for students with disabilities statewide. With regards to the Tech-Now contract, ODRS referenced 34 CFR 361.49(a)(6) as the prevailing federal authority. 361.49(a)(6) authorizes other VR services for VR applicants or eligible consumers that promise to contribute substantially to the rehabilitation of a group of individuals but that are not related directly to the individualized plan for employment of any one individual. This regulatory provision is not applicable because ODRS reports that students participating in these classes are not required to be VR applicants or eligible consumers, though the agency reports that most participants are VR applicants or eligible consumers.

RSA also provided substantial TA regarding defining allowable expenses within ODRS's Tech-Now contract, and defining the scope of services being provided in relation to its line item budget. Details regarding fiscal compliance concerns associated with the Tech-Now contract are provided in Section 6 below. See Subpart A.2 (Contract Language – Defining Allowable Costs) of Finding 2 (Internal Controls and Contract Monitoring) regarding the failure of the Tech-Now contract to satisfactorily identify the scope of services provided in relation to its line item budget.

Section 103 (b)(6) of the Rehabilitation Act and its implementing regulation at 34 CFR 361.49(a)(7) allow for the provision of services for the benefit of groups of individuals with disabilities within the scope of transition-related consultative and TA services to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including employment. This statutory and regulatory provision authorizes ODRS to use Title 1 VR funds for the provision of services for the benefit of groups of individuals with disabilities within the scope of transition-related consultative and TA services to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including employment.

- 34 CFR 361.49(a)(7) authorizes the VR agency to provide only consultation and TA services to assist educational agencies in planning for the transition of students with disabilities. It does not allow for the provision of transition services directly to students with disabilities.
- This regulatory provision, as stated above, permits ODRS to provide consultation and TA services to assist educational agencies – not CRPs and other entities.

- This statutory and regulatory provision allows ODRS to contract with CRPs, like Tech-Now, to provide consultative and TA services to educational agencies, including public schools, on behalf of ODRS.

RSA provided clarification for ODRS regarding the proper authority under which its Tech-Now contract would be allowable and compliant with federal requirements.

C. Fiscal Integrity of the Vocational Rehabilitation Program

For purposes of the VR program, fiscal integrity is broadly defined as the proper and legal management of VR program funds to ensure that VR agencies effectively and efficiently manage funds to maximize employment outcomes for individuals with disabilities. Through the implementation of this focus area, RSA assessed the fiscal performance of the VR and SE programs and compliance with pertinent federal statutory and regulatory requirements, including cost principles, governing three components of review: financial resources, match and maintenance of effort (MOE), and internal controls.

RSA used a variety of resources and documents in the course of this monitoring, including data maintained on RSA's MIS generated from reports submitted by the VR agency, e.g., Financial Status Report (SF-269/SF-425) and the Annual VR Program/Cost Report (RSA-2). The review covered fiscal data from FY 2007 thru FY 2011, along with other fiscal reports as necessary, to identify areas for improvement and potential areas of noncompliance.

Where applicable, RSA engaged in the review of the following to ensure compliance with federal requirements:

- the federal FY 2008 monitoring report issued pursuant to Section 107 of the Rehabilitation Act (see Section 4 above for a report of the agency's progress toward implementation of recommendations and resolution of findings);
- A-133 audit findings and corrective actions;
- state/agency allotment/budget documents and annual federal fiscal reports;
- grant award, match, MOE, and program income documentation;
- agency policies, procedures, and forms (e.g., monitoring, personnel certifications, procurement and personnel activity reports), as needed;
- documentation of expenditures including contracts, purchase orders and invoices;
- if appropriate, third-party cooperative arrangements;
- internal agency fiscal reports and other fiscal supporting documentation, as needed; and
- VR agency cost benefit analysis reports.

RSA's review of the fiscal integrity of the VR Program administered by ODRS did not result in the identification of observations and recommendations.

Technical Assistance

Supporting Documentation: RSA provided TA to ODRS related to the maintenance of supporting documentation for payments to consumers and financial reporting.

SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS

RSA identified the following compliance findings and corrective actions that ODRS is required to undertake. Appendix A of this report indicates whether or not the agency requests technical assistance to enable it to carry out the corrective actions. The full text of the legal requirements pertaining to each finding is contained in Appendix B.

ODRS must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed and submitted online using the RSA Website within 45 days from the issuance of this report and RSA is available to provide technical assistance to enable ODRS to develop the plan and undertake the corrective actions.

RSA reserves the right to pursue enforcement action related to these findings as it deems appropriate, including the recovery of funds, pursuant to 34 CFR 80.43 and 34 CFR Part 81 of the Education Department General Administrative Regulations (EDGAR).

1. Assigning Personnel Costs

Legal Requirements:

Rehabilitation Act - Section 111(a)(1)
VR Program Regulations - 34 CFR 361.3, 361.5(b)(2) and 361.12
EDGAR - 34 CFR 80.20(a)
Cost Principles - 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5

Finding:

ODRS is not in compliance with Section 111(a)(1) of the Rehabilitation Act and federal regulations at 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a) that require VR funds to be used solely for the provision of VR services or for the administration of the VR program, that state agencies are responsible for financial accountability, and that procedures must be in place to ensure expenditures are traceable and compliant with federal statutes.

ODRS has staff assigned to work 50 percent of their time on the Independent Living Older Individuals Who Are Blind Program and 50 percent on the Vocational Rehabilitation Program. The personnel costs associated with these positions were charged to each program according to the 50 percent split. Staff was required to complete Personnel Activity Reports (PARs) that accounted for the time spent on each program. A review the PARs demonstrated staff was not working 50 percent of their time on each program. This resulted in personnel expenses being charged to the programs that were not directly associated with time worked on the programs. Additionally, the sum of time reported on the PARs did not equal the total hours for which the employees were paid for the pay period. PARs must account for the total amount of time an employee worked and was paid for in accordance with 2 CFR 225, Appendix B.

To constitute an administrative cost under the VR program, expenditures must be incurred in the performance of administrative functions of the VR program (34 CFR 361.5(b)(2)). Administrative salaries, including VR counselors, constitute a VR-related administrative cost (34 CFR 361.5(b)(2)(xi)). Personnel costs related to other programs do not constitute VR administrative costs because they do not arise from the performance of administrative functions for the VR program. Therefore, personnel expenditures for staff working on non-VR programs are not allowable under the VR program, pursuant to 34 CFR 361.3, and may not be paid for with VR funds.

To the extent ODRS has staff that work on multiple programs, ODRS must use and maintain accurate PARs to account for the time staff work on each program pursuant to 2 CFR 225, Appendix B, paragraph 8. The practice of assigning personnel costs to programs ODRS administers based upon pre-determined levels and not an after-the-fact distribution of the actual activity of each employee is not in accordance with the cost principles outlined in 2 CFR 225, 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a).   Furthermore, ODRS has not complied with 34 CFR 361.12 and 34 CFR 80.20, which requires the proper and efficient administration of the VR program, which ensures proper accounting of expenditures and record-keeping. By using VR funds to pay for costs that should have been borne by non-VR programs, ODRS has not ensured proper administration and fiscal accountability under the VR program.

Corrective Action 1: ODRS must:

1.1 cease using Title I funds for personnel costs that are incurred in the administration of other programs; and
1.2 submit a plan, including timelines, describing the corrective actions that will be taken, as required by 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5, to ensure:
    a) PARs are maintained to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and
    b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by ODRS pursuant to federal program requirements.

2. Internal Controls and Contract Monitoring

Legal Requirements:

Rehabilitation Act - Sections 101(a)(10) and 111(a)(1)
VR Program Regulations - 34 CFR 361.3, 34 CFR 361.12 and 34 CFR 361.40(a)
EDGAR - 34 CFR 80.20(a)

Finding:

ODRS is not in compliance with Section 111(a)(1) of the Rehabilitation Act and regulations at 34 CFR 361.12, 34 CFR 80.20(a), and 34 CFR 361.3, because ODRS does not have sufficient fiscal controls to ensure that VR funds were used properly and efficiently and only for allowable VR expenditures. Additionally, ODRS has not monitored contract payments and payments to consumers to a level necessary to ensure the funds are spent solely for allowable VR expenditures as required by 34 CFR 361.40(a), 34 CFR 361.12 and 34 CFR 80.20(a).

As a recipient of VR funds, ODRS is required to:

- administer the program properly and efficiently (34 CFR 361.12);
- ensure that VR funds are properly accounted for and that accurate data are collected and reported (34 CFR 80.20(a));
- ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (34 CFR 361.3); and
- monitor and manage the day-to-day operations of all grant-supported activities (34 CFR 361.40(a).

Federal regulations require ODRS to have methods of administration to ensure financial accountability for the efficient administration of the State Plan and VR program and to ensure accurate accounting of allowable expenditures for the VR program.

A. Contract Language – Defining Allowable Costs - The contract language for several ODRS contracts did not clearly identify the scope of services being provided in relation to the line item budget. For example:

    1. The Project Search contract with the National Center for Disability Education and Training contains budgeted line items for:
        a. Professional Staff ($22,168) and Classified Staff ($2,806) - The contract does not state the number of staff providing services under the contract or their qualifications, nor whether the payment is based upon a percentage of the annual salary or an hourly rate. The contract does not clarify whether the fringe benefit costs ($10,913) are based upon a percentage of the total salary or if they are paid against hours worked on the program.
        b. Contractual expenses ($3,000) – The contract does not mention subcontracting or specify what allowable subcontracted services the $3,000 would cover.
        c. Communication ($1,200) – The contract does not specify if this cost is to be billed based upon usage or a fixed monthly rate. The contract does not specify what communication expenses are allowable (e.g., cell phones, land line charges, etc.).

    2. The 2011 contract with Tech-Now had similar issues related to allowable expenses not being clearly defined within the budget categories or contract language.
        a. Referral and Processing of Applications/Stipends for Teachers ($9,000) – The contract did not specify what these expenses were for and the amount of stipend paid to individuals.

b. Staff Trainings ($6,163) – The contract states these funds are for the provision of four trainings; however, it is not clear whether the funds are paying for staff time, meeting space, etc.

Several contracts contained budgeted categories for training, meeting or conference expenses, without specific contract language identifying what were allowable expenses under the budgeted category. For example, the contract with the National Center for Disability Education and Training included the budget category Event Expense at a cost of $11,100. Additionally, the contract to support the Oklahoma Rehabilitation Council included a budgeted line item of $2,000 for food supplies. ODRS is responsible for following all applicable statutory and regulatory requirements in determining whether costs are reasonable and necessary, especially the Cost Principles for Federal grants set out at 2 CFR Part 225. Enclosure 7, Memorandum to Ed Grantees Regarding the Use of Grant Funds for Conferences and Meetings, was issued with the FY 2013 Grant Award Notifications. Enclosure 7 was a reminder to agencies to take into account all applicable statutory and regulatory requirements in determining whether costs for conferences and meetings are reasonable and necessary.

ODRS must ensure that contracts clearly define what are allowable VR expenses in order to ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (34 CFR 361.3).

B. Direct Payments to VR Consumers – While on-site, RSA reviewed ODRS’s practice of providing payment of funds directly to consumers. As part of that review, RSA noted that ODRS does not maintain receipts or other supporting documentation as evidence that consumers used the payments for appropriate VR expenditures. For example, ODRS expends over two million dollars per year on maintenance expenses. These expenditures include college tuition, books, clothes, travel, rent, etc. ODRS pays these funds directly to the consumers but does not require the consumers to submit receipts or other documentation (e.g., mileage logs, rent receipts, etc.) to support the funds were used for authorized purposes. ODRS does not have established processes that specify requirements for maintaining or monitoring receipts related to these expenditures. ODRS has consumers sign a statement agreeing to use funds paid to them directly for allowable purposes. However, this is not sufficient to serve as supporting documentation verifying that funds were not used for unallowable purposes. Additionally, the Quality Assurance VR/VS Case Record Review Instrument does not include a review supporting documentation related to payments to consumers.

By not conducting monitoring of these payments, as required by 34 CFR 80.40(a), or obtaining documentation to verify that VR funds were used solely for allowable purposes, ODRS cannot ensure that the VR program is administered properly and efficiently and that funds are spent solely on allowable expenditures, as required by 34 CFR 361.12 and 34 CFR 80.20(a).

C. Contract Monitoring - ODRS's existing monitoring processes do not cover all contracts and ensure compliance with contract requirements. For example:

1. The ABLE Tech contract contained requirements for the contractor to contribute a percentage of in-kind costs to the project (Projector Director 5 percent, Project Manager 10 percent, AT Specialist 20 percent). Additionally, fringe benefits for these positions were also listed as in-kind. The in-kind costs required under the contract were not tracked or reported to the agency. Since they are a contract requirement, ODRS must ensure that all the contract requirements are met. Therefore, these costs must be tracked and monitored. Additionally, there was no mention in the contract of what steps would be taken if the contractor failed to meet the in-kind requirement.

2. Contracts with Native American Tribes included budgeted amounts for indirect costs paid against fringe benefits based upon the amount of the tribe's approved indirect cost rate agreement. However, the approved indirect cost rate agreement specifically states that indirect costs are not to be charged against fringe benefits. Additionally, the quality assurance section of the contract states that "The contractor will be required to complete, maintain and submit all documentation required by the DRS…The documentation will contain… detailed budget expenditures with supporting receipts/statements submitted on a quarterly basis." A review of invoices and supporting documentation found that the tribe's submitted quarterly invoices with budget totals. However, there were no supporting receipts or documentation.

   Similarly, the contract with the Seretean Wellness Center at Oklahoma State University for the provision of staff support services for the Oklahoma Rehabilitation Council also had a requirement that "claims must indicate the specific line items being charged and supporting documentation (i.e. invoices, receipts, time sheets) must be attached." However, the invoices reviewed did not contain the supporting documentation.

3. Currently, ODRS does not have a model in place to audit the Transition School Work Study contracts. However, it is in the process of developing a tool/process in collaboration with contractors and staff.

ODRS approved most contract payments based upon invoices that did not provide supporting documentation necessary to ensure the costs being charged were allowable VR expenditures. Additionally, the agency's monitoring does include a detailed review of the contractor's receipts and expenditures necessary to ensure the costs were allowable costs to the VR program. Contract monitoring is limited to progress reports received from the contractors that do not ensure funds were used for allowable VR purposes.

While program monitors sign a work plan statement that they assume responsibility for all programmatic and fiscal monitoring of the contracts assigned to them, the primary focus is on programmatic monitoring and there is no indication that a review of contractor's supporting fiscal documentation is completed to ensure applicability and allowability of costs.

By not monitoring supporting documentation, ODRS has not complied with 34 CFR 80.40(a). Therefore, ODRS cannot ensure that VR funds are expended and accounted for properly, as required by 34 CFR 361.12, and 34 CFR 80.20(a).

Corrective Action 2: ODRS must:

2.1 Develop and implement processes to ensure that:

- verifiable supporting documentation is available for VR contract expenditures;
- VR funds are used properly and efficiently and only for allowable VR expenditures;
- fiscal controls enable ODRS to expend and account for funds to such a degree that it can trace the funds for each activity to ensure the funds were expended in accordance with federal requirements; and
- contract language identifies the allowable expenses per the budget categories and that contracts are monitored to ensure compliance with contract requirements and allowability of costs per 34 CFR 361.40(a).

3. Accurate Financial Reporting

Legal Requirements:

Rehabilitation Act - Section 108
VR Program Regulations - 34 CFR 361.12 and 361.63(c)(2)
EDGAR - 34 CFR 80.20(a), 80.25 and 80.40(a)

Finding:

ODRS is not in compliance with 34 CFR 361.12 and 34 CFR 80.20(a), which require the recipients of federal funds to accurately report the financial results of all federally-assisted activities. VR grantees are required to submit accurate SF-269/SF-425 Federal Financial Reports. As part of the monitoring process, RSA staff compared the financial data provided by ODRS with the information entered into the RSA-MIS by ODRS staff. The following issues were noted:

A. ODRS's FY 2010 fourth quarter report indicates the agency spent $11,121,595 in non-federal share for the VR program. However, the final SF-425 report for FY 2010 incorrectly indicates that the agency expended no state funds for the VR program for FY 2010.

B. Program income discrepancies include:
   1. For FY 2009, the amount of program income received decreased from $1,170,372 in the fourth quarter to $442,148 in the final SF-269 report;
   2. For FY 2010, the amount of program income received increased from $2,220,524 in the fourth quarter to $2,492,300 in the final SF-425 report; and

3. For FY 2011, the amount of program income received increased from $1,628,227 in the fourth quarter to $2,135,373 in the latest/final SF-425.

Program income is considered earned in the fiscal year in which the funds are actually received by the grantee (34 CFR 361.63; 34 CFR 80.25). Therefore, the amount of program income reported should not change after the grantee submits its fourth quarter (September 30th) report for any fiscal year.

C. The amount of indirect costs reported on the FY 2011 fourth quarter report was $2,502,871. The amount paid as of the latest/final FY 2011 SF-425 was $2,211,656. Since the SF-425 report is cumulative and the amount of indirect costs paid is based upon actual expenditures, the amount of indirect costs paid would not decrease after the fourth quarter.

Corrective Action 3: ODRS must:

3.1 correct the amount of non-federal share provided that was reported by the agency in its' final FY 2010 SF-425 report. This information is necessary for RSA to determine whether the agency met its match and Maintenance of Effort requirements for FY 2010; and

3.2 develop and implement processes necessary to ensure the accurate completion and verification of financial reports.

Appendix A: Agency Response

Section 6: Compliance Findings and Corrective Actions

1. Assigning Personnel Costs

Corrective Action 1: ODRS must:

1.1 cease using Title I funds for personnel costs that are incurred in the administration of other programs; and

1.2 submit a plan, including timelines, describing the corrective actions that will be taken, as required by 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5, to ensure:

a) PARs are maintained to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and

b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by ODRS pursuant to federal program requirements.

Agency Response:

ODRS does not concur wholly with the finding. ODRS maintains monthly certifications for each employee whose caseloads are split between Title I and Title VII cases. ODRS distributes Title One workloads and Older Blind workloads based upon a half time ratio in order to comply with the certification attestation. Furthermore, the monthly certifications were in place during the FY-2008 Monitoring Review by RSA and no exceptions to the process were noted. ODRS has taken action to support the Personnel Activity Report with the following plan drafted for consideration:

- Beginning FY 2013, all staff sharing time with the Older Blind program and the 110 Title I program will complete a record of time that corresponds to the service activity and to the funding source.
- The record of time will follow the standards set forth in CFR 225, paragraphs 8.h.4 and 8.h.5.
- The record of time will: (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) account for the total activity for which each employee is compensated, (3) be prepared monthly to coincide with our pay periods, and (4) be signed by the employee.
- A spread sheet will be used to track staff hours, case documentation, staff's monthly itinerary, and will be used to calculate caseload data.
- The record of time report will contain a separate sheet for each month as well as the Personnel Activity Report and the Caseload date.
- The Program Manager with oversight of the Older Blind program will forward to finance department, monthly, the record of time report to document the PARs.

RSA Response: RSA appreciates ODRS's plan to implement procedures to ensure Personnel Activity Reports (PARs) are completed in accordance with requirements. RSA strongly encourages ODRS to use the steps outlined in the Agency's Response as the foundation for developing corrective actions to ensure compliance with PAR requirements and the assignment of personnel costs. The finding remains unchanged.

Technical Assistance: ODRS does not request technical assistance.

2. Internal Controls and Contract Monitoring

Corrective Action 2: ODRS must:

2.1 develop and implement processes to ensure that:

- verifiable supporting documentation is available for VR contract expenditures;
- VR funds are used properly and efficiently and only for allowable VR expenditures; and,
- fiscal controls enable ODRS to expend and account for funds to such a degree that it can trace the funds for each activity to ensure the funds were expended in accordance with federal requirements; and
- contract language identifies the allowable expenses per the budget categories and that contracts are monitored to ensure compliance with contract requirements and allowability of costs per 34 CFR 361.40(a).

Agency Response:

ODRS does not concur with the finding. The methodology ODRS is currently using is the same methodology employed during the FY-2008 Monitoring Review by RSA in which no exceptions to the methodology were noted. Since no recommendations were identified or noted in the previous report, ODRS believed the process was acceptable to RSA. In light of the current review, ODRS has reviewed contract language to implement additional controls that will further bolster the proper and efficient use of VR funds and to strengthen the documentation and contract monitoring processes.

ODRS is in the process of transitioning between a paper case to an electronic case record. The increased accessibility and other benefits to an electronic case are unquestionable. However, a transition from one to the other is not without technical difficulties. Supporting documentation has always been available within the case records. *The problem within the electronic record has to do with indexing and workflows, not with the provision of unallowable services*. Steps are being taken to better define both indexing of documentation and the workflow process to scan documents. Further, ODRS is implementing changes to the Quality Assurance VR/VS Case Record Review Instrument to include a review of supporting documentation related to payments to consumers.

The Tech-Now contract and the contract with the University of Oklahoma National Center for Disability Education and Training for Project SEARCH™ were new contracts implemented after the FY-2008 Monitoring Review. Through the development of each contract, the DSU, as well as the attorney general, were consulted with review drafts prior to implementation.

The attorney general consulted the EDGAR rules, RSA regulations and state statutes and found both contracts to be appropriate. Based on the legal opinion of the attorney general both contracts met the minimum federal requirements for contracts and reporting. *ODRS is prepared to further develop contract language and reporting requirements as per RSA request; however, ODRS does not agree that the contracts are out of compliance.*

The fiscal controls that ODRS will implement to expend and account for funds for these contracts will include the following: (1) adding the correct citations, further defining allowable expenditures of VR funds, (2) putting more specific language in contract budget line items, (3) increasing reporting requirements and (4) documentation to verify what is on the invoice, including in-kind costs.

Responses regarding specific contracts mentioned in finding number 2 are as follows:

- ABLE Tech -The fiscal controls that ODRS will implement to expend and account for funds in future contracts will include those fiscal controls outlined above (See No. 1 through No. 4 in the preceding paragraph).
- Native American Tribes - ODRS will implement additional fiscal controls to ensure all budgeted amounts are clearly defined and accurately accounted for in the contracts. Specific language will be used to emphasize the approved indirect cost agreement; and the requirement of inclusion of invoices, receipts, and other supporting documentation with each quarterly report to include in-kind costs. Quarterly monitoring will continue to be completed by the assigned contract monitor. All grantees are required by state law to maintain documentation of expenditures, audits, and receipts. Detailed reports can be made available to ODRS upon request.
- Seretean Wellness Center (Oklahoma Rehabilitation Council) - The fiscal controls that ODRS will again implement to expend and account for funds in future contracts will include those fiscal controls outlined above (See No. 1 through No. 4 in the preceding paragraph). According to state law the grantee monitors and maintains the expenditure, audit and receipts. These reports are again available to ODRS upon request.
- Transition School to Work Study – Once more, the FY-2008 Monitoring Review did not reflect a need to develop a different or more extensive audit process. ODRS will, however, develop a formal audit tool and process for the Transition School Work Study Contacts.

RSA Response: RSA is pleased to learn that ODRS has begun developing improvement strategies for ensuring areas of noncompliance identified in this finding are corrected. The finding did not question the basis of the VR services provided through the contracts. However, RSA noted that "ODRS must ensure that contracts clearly define what are allowable VR expenses in order to ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (34 CFR 361.3)." This was the focal point of technical assistance provided during the monitoring process, especially in relation to the Tech-Now contract language. RSA strongly encourages ODRS to continue to strengthen its contract language, contract monitoring processes, and reporting requirements to ensure the areas of noncompliance identified are corrected. The finding remains unchanged.

Technical Assistance: ODRS does not request technical assistance.

3. Accurate Financial Reporting

Corrective Action 3: ODRS must:

3.1 correct the amount of non-federal share provided that was reported by the agency in its final FY 2010 SF-425 report. This information is necessary for RSA to determine whether the agency met its' match and Maintenance of Effort requirements for FY 2010; and
3.2 develop and implement processes necessary to ensure the accurate completion and verification of financial reports.

Agency Response:

3.1 – DRS accounting staff has taken the necessary steps to amend the final report for FFY-2010 as requested.

3.2 – DRS Fiscal Staff actively works to find better and more efficient processes to ensure data is accurate and timely. The error on the 2010 report was the result of an oversight during the manual entry into the MIS system employed by RSA for electronic reporting. The SF-425 has been problematic regarding accurate reporting from the beginning. FFY-2010 was the first grant award to switch to the new format of the SF-425. Prior to the FFY-2010 period, all reporting used the SF-269 format. The difference between the two formats is the lack of isolated current period expenditures. This requires the prior period report be available during review to balance the current period expenditures.

The other problem with the SF-425/MIS format is in the reporting of expenditures. Expenditures cannot be more than the federal cash drawn or the report does not clear edits. The awards are on a reimbursement basis and as such there is a gap between the expenditure and a subsequent draw. In order to submit the report, expenditures must be reduced to the drawn amount.

Fiscal staff will continue to improve on internal control processes to maintain and improve accuracy, but feel it is important to express to RSA the need for SF-425/MIS system updates and corrections.

RSA Response: RSA appreciates ODRS's efforts to correct the Federal Financial Reports identified in the finding in a timely manner. Please note that the RSA-MIS data entry issues mentioned in the Agency's Response were corrected shortly after the implementation of the SF-425 form in FY 2010. RSA held a webinar and issued a revised SF-425 Policy Directive that noted the changes. RSA strongly encourages ODRS to continue to improve on its internal control processes in order to maintain and improve the accuracy of all required reports as the focal point of its corrective action plan. The finding remains unchanged.

Technical Assistance: ODRS does not request technical assistance.

APPENDIX B: LEGAL REQUIREMENTS

This Appendix contains the full text of each legal requirement cited in Section 6 of this report.

Rehabilitation Act of 1973, as Amended

Section 101(a) State Plans

(a) Plan Requirements
(10) Reporting requirements
(A) In general
The State plan shall include an assurance that the designated State agency will submit reports in the form and level of detail and at the time required by the Commissioner regarding applicants for, and eligible individuals receiving, services under this title.

Section 108 Expenditure of Certain Amounts

(a) Expenditure
Amounts described in subsection (b) may not be expended by a State for any purpose other than carrying out programs for which the State receives financial assistance under this title, under part B of title VI, or under title VII.

(b) Amounts
The amounts referred to in subsection (a) are amounts provided to a State under the Social Security Act (42 U.S.C. 301 et seq.) as reimbursement for the expenditure of payments received by the State from allotments under section 110 of this Act.

Section 111 Payments to States

(a)(1) Except as provided in paragraph (2), from each State's allotment under this part for any fiscal year, the Commissioner shall pay to a State an amount equal to the Federal share of the cost of vocational rehabilitation services under the plan for that State approved under section 101, including expenditures for the administration of the State plan.

VR Program Regulations

34 CFR 361.3 Authorized activities.

The Secretary makes payments to a State to assist in—
(a) The costs of providing vocational rehabilitation services under the State plan; and
(b) Administrative costs under the State plan.

34 CFR 361.5 (b)(2)) Applicable definitions.

(b) *Other definitions.* The following definitions also apply to this part:

(1) *Act* means the Rehabilitation Act of 1973, as amended (29 U.S.C. 701 *et seq.*).

(2) *Administrative costs under the State plan* means expenditures incurred in the performance of administrative functions under the vocational rehabilitation program carried out under this part, including expenses related to program planning, development, monitoring, and evaluation, including, but not limited to, expenses for—

(i) Quality assurance;

(ii) Budgeting, accounting, financial management, information systems, and related data processing;

(iii) Providing information about the program to the public;

(iv) Technical assistance and support services to other State agencies, private nonprofit organizations, and businesses and industries, except for technical assistance and support services described in § 361.49(a)(4);

(v) The State Rehabilitation Council and other advisory committees;

(vi) Professional organization membership dues for designated State unit employees;

(vii) The removal of architectural barriers in State vocational rehabilitation agency offices and State-operated rehabilitation facilities;

(viii) Operating and maintaining designated State unit facilities, equipment, and grounds;

(ix) Supplies;

(x) Administration of the comprehensive system of personnel development described in §361.18, including personnel administration, administration of affirmative action plans, and training and staff development;

(xi) Administrative salaries, including clerical and other support staff salaries, in support of these administrative functions;

(xii) Travel costs related to carrying out the program, other than travel costs related to the provision of services;

(xiii) Costs incurred in conducting reviews of determinations made by personnel of the designated State unit, including costs associated with mediation and impartial due process hearings under § 361.57; and

(xiv) Legal expenses required in the administration of the program.

34 CFR 361.12 Methods of administration.

The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability.

34 CFR 361.40(a) Reports.

(a) The State plan must assure that the designated State agency will submit reports, including reports required under sections 13, 14, and 101(a)(10) of the Act—

(1) In the form and level of detail and at the time required by the Secretary regarding applicants for and eligible individuals receiving services under this part; and

(2) In a manner that provides a complete count (other than the information obtained through sampling consistent with section 101(a)(10)(E) of the Act) of the applicants and eligible individuals to—

(i) Permit the greatest possible cross-classification of data; and

(ii) Protect the confidentiality of the identity of each individual.

(b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

34 CFR 361.63(c)(2) Program Income.

(a) Definition. For purposes of this section, program income means gross income received by the State that is directly generated by an activity supported under this part.

(b) Sources. Sources of program income include, but are not limited to, payments from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes, payments received from workers' compensation funds, fees for services to defray part or all of the costs of services provided to particular individuals, and income generated by a State-operated community rehabilitation program.

(c) Use of program income. (1) Except as provided in paragraph (c)(2) of this section, program income, whenever earned, must be used for the provision of vocational rehabilitation services and the administration of the State plan. Program income is considered earned when it is received.

(2) Payments provided to a State from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes may also be used to carry out programs under part B of Title I of the Act (client assistance), part B of Title VI of the Act (supported employment), and Title VII of the Act (independent living).

(3) The State is authorized to treat program income as—

(i) An addition to the grant funds to be used for additional allowable program expenditures, in accordance with 34 CFR 80.25(g)(2); or

(ii) A deduction from total allowable costs, in accordance with 34 CFR 80.25(g)(1).

(4) Program income cannot be used to meet the non-Federal share requirement under § 361.60.

Education Department General Administrative Regulations (EDGAR)

34 CFR 80.20 Standards for financial management systems.

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

34 CFR 80.25 Program income.

(a) *General*. Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.

(b) *Definition of program income*. Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. ''During the grant period'' is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

(c) *Cost of generating program income*. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income.

(d) *Governmental revenues*. Taxes, special assessments, levies, fines, and other such revenues raised by a grantee or subgrantee are not program income unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income.

(e) *Royalties*. Income from royalties and license fees for copyrighted material, patents, and inventions developed by a grantee or subgrantee is program income only if the revenues are specifically identified in the grant agreement or Federal agency regulations as program income. (See § 80.34.)

(f) *Property*. Proceeds from the sale of real property or equipment will be handled in accordance with the requirements of §§ 80.31 and 80.32.

(g) *Use of program income*. Program income shall be deducted from outlays which may be both Federal and non- Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative(or a combination of the alternatives). In specifying alternatives, the Federal agency may distinguish between income earned by the grantee and income earned by subgrantees and between the sources, kinds, or amounts of income. When Federal agencies authorize the alternatives in paragraphs (g) (2) and (3) of this section, program income in excess of any limits stipulated shall also be deducted from outlays.

(1) *Deduction*. Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.

(2) *Addition*. When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement.

(3) *Cost sharing or matching*. When authorized, program income may be used to meet the cost sharing or matching requirement of the grant agreement. The amount of the Federal grant award remains the same.

(h) *Income after the award period*. There are no Federal requirements governing the disposition of program income earned after the end of the award period (i.e., until the ending date of the final financial report, see paragraph (a) of this section), unless the terms of the agreement or the Federal agency regulations provide otherwise.

OMB circulars as cited in the CFR

2 CFR 225,

Appendix B, Paragraphs 8.h.4 and 8.h.5

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A Federal award and a non-Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.
(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
(i) The governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed;
(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately

federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

c. Market prices for comparable goods or services.

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.