Final

STAFF SUMMARY OF MEETING

VOCATIONAL REHABILITATION SERVICES FOR THE BLIND

Date: 09/16/2015

Time: **01:04 PM** to **04:01 PM**

Place: HCR 0112

This Meeting was called to order by
Representative Danielson

This Report was prepared by
Luisa Altmann

ATTENDANCE

Aguilar	*
Lundberg	X
Primavera	X
Windholz	E
Balmer	X
Danielson	X

X = Present, E = Excused, A = Absent, * = Present after roll call

Bills Addressed:	Action Taken:
Opening Remarks	Witness Testimony and/or Committee Discussion Only
Vocational Rehabilitation Audit Results	Witness Testimony and/or Committee Discussion Only
Public Comment	Witness Testimony and/or Committee Discussion Only
Overview of Interim Committee Bill Drafting Process	Witness Testimony and/or Committee Discussion Only
Committee Discussion to Request Bill Drafts	Votes taken to draft requested bills

01:04 PM -- Opening Remarks

Representative Danielson provided opening remarks, including a review of the meeting's agenda and a review of the committee charge.

01:08 PM -- Vocational Rehabilitation Audit Results

Marisa Neff, Legislative Audit Manager, Office of the State Auditor (OSA), spoke to the committee about her role as one of the co-managers on the performance audit of the Division of Vocational Rehabilitation (DVR). Ms. Neff spoke about how OSA does a federal compliance audit of the Colorado Department of Human Services (DHS) as part of its annual financial and compliance audit, which includes testing related to federal grant programs. Ms. Neff continued to discuss how OSA's 2012 statewide audit found significant problems with DVR. Ms. Neff continued to discuss the problems found by the 2012 audit, including problems related to missing eligibility documentation, untimely eligibility determination, and individuals' individualized plans for employment (IPE). Ms. Neff explained that following the 2012 audit, DHS requested a review of DVR by OSA, which lead to the OSA conducting a broad performance audit of DVR in 2013 that examined DVR's operations, financials, and information technology (IT) systems.

Ms. Neff continued with a discussion of the main objectives of the 2013 DVR performance audit, which included:

- assessing whether people who got services were eligible, and whether their services were reasonable and appropriate;
- looking at whether DVR was meeting its purpose to help participants reach their employment goals; and
- looking at whether DVR was being run in a fiscally responsible manner.

Ms. Neff described the contents of the 2013 DVR performance audit report (Attachment A), and spoke about how the audit identified pervasive problems in all aspects of the program. Ms. Neff spoke about the 20 findings identified by OSA following the audit, with an in-depth discussion of OSA's first finding, about whether DVR was meeting its purpose. Ms. Neff highlighted the summary of problems uncovered during the audit and audit findings in the report. Ms. Neff also spoke about the reasons why many of the problems identified by the audit occurred. Ms. Neff also spoke briefly about findings nine and ten, which identified several issues with DVR's wait list and fiscal management process. Ms. Neff discussed OSA's recommendation that DHS improve its oversight of DVR's management and administrative by establishing ongoing monitoring of DVR.

Ms. Neff also discussed OSA's procedure to follow up on all recommendations made in the audit until OSA determines that all recommendations have been fully implemented and DVR is in compliance with all federal and state laws. A summary of all of OSA's recommendations and DHS's anticipated implementation date can be found on pages 3 through 11 in the report. Ms. Neff provided the committee with a section of OSA's 2014 statewide audit report (Attachment B), which includes a summary of the implementation status of OSA's recommendations to DVR as of June 30, 2014. Ms. Neff explained that the remainder of the follow up work by OSA is currently ongoing, and the results will be included in the statewide audit report, which will be released next year.

Ms. Neff responded to committee questions regarding DVR's use of corporate credit accounts, which is discussed in recommendation eleven; OSA's findings related to DVR's release of individuals from the wait list; how OSA will handle audit follow up work based on DVR's move from DHS to the Colorado Department of Labor and Employment (CDLE); DVR's work to help set individual employment goals; whether a lot of the problems found were due to DVR not following current law, regulations, or policies; and what DVR does with any money leftover from caseload expenditure budgets.

01:37 PM -- Public Comment

01:38 PM -- Scott LaBarre, President of the National Federation of the Blind of Colorado (NFBCO), spoke about the audit results that were previously discussed and how the transfer of DVR to CDLE provides an opportunity to look at how vocational rehabilitation services are delivered within the state. Mr. LaBarre reviewed NFBCO's legislative recommendations that are outlined in a memo provided to the committee (Attachment C). Mr. LaBarre responded to questions from the committee regarding the recommendations outlined in the memo, the various options for creating a separate agency or unit for the blind in the state, and how a separate agency for the blind would provide services for individuals with multiple disabilities. In addition, he responded to questions about what will be moved to CDLE under DVR's transition, how to provide greater power for a new state advisory council specifically for the blind, the expected fiscal impact of creating a separate agency for the blind, and the use of federal funds and taxes.

02:10 PM -- Mark Lasser, representing himself, thanked the committee for their work and also spoke about the impact of the DVR audit and his experience with DVR and the Business Enterprise Program (BEP).

02:14 PM -- Barbara Boyer, Executive Director of A3 Colorado, spoke about the history, mission, and work of A3. Ms. Boyer spoke about the importance of outside organizations in the provision of services for the blind, the work of A3 as a DVR vendor, and A3's desire to focus on improving DVR services overall instead of creating a separate agency or unit dedicated to the blind. Ms. Boyer responded to questions from the committee regarding A3's opposition to creating a separate agency for the blind and the work A3 does.

02:26 PM

The committee took a brief recess.

02:34 PM

The committee reconvened.

02:35 PM -- Overview of Interim Committee Bill Drafting Process

Christy Chase and Jane Ritter, Office of Legislative Legal Services, provided the committee with an overview of the interim committee bill drafting process. Ms. Chase provided the committee with the following deadlines:

- committee members must provide the bill drafters with more detailed information related to requested bills by September 21;
- all bill drafts must be finalized by October 13, after which, the fiscal analysts will begin preparing the fiscal notes; and
- all bill drafts and fiscal notes will be sent to the committee members by October 23.

Final bill drafts will be voted on by the committee during their final meeting on October 28. Ms. Chase explained that the committee may only refer three final bills to the Legislative Council Committee for their consideration.

02:39 PM -- Committee Discussion to Request Bill Drafts

Ms. Chase and Ms. Ritter remained at the table during the committee bill request discussion.

Representative Danielson provided an overview of some of the legislative ideas the committee had heard about during the previous committee meetings, with themes involving agency structure, BEP, tax credits and business incentives, youth transition services, and best practices and guidelines.

Agency structure. Representative Danielson discussed two legislative options regarding agency structure:

- creating a separate and independent agency to provide services for the blind, that would be housed within CDLE, and would include a separate state advisory council and seek federal funds separately from DVR; or
- creating a separate administrative unit dedicated to serving the blind within the existing DVR structure.

Representative Primavera also spoke about the need to develop a technical resource center in the new agency or unit to help blind individuals learn how to use adaptive technologies, and also the need to focus on blind veterans.

Business Enterprise Program. Representative Danielson spoke about the following improvements that could be made to the BEP:

- expand the BEP to include other types of businesses besides food service and vending;
- expand the locations BEP vendors are allowed to operate; and
- create partnerships with companies and BEP vendors through franchising opportunities.

The committee continued to discuss the topic of franchising opportunities, including the role of the state in this, the involvement of OEDIT, and possible grant opportunities. Representative Primavera also brought up the difficulty blind entrepreneurs have getting small business loans.

Tax credits and business incentives. Representative Danielson continued with a discussion of potential tax credits and business incentives, including:

- creating a tax credit that provides an incentive for hiring people who are blind and/or who are receiving services from DVR;
- creating a tax credit for blind-owned businesses; and
- creating a tax credit to help businesses with the cost of accommodating blind employees.

The committee continued to discuss the issue of creating new tax credits.

Youth transition services. Representative Danielson spoke about several ideas related to youth transition, including:

- stating that services are available through DVR beginning at age 16; and
- defining best practices or providing recommendations that CDLE work to clearly define DVR's responsibilities for youth transition, or make adjustments to the requirements for participation in the Colorado Department of Education's School to Work Alliance Program (SWAP).

Senator Aguilar spoke about the federal requirement that 15 percent of DVR funding go towards providing youth transition services.

Best practices and guidelines. Finally, Representative Danielson discussed several other ideas related to best practices and guidelines, including:

- changing or strengthening the current state law requiring state technology purchases to be compatible with blind assistive technology;
- changing the fee and incentive structure for DVR vendors to encourage job placement and outcomes;
- placing statutory guidelines for waitlist management;
- establishing training guidelines or recommendations for DVR counselors who have blind individuals on their caseload; and
- creating greater program accountability for DVR.

Representative Primavera questioned Ms. Chase about the inclusion of other vocational rehabilitation programs other than DVR, and how to ensure anyone with a disability may be eligible for any tax credits proposed by the committee. Ms. Chase spoke to the committee of the risk that the Legislative Council Committee may not approve proposed legislation that it deems to be outside the scope of the original charge of the committee.

The committee also discussed the interim committee process and the inclusion of a fiscal note for proposed legislation. The committee also discussed the number of draft bills the committee can request. Ms. Chase also responded to committee questions related to how tax credit programs are administered. Representative Primavera also asked Ms. Chase to look into the Targeted Jobs Tax Credit that formerly existed in Colorado.

03:05 PM -- Patrick Teegarden, CDLE, responded to some of the committee's previous concerns regarding the committee's previous requests to hear from OEDIT. Mr. Teegarden also spoke about CDLE's work during the DVR transition process, including the department's stakeholder outreach.

03:08 PM

Representative Primavera requested that legislation be drafted to create a separate administrative unit within the existing DVR structure that is dedicated to serving the blind. The unit would include personal adjustment training, orientation and mobility, and a well-developed technical resource center. Senator Aguilar voiced her support for this proposal, and also noted the request for a separate budget and management for this unit. Representative Primavera also requested to include a separate counseling staff for this unit with dedicated blind caseloads. Senator Balmer voiced his concern over this proposal, including the concern about providing separate services for the blind and not those with other disabilities, and also voiced concern over the potential cost of this proposal. The committee continued with a discussion of the potential cost impact of creating a separate unit.

BILL:	**Committee Discussion to Request Bill Drafts**	
TIME:	**03:18:08 PM**	
MOVED:	Primavera	
MOTION:	Move to proceed with drafting a bill to create an administrative unit within the existing Division of Vocational Rehabilitation structure that is dedicated to serving the blind, to include personal adjustment training staff, orientation and mobility, and a well-developed technical resource center. The motion passed on a vote of 3-2.	
SECONDED:	Aguilar	
		VOTE
	Aguilar	Yes
	Lundberg	No
	Primavera	Yes
	Windholz	Excused
	Balmer	No
	Danielson	Yes
Final	**YES:** 3 **NO:** 2 **EXC:** 1 **ABS:** 0	**FINAL ACTION: PASS**

03:19 PM

Representative Danielson discussed the proposed ideas discussed previously concerning the BEP. The committee continued with a discussion about the proposed ideas related to the BEP.

Representative Primavera requested that legislation be drafted to expand what types of businesses BEP vendors can operate and remove statutory restrictions currently in place regarding state owned locations where BEP vendors can operate. The committee discussed federal and state law regarding BEP restrictions, including federal funding implications.

BILL:	**Committee Discussion to Request Bill Drafts**
TIME:	**03:30:08 PM**
MOVED:	Primavera
MOTION:	Move to proceed with drafting a bill to remove barriers regarding the types of businesses that Business Enterprise Program vendors can operate and to remove barriers regarding what state locations Business Enterprise Program vendors can operate in. The motion passed without objection.
SECONDED:	Balmer

	VOTE
Aguilar	
Lundberg	
Primavera	
Windholz	Excused
Balmer	
Danielson	

Final YES: 0 **NO:** 0 **EXC:** 1 **ABS:** 0 **FINAL ACTION: Pass Without Objection**

03:31 PM

The committee continued with a discussion of the proposed ideas related to tax credits. Representative Primavera discussed the Targeted Jobs Tax Credit that previously existed, which encouraged employers to hire employees with disabilities. The committee continued discussing the proposed tax credit ideas, including the various types of tax credits that can be created and the need to limit the tax credit to new hires.

BILL:	**Committee Discussion to Request Bill Drafts**				
TIME:	**03:38:30 PM**				
MOVED:	Primavera				
MOTION:	Move to proceed with drafting a bill to create a state tax credit for employers who hire new blind employees, with certain parameters regarding length of employment and tax credit percentage. The motion passed on a vote of 4-1.				
SECONDED:	Aguilar				
					VOTE
				Aguilar	Yes
				Lundberg	No
				Primavera	Yes
				Windholz	Excused
				Balmer	Yes
				Danielson	Yes
Final	**YES:** 4	**NO:** 1	**EXC:** 1	**ABS:** 0	**FINAL ACTION: PASS**

03:40 PM

Representative Danielson reminded the committee of the ideas previously discussed regarding youth transition services, and the committee discussed these ideas further. Representative Danielson moved to draft a bill to ensure DVR services beginning at the age of 16.

Senator Aguilar discussed how many of the ideas previously discussed are already required by federal or state law, but are just not being done by DVR. Ms. Chase responded to committee questions related to SWAP and requirements already in statute.

Representative Danielson withdrew her motion following the committee's discussion.

BILL:	**Committee Discussion to Request Bill Drafts**	
TIME:	**03:43:33 PM**	
MOVED:	Danielson	
MOTION:	Move to proceed with drafting a bill to ensure youth beginning at the age of 16 are able to receive services through the Division of Vocational Rehabilitation. The motion was withdrawn.	
SECONDED:		
		VOTE
	Aguilar	
	Lundberg	
	Primavera	
	Windholz	Excused
	Balmer	
	Danielson	
	YES: 0 **NO:** 0 **EXC:** 1 **ABS:** 0	**FINAL ACTION: Withdrawn**

03:48 PM

Representative Danielson reviewed the ideas previously discussed related to best practices or guidelines. Senator Aguilar suggested requiring CDLE to provide a report back based on some of the committee's concerns following the transition. The committee also discussed in further detail the DVR vendor fees. Ms. Chase responded to several committee questions on the topic of DVR vendor fees and CDLE reporting requirements during the DVR transition. Senator Aguilar suggested sending a letter to the committees of reference that will be receiving the reports from CDLE on the DVR transition, bringing to their attention the issues raised by the committee.

03:55 PM -- Mr. Teegarden, CDLE, returned to the table to respond to questions from the committee and spoke about CDLE's reporting requirements. The committee requested that CDLE examine the current structure of DVR vendor fees.

03:59 PM

The committee requested that a letter be drafted on behalf of the committee for the relevant committees of reference to have during the SMART Act hearings. The committee discussed potential items to cover in the letter.

04:01 PM

The committee adjourned.

Attachment A

Vocational Rehabilitation Program
Department of Human Services

Performance Audit
November 2013

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Office of the State Auditor

Dianne E. Ray, CPA
State Auditor

November 12, 2013

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Vocational Rehabilitation Program at the Department of Human Services. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services.

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Glossary of Terms and Abbreviations

AWARE – Accessible Web-Based Activity and Reporting Environment, the Vocational Rehabilitation Program's electronic case management system

CFDA – Catalog of Federal Domestic Assistance

COFRS – Colorado Financial Reporting System

Department – The Colorado Department of Human Services

Division – The Division of Vocational Rehabilitation, within the Colorado Department of Human Services

FTE – Full-time-equivalent staff

IRS – Internal Revenue Service

JBC – Joint Budget Committee

Long Bill – The General Assembly's annual appropriations bill, which funds each department and institution of higher education within state government

OMB – Office of Management and Budget, a federal office responsible for overseeing federal agency performance, procurement, and financial management

Program – The Vocational Rehabilitation Program, a federal program administered by the Colorado Department of Human Services

QA – Quality assurance

RSA – Rehabilitation Services Administration, a federal agency that oversees the vocational rehabilitation programs in the states

SMART – State Measurement for Accountable, Responsive, and Transparent Government Act

SSI – Supplemental Security Income, a program of the Social Security Administration

SSDI – Social Security Disability Income, a program of the Social Security Administration

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VOCATIONAL REHABILITATION PROGRAM

Performance Audit, November 2013
Report Highlights

Dianne E. Ray, CPA
State Auditor

Department of Human Services

PURPOSE

Assess whether the Department of Human Services' Division of Vocational Rehabilitation (the Division) ensures: (1) only those who are eligible for the Vocational Rehabilitation Program (the Program) are approved for services and the services that participants receive are reasonable and appropriate; (2) that participants achieve employment outcomes successfully; and (3) the Program is managed in a fiscally responsible and efficient manner.

BACKGROUND

- Colorado's Program helps unemployed and employed individuals with disabilities prepare for employment, enter employment, become more engaged in or satisfied with their occupation, and retain employment.
- The Program has 230 staff and 29 field offices in Colorado that provide a range of services to participants, including vocational counseling, job placement, tuition for higher education, and physical and mental health therapy, among many other services.
- During Fiscal Year 2013, Colorado's Program provided services and application assistance to 19,834 individuals and expenditures totaled about $53.5 million.

OUR RECOMMENDATIONS

The Department should:

- Improve its oversight of the Division, the fiscal management and administration of the Program, and Program staff compliance with federal and state laws.
- Ensure Program participants reach their employment goals within reasonable time frames and public funds are used prudently and effectively.
- Improve controls over the Division's payments, corporate accounts, administrative expenses, and contract management.
- Improve controls to prevent misuse of Program funds and property and improve processes for reporting and addressing instances of suspected misuse.

The Department agreed with all these recommendations.

AUDIT CONCERN

We identified pervasive problems in the Program that raise questions about the Division's oversight, system of internal controls, and culture of accountability. We identified problems in each area we reviewed, resulting in 20 audit findings and recommendations and $83,582 in known questioned costs. Overall, the Division has not established effective Program management practices to ensure that it carries out both its responsibilities under federal and state laws and its duty to taxpayers.

KEY FACTS AND FINDINGS

- In 83 (98 percent) of the 85 sampled participant case files we identified audit exceptions, including problems with participant eligibility, employment goal setting, service authorizations and payments, and case management.
- The Division has not ensured participants meet their employment goals in a timely manner nor has it limited the duration of their Program services. There was no evidence that eight sampled participants met their employment goals although they received Program services for 5 or more years. Fiscal Year 2013 participants had been in the Program for an average of 1.8 years, but the range was 2 weeks to 32 years.
- The Division has not established reasonable limits on the dollar amount or number of services participants may receive. The costs to serve each Program participant during Fiscal Year 2013 varied significantly, ranging from $1 to $114,000.
- The Division has not sufficiently contained Program costs or accurately forecasted, budgeted, and monitored expenditures. As a result of spending problems, during Fiscal Year 2013 the Division requested and received a $5.5 million supplemental appropriation and implemented a wait list for Program services.
- The Division has not ensured purchases made on its corporate credit accounts are appropriate and necessary nor has it consistently paid the outstanding balances due. In 27 (90 percent) of 30 sampled transactions we identified $13,837 in purchases and credits that appeared questionable, inappropriate, or were not authorized appropriately.
- Program field office staff identified three instances of participants' misusing Program funds or property totaling $4,029 in Fiscal Year 2013 but staff did not report the instances to Department management, internal auditors, or the Division.
- In Fiscal Year 2013, the Program paid 82 vendors bonuses totaling about $171,000 for placing participants in jobs. The bonuses were in addition to the $340,000 in regular fee payments made to the same vendors for the same service.

For further information about this report, contact the Office of the State Auditor
303.869.2800 - www.state.co.us/auditor

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RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	33	Improve oversight of the Division of Vocational Rehabilitation (the Division) and management and administration of the Vocational Rehabilitation Program (the Program) by (a) implementing a plan to monitor the Division's performance to ensure it accomplishes its responsibilities to administer the Program and is accountable to the Department; (b) ensuring Division compliance with federal regulations, state statutes and rules, and Department and Division policies. This should include working with the General Assembly, as needed, to clarify the Division's role and responsibilities and help ensure it accomplishes the purposes intended by the federal regulations and state laws; and revising policies, procedures, and staff training to clarify the purpose and scope of the Program; and (c) determining the capabilities needed in the Accessible Web-Based Activity and Reporting Environment (AWARE) system, implementing a system project plan that includes methods to extract historical Program data, and providing the plan to the Office of Information Technology or the AWARE vendor for system changes.	a. Agree b. Agree c. Agree	a. March 2014 b. July 2014 c. November 2014
2	46	Improve controls to ensure participants in the Program reach their employment goals within reasonable time periods and public funds are used prudently by (a) implementing policies regarding reasonable time frames for participants to receive Program services; (b) implementing methods to control Program costs, including reasonable thresholds for the costs of different types of services, limiting training and tuition costs to in-state tuition or the equivalent, and recovering Program costs or discontinuing services for participants who fail to reasonably meet the requirements their Individualized Plan for Employment; (c) implementing an ongoing review to assess the appropriateness of continuing to serve participants who fail to meet employment goals within the time frames and thresholds established in parts "a" and "b" above. This should include implementing a process to review and approve reasonable exceptions to the limits and notifying participants who do not sufficiently progress toward their goal of a reasonable time frame to meet the goal before Program services will end; and (d) implementing procedures to close cases, as appropriate, when participants fail to meet the reasonable time frame set in part "c" above.	Agree	July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
3	58	Improve controls over service authorizations and payments for the Program by (a) implementing policies and procedures requiring that the Program only authorize services that are needed to address participants' barriers to employment based on their documented disabilities; (b) implementing procedures that ensure staff authorize services before they are provided, obtain and document appropriate supervisory approvals, pay only the amounts that have been authorized, and maintain service authorizations in the case files; (c) implementing comprehensive policies and procedures over Program payment processes including requirements for maintaining documentation supporting payments, ensuring authorizations match payments, verifying the receipt of services and goods, defining the lowest available usual and customary rates, specifying clear restrictions and parameters for purchases, and providing staff written guidance to follow when reviewing and approving payments; (d) using the federal or state mileage reimbursement rate as specified by State Fiscal Rules; (e) adequately segregating staff duties within the payment process so that staff who authorize and approve services do not directly receive receipts or invoices and so that direct reports do not approve payments for their supervisors; (f) implementing monitoring of service authorizations and associated payments including a post-payment review procedure, at least annually, and mechanisms for revising policies and procedures based on patterns of errors identified; and (g) training Program staff on accounting and payment controls and policies.	a. Agree b. Agree c. Agree d. Agree e. Agree f. Agree g. Agree	a. July 2014 b. April 2014 c. July 2014 d. December 2013 e. April 2014 f. July 2014 g. July 2014
4	67	Strengthen controls over Program eligibility determinations and documentation by (a) implementing a policy and procedure requiring documentation of the applicant's disability or impediment to employment from an appropriate medical professional and maintaining the documentation in the case file; (b) implementing a policy and procedure requiring ongoing supervisory reviews to ensure Program staff comply with eligibility and documentation requirements; and (c) training Program staff to help ensure they are aware of and comply with federal and state eligibility and documentation requirements.	Agree	July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	71	Improve Program processes for conducting assessments to determine participant employment goals and completing the participant Individualized Plan for Employment by (a) implementing policies and standard processes for completing and documenting the comprehensive assessment; (b) training field office staff on policies and processes for completing the comprehensive assessment and employment Plan; and (c) implementing supervisory reviews over counselors' comprehensive assessments and the creation of participant employment Plans to ensure all factors required to determine participant employment goals are fully documented and Plans are signed and completed in compliance with Division policies.	a. Agree b. Agree c. Agree	a. July 2014 b. July 2014 c. April 2014
6	77	Improve Program controls and processes for using comparable services and benefits to cover, in whole or part, the costs of Program services, as required by federal regulations by (a) implementing policies and procedures for identifying and maintaining information on available comparable services and benefits for the range of Program services and ensuring the information is accessible to field office staff; (b) establishing a target time frame in policy for staff's search for comparable services and benefits and staff's assistance to participants with applications for other programs; (c) clarifying policies to indicate that when a participant refuses to use comparable services and benefits, the participant shall be responsible for the costs of the services and staff should document these instances; and (d) training field office staff on federal and Division requirements and processes for identifying and documenting comparable services and benefits including working with other agencies with similar program services to obtain information on the comparable services and benefits that may be available to Program participants.	Agree	July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
7	87	Improve the process for determining participants' severity of disability for the Program by establishing a consistent and accurate method for assessing the severity of applicants' disabilities; providing clear policy guidance and tools, such as a scoring or weighted system, for determining applicants' severity of disability level; requiring notification of disability severity level to all participants; incorporating a supervisory review of this assessment; and training staff on the new policies and procedures.	Agree	July 2014
8	91	Ensure compliance with federal and state case management requirements for the Program by (a) implementing policies specifying minimum requirements for communicating with unemployed participants, such as requiring contact at least once every 30 days, requirements for supervisory review of staff's case management activities, and timely case closure when cases meet the closure criteria in policy; and (b) training Program field office staff on requirements and best practices for documenting case management activities, ongoing supervisory reviews, and case closure procedures.	a. Agree b. Agree	a. July 2014 b. October 2014
9	97	Ensure the Division develops and implements a policy and strategy for managing the wait list for the Program that include estimated time frame targets for serving wait-listed participants in disability categories, supervisory reviews to ensure staff follow wait list policies, and comprehensive methods for projecting Program expenditures and estimating available funding needed to begin serving individuals on the wait list.	Agree	February 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
10	105	Improve the fiscal management of the Division and the Program by (a) establishing and implementing a comprehensive budgeting process that includes procedures for estimating service costs for each participant in each fiscal year, and using the estimates to forecast Program expenditures in current and future fiscal years; (b) ensuring that Division staff responsible for developing the Program budget and monitoring expenditures and revenues have expertise and training in state and federal budgeting processes and proper accounting and fiscal procedures; (c) implementing a process for Departmental review and approval of the Division's annual budget and routine Division reporting to Department management on the Program's estimated costs for participants, service authorizations, budget-to-actual costs, and expenditures-to-spending authority; and (d) implementing a regular Departmental review of Division expenditures until the Division can demonstrate proper accounting controls, and periodic Department follow up thereafter to ensure ongoing compliance.	a. Agree b. Agree c. Agree d. Agree	a. January 2014 b. April 2014 c. April 2014 d. January 2014
11	117	Improve controls over the Division's corporate accounts by (a) ensuring the Division obtains an exception for the open charge accounts from the Department's procurement card administrator and controller or chief fiscal officer, or discontinues the use of the accounts; (b) implementing a process to monitor, reconcile, and resolve disputes regarding charges on the corporate accounts, which includes requiring a monthly reconciliation of each account, obtaining copies of all account statements, ensuring all charges are appropriate and supported with receipts and invoices, and working with vendors to resolve charges noted on the statements that do not include authorization information; (c) ensuring that payments for the corporate accounts are made timely and by the payment due dates; and (d) limiting the number of employees at each field office who may make purchases on the corporate accounts.	Agree	January 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
12	125	Improve controls over the use of federal and state funds and processes for reporting and addressing instances of suspected misuse of funds or property in the Program by (a) implementing policies and procedures for reporting instances of suspected misuse of funds or property. The policies and procedures should comply with federal regulations, State Fiscal Rules, and Department policy and require that, in circumstances of fraud, field offices stop services, thoroughly document the incident in the case file, and close the participant's case; (b) monitoring through supervisory review to ensure instances of suspected misuse of funds or property are appropriately communicated to the Department's Audit Division and management; (c) evaluating the necessity and appropriateness of providing direct payments to participants to purchase goods and services, and if continued, strengthening controls, such as limiting the dollar amount of the purchase(s), requiring supervisory approval of direct payments, and revising policies and procedures accordingly; (d) providing the Department's internal audit staff direct access to the AWARE application; (e) implementing procedures for tracking the issuance, return, and reissuance of equipment purchased for participants; and (f) implementing procedures to turn over recovery efforts to the Office of the Attorney General in a timely manner once Program staff have been unsuccessful at recovering state-owned equipment from participants.	a. Agree b. Agree c. Agree d. Agree e. Agree f. Agree	a. July 2014 b. April 2014 c. July 2014 d. Implemented and Ongoing e. December 2014 f. July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
13	134	Improve processes for assessing participants' contributions in the cost of vocational rehabilitation services by (a) implementing changes to the Division's policy manual to provide clear guidelines for calculating and documenting participant contributions; (b) reviewing the Division's current methodology for calculating participants' financial need, including the cost of living allowance calculation, for appropriateness and making changes as deemed necessary; (c) instituting a review process to ensure that financial need analysis forms are completed correctly as required by Division policy, information used to complete the analysis form and calculating the participant's required contribution is documented, the participant's required contribution is documented in the Individualized Plan for Employment, and participants' required contributions are received; and (d) reviewing the Division's policy and practice of using after-tax income for calculating participant contributions and determining whether gross income should be used for this calculation for consistency with other federal programs at the Department. If after-tax income continues to be used, the Department should establish a documented methodology for calculating after-tax income.	Agree	July 2014
14	141	Improve methods for compensating Program vendors by (a) discontinuing the practices of paying bonuses to vendors and paying the "successful job placement" fees prior to employment; (b) evaluating the fee schedule payment amounts allowed for regular job placement services to determine if the fees are appropriately structured; and (c) implementing reasonable time lines for vendors to follow when providing job placement services and for successfully placing a participant in an employment position, incorporating the time lines into each job placement vendor's Registration form and/or purchase order, and monitoring the timeliness of vendor compliance with the time lines. The Department should discontinue business with job placement vendors who do not consistently place participants in successful employment positions in a timely manner.	a. Agree b. Agree c. Agree	a. February 2014 b. July 2014 c. July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
15	146	Strengthen controls over Division administrative costs by implementing controls that ensure all transactions are properly supported by documentation, recorded properly in COFRS, approved by a supervisor of the staff who incurred the expense, and approved by the Office of Information Technology, if applicable.	Agree	April 2014
16	151	Ensure that the Division's contract management processes and contracts comply with State Fiscal Rules, State Procurement Rules, and the State Controller's waiver by (a) executing standard and consistent contracts with all vendors who the Division anticipates it will pay $20,000 or more a year; (b) establishing and implementing a Division policy and process to periodically review and update vendor contracts and obtain appropriate approvals for each contract template from the Office of the State Controller. This should include updating all Division contracts that have been in place 5 years or more and were executed prior to 2009; and (c) revising the Division's Vendor Registration Form to ensure it complies with State Fiscal Rules and reflects the language contained in the Division's standard contract template.	a. Agree b. Agree c. Agree	a. July 2014 b. April 2014 c. January 2014
17	156	Ensure that all Division services purchased with procurement cards comply with State Fiscal Rules and Department requirements for procurement cards, including obtaining a waiver from Department requirements when applicable, and implementing policies and processes for authorizing and purchasing participant demonstration equipment.	Agree	July 2014

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
18	160	Improve the Program's annual quality assurance (QA) review process by (a) creating and implementing a policy requiring Division management and Program regional supervisors, field office supervisors, and field office counselors to review the deficiencies identified by the QA staff after each annual review is completed; (b) implementing policies and procedures that require corrective action plans for cited deficiencies, a follow-up process for QA staff to ensure implementation of corrective action plans, and a process for including problems cited during the QA reviews in counselor performance reviews, as appropriate; (c) requiring QA staff to annually report the results of the corrective action plan process to Department and Division management; (d) implementing a process for the QA staff to verify that problems identified in QA reviews are addressed; and (e) implementing a process to analyze trends in deficiencies statewide, at least annually, to identify areas for improvement.	a. Agree b. Agree c. Agree d. Agree e. Agree	a. July 2014 b. October 2014 c. January 2015 d. January 2015 e. January 2015
19	167	Ensure the Division strengthens its management of complaints by (a) implementing policies and procedures to ensure that all complaints are investigated and resolved in a timely manner; (b) implementing policies and procedures for documenting complaints in a centralized Division database and requiring that Division data sufficiently detail the nature, timing, investigation, and final resolution of each complaint in a consistent manner; and (c) implementing policies and procedures for categorizing complaints, such as by topic, to facilitate meaningful analysis and analyzing the complaints logged in a centralized database at least annually to identify trends and taking appropriate action to address the problems.	a. Agree b. Agree c. Agree	a. July 2014 b. July 2014 c. October 2014
20	171	Improve backup and recovery processes for the AWARE system by (a) working with the vendor to encrypt backup files and send them to a secure off-site location that is not in the same physical location as the production system and (b) testing the system recovery plan on an annual basis and making updates to the plan as necessary.	Agree	October 2014

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Overview of the Vocational Rehabilitation Program

Chapter 1

In 1973, the United States Congress enacted the Rehabilitation Act, which authorized grants to assist states in operating programs designed to provide vocational rehabilitation services to individuals with disabilities. In Colorado, the Division of Vocational Rehabilitation (the Division), within the Department of Human Services (the Department) administers the State's vocational rehabilitation programs and services, including the Vocational Rehabilitation Program (the Program). Colorado's Program provides a variety of services to help unemployed and employed individuals with disabilities prepare for an occupation, enter into employment, become more engaged in or satisfied with their occupation, and retain current employment.

Program Eligibility

To apply for the Program, Coloradoans must submit an application to the Division and complete an eligibility assessment process. According to federal regulations (Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42), individuals must meet the following criteria to be eligible for Program services:

- **Individuals must have a physical or mental impairment.** According to federal regulations [Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42(a)(1)(i)], "qualified personnel" must determine if the applicant has a physical or mental impairment. Physical impairments consist of any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more body systems, including neurological, musculoskeletal, respiratory, cardiovascular, reproductive, digestive, genitourinary, skin, and endocrine. A mental impairment includes any mental or psychological disorder, mental illness, and certain learning disabilities.

- **The impairment constitutes a substantial impediment to employment.** The Program must determine that the applicant's physical or mental impairment constitutes or results in a substantial impediment to employment. A substantial impediment means that the physical or mental

impairment hinders an individual from preparing for, entering into, engaging in, or retaining employment consistent with the individual's abilities and capabilities [Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42(a)(1)(ii)].

- **The individual requires vocational rehabilitation services.** A vocational rehabilitation counselor must determine that the individual requires vocational rehabilitation services to prepare for, secure, retain, or regain employment consistent with the applicant's unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice [Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42(a)(1)(iii)].

During Fiscal Year 2013, about 7,530 individuals applied for the Vocational Rehabilitation Program in Colorado, and the Program determined that 7,232, or 96 percent, were eligible for the Program.

Participant Severity of Disability

Once an applicant is determined eligible, a Program vocational rehabilitation counselor must assess the severity of the individual's disability. The severity of disability is determined by the extent to which the counselor determines the individual's disability impacts his or her functional capacity in the areas of mobility, motor skills, interpersonal skills, communication, work tolerance, work skills, self-care, and self-direction. The Division classifies each eligible individual into one of the following three severities of disability categories:

- **Most Significantly Disabled.** Federal regulations [Applicable definitions, 34 C.F.R., pt. 361.5(b)(30)] allow each State to define criteria for an individual categorized as "Most Significantly Disabled." The Division has defined "Most Significantly Disabled" as a severe physical or mental impairment that seriously limits three or more functional capacity areas (such as mobility, communication, self-care, self-direction, interpersonal skills, work tolerance, or work skills) and the individual's successful vocational rehabilitation can be expected to require the provision of two or more core vocational rehabilitation services for at least 5 months.

- **Significantly Disabled.** Federal regulations [Applicable definitions, 34 C.F.R., pt. 361.5(b)(31)] define an individual categorized as "Significantly Disabled" as having a significant disability, which is a severe physical or mental impairment that seriously limits one or more functional capacities in terms of an employment outcome, whose vocational rehabilitation can be expected to require multiple vocational rehabilitation services over an extended period of time.

- **Individual with a Disability.** Division policy defines an "Individual with a Disability" as an individual with a disability who does not meet the criteria for most significant or significant disability.

Federal regulations also specify that any applicant for vocational rehabilitation services who has been determined to be eligible for benefits from the Social Security Administration's Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) programs is presumed to have at least a significant disability and be eligible for the Program. The table below shows the number of participants in each severity of disability category to whom the Program provided some type of service, including those individuals who were determined eligible for the Program and only received application assistance and referral services, in Fiscal Year 2013.

Vocational Rehabilitation Program
Participants by Disability Severity Category and
Recipients of SSI/SSDI Benefits
Fiscal Year 2013

Category	Participants Served	Percentage of Total
Most Significantly Disabled	12,064	61%
Significantly Disabled	5,551	28%
Individuals with a Disability	957	5%
No Disability Severity Category[1]	1,262	6%
TOTAL	**19,834**	**100%**
Participants Receiving SSI or SSDI[2]	**6,964**	**35%**

Source: Office of the State Auditor's analysis of data provided by the Division of Vocational Rehabilitation.

[1] Includes individuals whose cases were pending at the time of the audit or closed before their disability severity had been determined.

[2] These participants are included in either the Most Significantly Disabled or Significantly Disabled categories.

Program Wait List

Federal regulations (Ability to serve all eligible individuals; order of selection for services, 34 C.F.R., pt. 361.36) require states to have an "order of selection," or a wait list, which is a process that prioritizes services to participants when projected fiscal and personnel resources for the Program are not sufficient to serve all eligible individuals. In Fiscal Year 2013, the Division implemented a wait list because its Fiscal Year 2013 expenditures for the Program outpaced the federal and state funding available for the Program. Specifically, on March 1, 2013, the Division established a wait list for eligible individuals classified as "Individual

with a Disability;" on April 22, 2013, the Division expanded the wait list to include eligible individuals classified as "Most Significantly Disabled" and "Significantly Disabled." As of August 2013, a total of 4,279 eligible participants were on the wait list in Colorado.

Participants' Goals and Program Services

Program participants may be unemployed or employed when they apply for or participate in the Program. Each Program participant works with Program staff to establish an employment outcome or goal based on the participant's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of employment goal. There are no federal requirements on the type of employment outcome or goal that a participant may choose. Goals for participants in Colorado's Program include securing both full-time and part-time employment in all types of vocations ranging from fast food worker to medical doctor as well as homemaker. Employed Program participants may choose goals such as maintaining current employment or becoming more satisfied or engaged in employment. Colorado's Program has prohibited providing services for individuals with a goal to obtain employment in the marijuana industry.

The Program provides a range of services to eligible participants, including vocational counseling; job placement, goods, services, and technology to live and work independently or become more satisfied with a job; tuition and supplies for higher education and training; equipment and tools needed to learn a particular vocation or perform a particular job; and mental health and substance abuse treatment to help improve the likelihood of employment or satisfaction with employment, among many other services. The Program provides services through vocational rehabilitation counselors and numerous third-party vendors located throughout the State and administers a financial need test to determine whether participants can contribute financially toward the cost of their services. The following table shows the types of goods and services the Program provided participants and the costs of those goods and services in Fiscal Year 2013.

Vocational Rehabilitation Program
Types and Costs of Goods and Services Provided to Participants
Fiscal Year 2013

Type of Service	Service Definition	Total Paid to Vendors and Participants by Service Type
Assessments	Assessments for determining participants' eligibility, severity of disability, and rehabilitation needs.	$2,383,000
Vocational Rehabilitation Counseling and Guidance	Counseling and guidance to determine the services the participant will need and assist him or her throughout the rehabilitation process.	$0[1]
Physical and Mental Restoration	Restoration meant to correct, stabilize, or modify an impairment.	$5,331,000
Vocational Training and College Education	Personal and vocational training; tuition; books; tools; supplies; equipment, such as computers; and software, to help the participant adjust to training and education.	$4,917,000
Job-Seeking and Retention Services	Job-seeking skills training, job placement assistance, job retention services, and follow-up services.	$2,096,000
Rehabilitation Technology	Adaptive equipment and aids for a participant with impaired sensory, written, and/or oral communication skills; vehicle and residential modifications.	$1,655,000
Work and Personal Adjustment Training	Training to help participants adjust behavior and/or develop compensatory skills.	$1,033,000
Maintenance and Transportation Funds	Monetary support provided to a participant for expenses, such as transportation and rent.	$994,000
Occupational Goods and Equipment	Tools, work clothing, supplies, and equipment, such as computers, printers, and cell phones, normally needed for job performance.	$739,000
Reader and Interpreter Services	Interpretation services including sign language and oral interpreters, to provide the participant access to communication and materials in his or her native language and/or in needed modes of communication.	$502,000
Teaching, Orientation, and Mobility Services	Rehabilitation teaching, orientation, mobility, and reader services for the blind or visually impaired.	$209,000
Other	All other services provided to and made on behalf of participants.[2]	$11,710,000
TOTAL		**$31,600,000[3]**

Source: Office of the State Auditor's analysis of the Division of Vocational Rehabilitation's service categories as published in its Policy Manual and expenditure data from the Division's Accessible Web-Based Activity and Reporting Environment (AWARE) system and the Colorado Financial Reporting System (COFRS).

[1] Program staff provide Vocational Rehabilitation Counseling and Guidance and the Division does not record the costs of this service separate from staff salaries.

[2] This includes all services that the Division records in COFRS but does not record in AWARE.

[3] The figures in the table do not add to $31,600,000 due to rounding.

Program Administration

The Rehabilitation Services Administration, within the federal Department of Education, oversees vocational rehabilitation programs in the states and promulgates Program regulations. The Division administers Colorado's Vocational Rehabilitation Program. The Division's offices include one main administrative office located in Denver and 29 field offices located throughout the state that accept applications for the Program and serve Program participants. A Director manages the Program, which was appropriated 223.7 full-time-equivalent (FTE) staff in Fiscal Year 2014. As of September 2013, the Division reported that 230 FTE worked for the Program, which included vocational rehabilitation counselors, field office supervisors, field office administrative staff, and Division management and staff, as shown in the following table.

Vocational Rehabilitation Program
Full-Time-Equivalent (FTE) Staff
As of September 2013

Position	FTE	Percentage of Total
Vocational Rehabilitation Counselors	110	48%
Field Office Administrative Staff [1]	39	17%
Field Office Supervisors	17	7%
Other Field Office Staff [2]	26	11%
Division Management and Administration [3]	38	17%
TOTAL	**230**	**100%**

Source: Office of the State Auditor's analysis of Division of Vocational Rehabilitation data.
[1] Includes administrative assistants, rehabilitation technicians, office managers, and program assistants working in the Program field offices.
[2] Includes adjustment training teachers and business outreach specialists working in the Program field offices.
[3] Includes Division management and staff working in the Division's central office.

In addition, the Department has a federally-funded State Rehabilitation Council, which is required by the federal Rehabilitation Act to advise the State on the provision of services to persons with disabilities (Requirements for a state rehabilitation council, 34 C.F.R., pt. 361.17). Colorado's State Rehabilitation Council was created by an Executive Order that allows up to 30 Governor-appointed members, which include representatives from the Statewide Independent Living Council; disability and advocacy groups; current or former applicants for or recipients of Program services; organizations that provide services to disabled individuals; others who represent the business community; and the Division Director and one Program counselor, who serve as ex-officio

members. According to the Executive Order, the majority of Council members must have a disability. As of September 2013, the Council had 17 members.

The Division administers the Program with an electronic case management system, called the Accessible Web-Based Activity and Reporting Environment (AWARE) application, that maintains information about participants, such as eligibility, demographics, disabilities, and services the participants are authorized to receive and their individualized plans for employment.

Program Funding and Expenditures

The Program is funded with state and federal funds. The federal government provides reimbursement for 78.7 percent of eligible rehabilitation expenditures up to the total annual federal grant for Colorado, which was about $40 million in Federal Fiscal Year 2013. The State provides matching funds of 21.3 percent for these federal dollars through general fund and local government funds. The local government funds are from school districts that contract with the Division to provide vocational rehabilitation services to students preparing to enter or in the workforce. During Fiscal Year 2013, Program revenues totaled about $53.5 million, the majority of which were federal funds; Program expenditures also totaled about $53.5 million. The following table shows Program revenues and expenditures for State Fiscal Years 2009 through 2013.

Vocational Rehabilitation Program
Revenues and Expenditures by Fund (In Millions)
Fiscal Years 2009 Through 2013

	2009	2010	2011	2012	2013
Revenues					
State					
General Fund	$5.1	$5.1	$5.1	$5.1	$6.2
Local Funds[1]	3.7	2.9	4.8	5.2	5.2
Federal					
Federal Grant Funds	$32.9	$29.6	$36.7	$38.2	$42.1
Federal Recovery Funds[2]	0	3.2	2.9	0.8	0
Total Revenues	**$41.7**	**$40.8**	**$49.5**	**$49.3**	**$53.5**
Expenditures					
Participant Services	$21.6	$19.9	$27.3	$28.1	$31.6
Program Staff Salaries[3]	15.3	14.9	15.6	15.4	16.6
Administrative Expenses[4]	4.8	6.0	6.6	5.8	5.3
Total Expenditures	**$41.7**	**$40.8**	**$49.5**	**$49.3**	**$53.5**

Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System (COFRS) and documentation provided by the Department of Human Services.
[1] Includes funds for providing vocational rehabilitation services to students in local school districts
[2] In Fiscal Years 2010 through 2012, the Program received federal funds from the American Recovery and Reinvestment Act.
[3] Includes salaries for Program counselors, supervisors, and staff.
[4] Includes leases for field offices, travel, other operating expenses, and indirect costs for the Program.

Audit Purpose, Scope, and Methodology

We conducted this audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in response to an audit request from the Department's Executive Director that raised concerns about the Program. In addition, during our Fiscal Year 2012 Statewide Single Audit, we assessed the Program's compliance with federal and state program eligibility requirements and the Department's internal controls over eligibility determinations; we identified errors in 100 percent of the case files we reviewed related to eligibility determinations and documentation and classified these errors as a material weakness for the Program. Further, the Department reported concerns to the Joint Budget Committee in March 2013 when the Department requested a supplemental appropriation of about $5.5 million for the Program. We acknowledge and appreciate the cooperation and assistance provided by the Department of Human Services during this audit.

Audit work was performed from May 2013 through November 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit objectives were to assess whether the Division ensures: (1) only those who are eligible for the Program are approved for services and that the services that participants receive are reasonable and appropriate based on federal and state requirements; (2) the Program fulfills its intended purpose that participants achieve employment outcomes successfully; and (3) the Program is managed in a fiscally responsible and efficient manner to ensure federal and state funds are used effectively. This audit did not assess the other programs the Division administers, such as the Traumatic Brain Injury and Business Enterprise programs; the role of the State Rehabilitation Council; or Program staffing levels. To accomplish our audit objectives, we:

- Analyzed participant case file documentation, including participant data, case notes, and payment data from the Division's AWARE system.

- Reviewed Division policies, procedures, and training materials.

- Assessed the general computer controls of the AWARE system, including logical access to the system, system interfaces, data backups, disaster recovery plans, and other security-related functions.

Additionally, we reviewed the Department's compliance with requirements applicable to major federal programs and internal control over compliance in accordance with the federal Office of Management and Budget's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. As part of our audit, we determined the Department's compliance with federal regulations and grant requirements, including activities that are allowed or unallowed, allowable costs, and eligibility. Professional standards define three levels of internal control weaknesses that must be reported and are described as follows:

- **Material weakness.** This is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

- **Significant deficiency.** This is a moderate level of internal control weakness. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over compliance with a compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

- **Deficiency in internal control.** A deficiency in internal control is the least serious level of internal control weakness. This level of internal control weakness over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct noncompliance with a compliance requirement of a federal program on a timely basis.

In Chapter 2, Recommendation No. 1, we list each audit finding and the level of internal control weakness for each finding. We noted certain other matters that are not included in this audit report that we reported to Department management in a separate letter dated October 31, 2013.

We relied on sampling techniques to support our audit work in the following areas:

- **Duration of services.** We selected a judgmental sample of four participants and a nonstatistical random sample of an additional four participants who had been determined eligible before July 1, 2008, and had received Program services in Fiscal Year 2013. We selected our sample to provide representation of cases that had been open for extended periods of time.

- **Participant eligibility.** We selected a nonstatistical random sample of 85 participants who received Program services during Fiscal Year 2013, between July 1, 2012, and June 18, 2013. We selected our sample from 13 field offices to provide representation of offices located throughout the state and offices that had high, moderate, and low caseloads. Five of the 85 participants in our sample had received application assistance and an eligibility determination and then were placed on the Program's wait list and had not received vocational rehabilitation services.

- **Payments for participant goods and services.** From our sample of 85 Program participants, we selected a judgmental sample of 63 payments, one transaction for each participant for whom the Program had paid for a good or service during Fiscal Year 2013.

- **Corporate credit accounts.** We selected a judgmental sample of 30 transactions from three of the Division's corporate credit accounts.

- **Administrative costs.** We selected a nonstatistical random sample of 40 administrative cost transactions that were paid between July 1, 2012, and March 31, 2013. In addition, we selected a judgmental sample of the five largest-dollar travel transactions and selected a nonstatistical random sample of five additional travel transactions that were paid during Fiscal Year 2013.

- **Program contracts**. We selected a judgmental sample of 12 vendors that were each paid $20,000 or more by the Program during Fiscal Year 2013 to review the contracts or purchase orders the Program executed with vendors.

- **Procurement cards.** We selected a judgmental sample of 21 procurement card transactions made by the Division between July 1, 2012, and December 31, 2012.

- **Quality assurance.** We judgmentally selected two of the 13 field offices sampled in our case file review and then reviewed the quality assurance reviews performed for the two offices in the month of April 2013.

- **Division and field office practices.** We interviewed a sample of Program counselors, field office supervisors, rehabilitation technicians, and field office administrative staff from seven of the Division's 29 field offices to understand how the Program is administered and managed. We also interviewed Division management and staff; Department management and staff; and a sample of two State Rehabilitation Council members.

- **Other states' practices.** We surveyed or interviewed management from a sample of eight vocational rehabilitation programs in other states, consisting of Alabama, Georgia, Maryland, Oklahoma, Utah, Washington, West Virginia, and Wisconsin.

We designed our samples to help provide sufficient, appropriate evidence for the purpose of evaluating Division operations, Program activities, and AWARE system controls. When samples were chosen, the results of our testing were not intended to be projected to the entire population. Rather, the samples were selected to provide sufficient coverage of those areas that were significant to the objectives of this audit.

We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Our conclusions on the effectiveness

of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in the audit findings and recommendations.

Program Eligibility and Service Determinations

Chapter 2

The Division of Vocational Rehabilitation (the Division), within the Department of Human Services (the Department), is responsible for administering the Vocational Rehabilitation Program (the Program). However, day-to-day administration of the Program is decentralized within 29 Program field offices that include approximately 192 full-time-equivalent (FTE) staff consisting of vocational rehabilitation counselors, supervisors, and administrative staff. Program field office staff (Program staff) have a range of duties related to determining Program eligibility and the Program services that will be provided, including: (1) accepting applications from individuals seeking Program services and assisting with application completion; (2) assessing applicants' eligibility and impairments; (3) working with each participant to develop an employment outcome or goal; (4) determining the goods and services participants need to address an impairment or meet a goal and ensuring payments for those services are appropriate; (5) determining whether comparable services are available to participants' through other providers or programs and making referrals, as appropriate, to ensure the Program only pays for services that are reasonable, necessary, and provided at the lowest possible cost to the Program; and (6) monitoring participants' progress toward their employment goals. In addition, the Division is responsible for ensuring Program staff properly place eligible individuals on the Program's wait list for services.

Overall, as we describe in this chapter, we identified significant deficiencies in Program processes and controls in each of the areas listed above and found that the Division has not established a sufficient framework for ensuring the Program operates in accordance with federal regulations, state laws and rules, and Department and Division policies.

Program Management

According to federal regulations (Purpose, 34 C.F.R., pt. 361.1), the purpose of the State's Vocational Rehabilitation Program is to provide a statewide comprehensive, coordinated, effective, efficient, and accountable program of vocational rehabilitation services to individuals with disabilities, consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that the individual may prepare for and engage

in gainful employment. The Department has delegated the authority to administer the State's Program to the Division. According to statute, the Division is a Type 2 entity with the authority to promulgate policies and rules and administer Program operations, but the Division's authority, duties, and functions fall under the Department's purview. As the administrator of the State's Program, the Division is responsible for developing a system of management practices and internal controls, including a series of policies, procedures, actions, and activities throughout the Program's operations, which ensure the Program operates effectively and efficiently, complies with laws and regulations, and has a culture of accountability.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether the Division manages the Program effectively and sufficiently oversees and monitors its field offices' practices and delivery of Program services to ensure the Program operates in accordance with the regulatory intent and purpose of the Program. We performed the following audit work: (1) obtained and reviewed data from the Division's electronic case management system, the Accessible Web-Based Activity and Reporting Environment (AWARE) application, to assess the Program data available from the system and system capabilities; (2) reviewed the case files of a random sample of 85 participants who received Program services from one of 13 sampled Division field offices during Fiscal Year 2013 to determine whether Program staff properly determined the participants' eligibility, authorized and paid for Program services, and monitored the participants to ensure they successfully met their employment goals; (3) reviewed the Division's Program policy manuals that were in place from Fiscal Years 2007 through 2013; (4) reviewed materials from training sessions the Division provided its staff during Fiscal Year 2013; (5) interviewed Division management and staff, and Program staff, on Program operations, Division guidance and training, and how staff use the AWARE system; and (6) interviewed management from the federal Rehabilitation Services Administration (RSA), which oversees the Program and promulgates the federal regulations. Further, we surveyed or interviewed management from vocational rehabilitation programs in eight other states to determine best practices for Program management.

How were the results of the audit work measured?

We used the following criteria to evaluate the Division's management of the Program:

Program administration and oversight. Federal regulations (Methods of administration, 34 C.F.R., pt. 361.12) require the State to properly and efficiently administer the Program and to carry out all functions for which the State is

responsible under federal regulations. Federal regulations [State agency for administration, 34 C.F.R., pt. 361.13(c)] also require the Division, as the administrator of the State's Program, to establish procedures to ensure financial accountability and accurate data collection; oversee all decisions affecting eligibility for vocational rehabilitation services, including the nature, scope, and provision of services; oversee the allocation and expenditure of vocational rehabilitation funds and determinations of case closure; and formulate and implement policy.

State statute (Section 26-1-111, C.R.S.) requires the Department to administer and supervise all of the State's public assistance and welfare activities, including rehabilitation programs. As such, the Department has a duty to taxpayers who provide the federal and state funding for this Program, as well as to those who receive services from the Program, to ensure that Program funds are spent appropriately. Further, best practices for program management in Colorado government agencies are identified in the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act (Section 2-7-201 et seq., C.R.S.), and a 2010 study of government programs sponsored by the Project Management Institute. These sources identify the elements of a well-managed government program, including standardized program oversight processes and tools and practices developed to aid program implementation, such as systems to maintain program information.

The Program is not an entitlement. Federal regulations [Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42(a)(5)] specify that nothing is to be construed to create an entitlement to participants for any vocational rehabilitation service. As such, in reviewing the federal grant award documentation and through discussion with RSA management, the federal grant is a fixed amount awarded to the State and therefore, the State must manage the Program within the state and federal funding that is provided. The Division should have mechanisms—such as policies, procedures, and monitoring—in place that ensure Program funds are spent efficiently, effectively, and appropriately to provide services to participants. Further, RSA management stated that the State can limit services for the Program as long as the State has a standard and consistent process to review and allow for reasonable exceptions to the limits.

Reasonable, necessary, and appropriate use of public funds. Federal regulations [Written policies governing the provision of services for individuals with disabilities, 34 C.F.R., pt. 361.50(c)] require the State to maintain written policies that govern the rates for all purchased services and allow the State to establish a fee schedule to ensure service costs are reasonable. The Division's Policy Manual (Division policy) states that "all services and goods that have been determined to be necessary and appropriate must be procured at the least possible cost insofar as they are adequate to meet the needs of the individual" (Division policy, Section 12.11.3). In April 2013, the Division added a statement to its

policy that "the Division of Vocational Rehabilitation is entrusted to be good stewards of public funds when providing necessary and appropriate rehabilitation services leading to meaningful careers."

What problems did the audit work identify?

Throughout this audit, we identified pervasive problems in the Program that raise questions about the Division's oversight, system of internal controls, and culture of accountability. Specifically, we identified problems in each area of the Program we reviewed, including audit exceptions in 83 (98 percent) of the 85 sampled participant case files, resulting in a total of 20 audit findings and recommendations and $83,582 in known questioned costs. We found:

- The Program did not have adequate processes or controls for determining eligibility, setting employment goals, authorizing services for participants, processing payments, monitoring cases, ensuring participants meet employment goals, and budgeting and managing public funds, among numerous other problems.

- The Program did not have processes to prevent abuse and waste of Program funds and exposure to legal risks. In addition, the Division has not held Program field offices and staff accountable for complying with federal regulations, state statutes and rules, and Division policies.

- Division and Program staff had a general misunderstanding of the Program's purpose and scope, as specified in federal regulations, and as a result, the Program has provided participants a range of goods and services including car repair, dental surgery, out-of-state tuition, computers and cell phones, household items, funds for living expenses, retailer gift cards, and direct payments made to participants, among many other goods and services. Some of the goods and services the Program provided participants did not appear reasonable or appropriate.

The following table summarizes each Program area we reviewed and our resulting audit findings and recommendations.

Vocational Rehabilitation Program
Performance Audit
Summary of Findings

Rec. No.	Audit Finding Area	Exception or Error Rate (If Applicable)	Questioned Costs (If Applicable)	Internal Control Weakness Level
1	Program Management	--	--	Material Weakness
2	Duration of Program Services for Participants	--	--	Material Weakness
3	Service Authorizations	28%[1]	$33,559[2]	Material Weakness
	Payments	38%[1]		
4	Eligibility Determinations	29%	$14,057[2]	Material Weakness
5	Setting Employment Goals	29%	$ 740[2]	Material Weakness
6	Comparable Services and Benefits	44%	$10,943[2]	Material Weakness
7	Severity of Disability Determinations	48%	--	Significant Deficiency
8	Case Management	19%	$ 4,051[2]	Significant Deficiency
9	Wait List Management	--	--	Significant Deficiency
10	Fiscal Management	76%	--	Material Weakness
11	Corporate Credit Accounts	90%	$13,837	Material Weakness
12	Participant Use of Program Funds and State-Owned Equipment	--	$ 4,029	Material Weakness
13	Participant Contributions	70%	$ 5,135[2]	Material Weakness
14	Fee and Bonus Payments to Vendors	--	--	Significant Deficiency
15	Administrative Costs	14%	--	Significant Deficiency
16	Contract Management	67%	--	Significant Deficiency
17	Procurement Cards	43%	$ 9	Significant Deficiency
18	Quality Assurance Monitoring	--	--	Significant Deficiency
19	Complaint Management	86%	--	Significant Deficiency
20	AWARE Application Backups	--	--	Significant Deficiency
Total Known Questioned Costs			**$83,582[3]**	

Source: Office of the State Auditor's summary of the audit findings and recommendations.

[1] Recommendation No. 3 has two samples; therefore, the table shows the error rates for the service authorizations sample and payments sample.

[2] These specific questioned costs were identified during the review of the 85 sampled case files. Some case files had multiple exceptions in more than one finding area.

[3] Total known questioned costs are the total unduplicated questioned costs identified during the audit. Some questioned costs listed in the table are repeated in some of the findings and therefore do not sum to the total known questioned costs.

In addition to the problems listed above, the Division was unable to provide all Program data from its AWARE system that we requested. Specifically, although the Division was able to provide data on the individuals served by the Program and the payments made to vendors during Fiscal Year 2013, the Division was only able to provide Program data that were updated as of the date Division staff extracted the data from AWARE. For example, the Division could not provide data from AWARE on a particular participant's case, disability, or employment goal as of a particular date, such as July 1, 2012; this type of case information could only be obtained by manually reviewing the hard-copy case files, which we found were not always complete. Further, the Division could not provide certain historical information needed to determine Program trends, performance, and federal compliance. For example, the Division could not provide the following data:

- The number of participants who met their employment goals, which are documented in their Individualized Plans for Employment, after being served by the Program,

- The Program services that each participant received that the Division recorded outside of the AWARE system, or

- The total dollar amount of services that each participant has received through the Program.

Further, during the audit we requested AWARE data on the number of participants who were employed or not employed at the time they applied for Program services. Division staff reported that these data were not available in AWARE but could be found in the hard-copy case files. Therefore, we reviewed the case file documentation to determine the employment status for the 85 sampled participants; we found 36 (42 percent) were employed and 49 (58 percent) were not employed at the time of their Program application. After the audit was completed, the Division reported that it could provide data from AWARE on the applicants' employment status and provided these data on November 6, 2013. We performed reliability testing on the data by comparing it to the 85 sampled participants' case file documentation and found that for some participants the data did not match what was in the case files. For example, for seven of the 85 participants, the participants' hard-copy case files showed that they were employed at the time of application, but the data provided by the Division in November showed that these participants were not employed. Therefore, we questioned the reliability of these data.

Lastly, we found that the AWARE system does not include all payment information for all Program participants because some payments, such as bus passes and equipment that Program staff purchase for participants through

procurement cards, are processed through the State's accounting system, the Colorado Financial Reporting System (COFRS), rather than through AWARE.

Why did the problems occur?

Overall, we found that the problems we identified have occurred because the Division has not established effective Program management practices to ensure that it carries out both its responsibilities under federal and state law and its duty to taxpayers. Specifically, we found:

Lack of Division and Program oversight. The Department has not exercised its oversight authority over the Division and established systems to ensure accountability. For example, the Department has allowed the Division considerable latitude with respect to administering the Program and determining and implementing appropriate controls, including controls related to eligibility, service authorizations, accounting, budgeting, use of Program funds, and state contracts. Further, the Department has not established oversight mechanisms for monitoring the Division's policies and practices to ensure transparency of Division operations, including documented processes and open communication and reporting to Department management.

This is not the first time our Office has raised concerns with Division controls and management. Since 1997, we have identified areas for improvement at the Division through five financial audits and one performance audit. Most of the issues identified in prior audits are consistent with concerns identified in our current audit, including weaknesses in the timeliness of eligibility determinations, fiscal controls and accounting procedures, case file management, administrative expenditures, supervisory reviews, quality assurance reviews, and contract management. Despite recurring problems in the Division over the past 16 years and the Department's agreement with our prior audit recommendations, our current audit findings demonstrate that the Division has not acted to sufficiently address the problems identified and strengthen controls.

Lack of clear direction and reporting on the Program's purpose. We found the Division has not clearly or accurately defined the purpose and scope of services for this Program, in accordance with federal regulations, nor has the Division ensured that the Program is not treated as an entitlement. For example, we found that in several Division documents and reports to entities such as the Joint Budget Committee (the JBC), the Division incorrectly stated that it cannot stop services to a participant, which contradicts federal regulations. We also found training materials that the Division provided its staff in Fiscal Year 2013 that stated that the Division's policies and procedures are intentionally vague in areas such as eligibility, employment goals, and services, to provide Program counselors discretion. Further, some staff we interviewed did not have an accurate

understanding of the purpose of the Program. Some Division and Program staff mistakenly believed the Program is required to help the participants achieve their employment aspirations, regardless of the cost, time required in the Program, and whether the aspirations are reasonable; other staff stated that they believed they were required to provide all goods and services that a participant wants as long as the good or service may be needed for a participant to obtain employment, keep a job, or be happy in their job, which, as we discuss in the audit findings, has resulted in Program staff allowing significant latitude in the types, costs, and duration of goods and services that participants receive.

Lack of adequate data to monitor the Program. Based on interviews with Division staff and the Division's documentation and data, we determined that the Department and Division have not sufficiently determined the Program data and AWARE reports that are necessary to adequately monitor the Program, nor have they developed a system project plan outlining the steps the Division should take to develop AWARE reporting capabilities. Specifically, at the beginning of the audit, the Division could not provide us a listing of all the data that is tracked within AWARE which is needed to ensure Department and Division management have a sufficient understanding of the data maintained in the system. Further, the Division does not have a data warehouse to review historical Program data and does not require staff to record all payment information for all Program participants in AWARE. Once the Department and Division identify the AWARE capabilities needed to manage and oversee the Program and allow staff to record all payment information in AWARE, the Division would need to prepare a system project plan and provide it to either the State's Office of Information Technology or the AWARE vendor so that the reporting capabilities can be implemented.

Lack of oversight and monitoring of determinations made by Program counselors and supervisors. Program administration and service provision is decentralized and delegated to the 29 Program field offices. The Division has not implemented sufficient processes to oversee counselors' and supervisors' activities. For example, the Division does not require supervisory reviews to ensure that counselors properly determine eligibility, employment goals, and services; follow proper accounting controls; and comply with federal regulations, state laws and rules, and Division policies. In addition, the Division does not adequately monitor payments issued by Program staff to ensure the payments are reasonable and appropriate. As we discuss in the audit findings throughout the report, the Division has not established sufficient limits on the types or costs of services provided through the Program nor has the Division established a process for reviewing and approving exceptions to Program limits, in line with federal regulations.

Why do these problems matter?

In establishing the Program within the Division, the General Assembly vested the Department with broad responsibilities for managing about $53 million in Program funding annually. Comprehensive steps to improve internal controls and oversight of Division activities are needed to ensure accountability to taxpayers for the effective use of these funds. The Program provides a broad spectrum of services for individuals determined eligible for this program. By not having clear guidance and monitoring of Program services and payments, the Department cannot ensure that services are provided to individuals consistently and appropriately.

Because the Division could not provide the data on participants who met their employment goals, the services that each participant received, and the total dollar amounts of those services, we could not determine the overall effectiveness of the Program. Further, without adequate AWARE system capabilities to allow the Division to review the records of all cases, services, and payments, the Division does not have an accurate and electronic historical record of its participants, achievements, and challenges from which future staff and leadership can learn. Without sufficient controls to maintain historical Program data there is a risk that case file or payment data information in AWARE could be manipulated or altered without detection. For example, we received payment data as of June 26, 2013, that showed that $19.9 million in participant vocational rehabilitation services were authorized, incurred, and paid during Fiscal Year 2013 through that date. In September 2013, the Division provided updated payment data for Fiscal Year 2013 that covered services authorized and incurred as of June 30, 2013 but were paid as of September 19, 2013, which totaled $20.9 million. This indicates that the Program made more than $1 million in payments between June 26 and September 19 for Fiscal Year 2013 services. It is unclear whether the large number of payments were appropriate or whether the AWARE reports were consistent or accurate.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 1:

The Department of Human Services (the Department) should improve its oversight of the Division of Vocational Rehabilitation (the Division) and management and administration of the Vocational Rehabilitation Program (the Program) by:

a. Establishing and implementing a plan for conducting ongoing monitoring of the Division's performance to ensure the Division accomplishes its duties and responsibilities to administer the Program and is accountable to the Department. The plan should include following up on the Division's progress in implementing external audit recommendations from the Office of the State Auditor to ensure implementation is timely and effective.

b. Ensuring Division compliance with applicable federal regulations, state statutes and rules, and Department and Division policies. This should include reviewing federal regulations, state statutes and rules, and Department policies to identify inconsistencies and areas for statutory and policy clarification; working with the General Assembly, as needed, to clearly specify the role and responsibilities of the Division and help ensure it accomplishes the purposes intended by federal regulations and state laws; and revising Division policies, procedures, and staff training to provide clear guidance on the purpose and scope of the Program.

c. Determining the record keeping and reporting capabilities needed in the Accessible Web-Based Activity and Reporting Environment (AWARE) system and developing and implementing a system project plan to provide to either the Office of Information Technology or the AWARE vendor to implement any necessary system changes. This review and plan should include a method for extracting historical Program data.

Department of Human Services Response:

a. Agree. Implementation date: March 2014.

In July 2013, the Department began performing a large-scale reorganization of the Division of Vocational Rehabilitation. Since that time, the Division was moved into the Office of Long Term Care (the Office) to be co-located with similar programs. The Department has hired a new director of the Office and a seasoned audit manager for the position of Deputy Director for the Office. A new Division Director also was hired in October 2013. The Division will be working closely and collaboratively with the Department's Divisions of Accounting, Audit, Budget, and Procurement to address the issues identified throughout the audit.

The Department will establish a corrective action plan and conduct ongoing monitoring of the Division's performance. The Department will convene a workgroup to assist with developing this plan; the workgroup participants will include vocational rehabilitation staff within the Region VIII Technical Assistance and Continuing

Education Program, a federal Rehabilitation Services Administration-funded regional technical assistance resource housed at the University of Northern Colorado. The Department will ensure the Division properly implements each recommendation by using the audit tracking process already in place to manage the timely resolution of external audit recommendations from the Office of the State Auditor. In addition, the Division will rewrite its annual employee performance plans (PMAP) for management positions to include individual and team objectives related to ensuring Program accountability and teamwork.

b. Agree. Implementation date: July 2014.

The Department, by way of the Office Director, Budget Division, and Accounting Division, will work with the Division to review federal regulations, state statutes and rules, and Department and Division policies to identify inconsistencies and/or areas for statutory and policy clarification. The Division has begun the process for a formal revision of its rules. The Division will seek technical assistance from the federal Rehabilitation Services Administration, as necessary, regarding interpretation of the Rehabilitation Act. Based on this comprehensive review, the Division will revise its policies and procedures to comply with federal and state laws, and will train staff by providing guidance on the purpose and scope of the Program.

c. Agree. Implementation date: November 2014.

The Division will develop a system project plan to determine the specific record keeping and reporting capabilities that are needed for the AWARE system, as well as the costs associated to implement the changes. The Division will also evaluate how other states are using the AWARE system successfully in a data-driven environment and incorporate those concepts, as necessary, into its plan. With the technical assistance of the vendor, the Division will assess the capacity of the AWARE system to extract historical program data. The Division will implement the system's project plan as feasible.

Duration of Program Services for Participants

The primary goal of the Program is to achieve successful employment outcomes for its participants. A key element that the Division uses to help ensure that

participants will succeed in achieving gainful employment is the development of an Individualized Plan for Employment (Plan) for each participant. The Plan outlines the services that the individual needs to achieve his or her employment outcome, or goal. To achieve an employment goal, participants may receive a variety of services, such as job skills training, transportation assistance, and academic training in which the participant attends college to obtain a degree that may enable the participant to get a job. Each participant's Plan includes a section for the Division to document the estimated length of time it will take the individual to complete the planned vocational rehabilitation services and reach his or her employment goal and a section to document the estimated costs of those planned services.

As discussed in Chapter 1, in Fiscal Year 2013 the Program provided some type of service to 19,834 participants, which included those individuals who were determined eligible for the Program and only received application assistance and referral services. During the fiscal year, the Program paid for 9,256 of the 19,834 participants to receive a good or service in addition to the vocational rehabilitation services provided internally by Program staff. The amount of time that these participants had been receiving Program services averaged 1.8 years, and the cumulative costs of their goods and services to the Program recorded in the Division's AWARE system in Fiscal Year 2013 totaled about $22 million, or an average of about $2,434 per participant for the year.

What audit work was performed and what was the purpose?

The purpose of our audit work was to analyze the length of time that participants are generally in the Program before successfully reaching their employment goals and the costs to the Program of providing their services. We reviewed the length of time that participants had been receiving Program services since they were determined eligible and the costs to the Program to serve them. We identified 1,168 participants who were determined eligible before July 1, 2008, but still received services during Fiscal Year 2013, 5 years later, and reviewed Division documentation for a sample of eight of those 1,168 participants. The sample included four participants out of the 1,168 participants who had the longest periods of eligibility in the Program and an additional random sample of four participants from the remaining population of 1,164 participants. We reviewed hard-copy case files and information in the Division's electronic case management system, AWARE, for the eight sampled participants to understand the reasons they continued to receive Program services in Fiscal Year 2013.

How were the results of the audit work measured?

We used the following criteria when evaluating the length of time participants receive Program services.

Reasonable time periods. Federal regulations (Written policies governing the provision of services for individuals with disabilities, 34 C.F.R., pt. 361.50) specify that states may establish reasonable time periods for the provision of services provided that the time periods are not so short as to effectively deny an individual a necessary service and not absolute where exceptions are allowed so that individual needs can be addressed.

Employment outcomes. Federal regulations (Purpose, 34 C.F.R., pt. 361.1) require state vocational rehabilitation programs to assess, plan, and provide vocational rehabilitation services for individuals with disabilities so that they may prepare for and engage in gainful employment. Federal regulations [Content of the Individualized Plan for Employment, 34 C.F.R., pt. 361.46(a)(1)] also require that each participant's Plan include a description of the specific employment outcome that is chosen by the participant.

Monitoring of participants' Plans. Division policy (Section 11.7) states that the counselor shall monitor and review the implementation of the Plan on a regular basis and document such reviews in the case file. Division policy (Section 11.8) also states that the entire Plan must be reviewed at least annually by the counselor and the counselor must document the annual review in the participant's case file; the annual review shall encompass the progress toward and continued appropriateness of the planned employment outcome, objectives, vocational rehabilitation services' providers of goods and services, evaluation criteria, evaluation methods, and evaluation schedules contained in the Plan.

Reasonable costs. Federal regulations [Written policies governing the provision of services for individuals with disabilities, 34 C.F.R., pt. 361.50(c)] require the State to maintain written policies that govern the rates for all purchased services and allow states to create a fee schedule to ensure each service is procured at a reasonable cost to the Program. Regulations also specify that the fee schedule must not be so low as to effectively deny a participant a necessary service. The State should allow exceptions to the fee schedule so participants' needs can be addressed, and the State may not establish an absolute dollar limit on service categories or the total services a participant may receive. According to RSA management, the Division can limit services, and therefore costs, for the Program as long as the Division has a standard and consistent process to review and allow for reasonable exceptions to the limits. Division policy (Section 12.11) states that all vocational services and goods provided by the Division must be necessary, appropriate, and provided at the least possible cost.

Case closure criteria. Division policy (Sections 17.1 and 17.51) lists numerous reasons for case closure; some of the reasons include closure due to a successful employment outcome or ineligibility; "The individual cannot be contacted or located and there is documentation in the [case file] showing that the [Division] counselor made repeated and appropriate efforts to contact the individual and,

when appropriate, his/her authorized representative;" and "The individual has failed to cooperate, and documentation in the [case file] shows that the [Division] counselor has made repeated and appropriate efforts to encourage participation."

What problems did the audit work identify?

Overall, we found that some participants remained in the Program for extended periods of time without meeting their employment goals. These participants cost significantly more than the average cost per participant. The table below shows a summary of the 9,256 participants for whom the Program paid for goods and services, in addition to the vocational rehabilitation services provided internally by Program staff, in Fiscal Year 2013. The table includes the goods and services the Program purchased for the participants and recorded in AWARE since the date the participants had entered the Program, which in some cases was in the 1980s; the participants' average costs for goods and services during Fiscal Year 2013; the average number of years the participants have received Program services; and the range in the number of years that the participants have received services.

Vocational Rehabilitation Program
Summary of Participants Served
Fiscal Year 2013[1]

Total Participants	Costs Recorded in AWARE for Participants Since Entering the Program	Average Cost per Participant in Fiscal Year 2013	Average Time Receiving Services	Range of Time Receiving Services
9,256	$60.4 million	$2,434	1.8 years	2 weeks to 32 years

Source: Office of the State Auditor's analysis of Division of Vocational Rehabilitation data from the Accessible Web-Based Activity and Reporting Environment (AWARE) system.
[1] Data are as of June 18, 2013.

Further, we found that the Program costs incurred by the Division for about one-third of the participants (about 2,800 of the 9,256) exceeded the average cost per participant of $2,434. The costs to the Program to serve each participant during Fiscal Year 2013 varied significantly, ranging from about $1 to $114,000.

Problems Identified with Sampled Cases

We reviewed the cases for a sample of eight out of the 1,168 participants who were determined eligible before July 1, 2008, but still continued to receive services during Fiscal Year 2013. The following table summarizes each of the

eight participant's length of time in the Program, the cumulative amount paid for each participant's services, and the key goods and services that the Program purchased for each participant. These participants also received vocational rehabilitation services directly from Program counselors, which were internal costs to the Program and not reflected in the table as Program payments.

Vocational Rehabilitation Program
Sample of Eight Participants Who Received Services in Fiscal Year 2013
As of August 2013

Participant	Year Determined Eligible	Years in Program	Goods and Services Paid for by the Program[1]	Key Goods and Services Received	Met the Employment Goal?
#1	1981	32	$203,000	Tuition, assistive technology[2], and personal adjustment training[3]	No
#2	1988	25	$52,000	Tuition, books, childcare, transportation, and a computer	No
#3	1994	19	$315,000	Tuition, books, living expenses, transportation, and computers	No
#4	1994	19	$150,000	Tuition, books, assistive technology[2], and transportation	No
#5	2001	12	$21,000	Tuition, books, and medical supplies	No
#6	2006	7	$46,000	Tuition, books, and childcare	No
#7	2006	7	$23,000	Dental treatment, auto repairs, and employment assistance	No
#8	2008	5	$1,700	Psychiatric, orthopedic, and hearing evaluations	Unknown

Source: Office of the State Auditor's analysis of Division of Vocational Rehabilitation data from the Accessible Web-Based Activity and Reporting Environment (AWARE) system and case file documentation.

[1] Includes the costs of all goods and services provided by Program vendors and direct payments to participants that the Division recorded in the AWARE system. This does not include the costs of services that are not recorded in AWARE, such as services provided by Program staff or services that are only recorded in the Colorado Financial Reporting System (COFRS).

[2] Assistive technology includes items such as reading magnifiers and speech recognition software that improve a disabled individual's functioning.

[3] Personal adjustment training helps develop an individual's skills or adapt his or her behavior to improve functioning, mobility, or independent living.

We found that there was no evidence that any of the eight sampled participants met their employment goals despite receiving services through the Program for 5 or more years. We also found additional problems with each of the eight cases, including that the Program: (1) allowed participants to change their employment goals multiple times, (2) lost contact with some participants, and (3) failed to close participants' cases within reasonable time frames when evidence documented in the case files showed that the participants were unable or unwilling to participate in the Program or meet employment goals. We identified the following specific problems:

- For Participant No. 1, who was determined eligible in 1981, although Division staff reported that documentation was missing for much of this case and we were, therefore, unable to determine the participant's original employment goal, the available case file documentation showed that the participant changed the employment goal at least twice. Specifically, the participant's employment goal changed from counselor to answering service agent and then to self-employment. Case notes in both May 2011 and July 2013 stated that the participant was not progressing toward his or her employment goal, but the case was still open. As of August 2013, this participant was continuing to receive services from the Program and had received a total of $203,000 in Program goods and services.

- For Participant No. 2, who was determined eligible in 1988 and originally had an employment goal to become an administrative assistant, the Program paid for the participant's tuition toward a bachelor's degree, a certificate for a course of study that differed from the bachelor's degree, and other services. The participant changed the employment goal from administrative assistant to Web designer after the Program had paid for much of the participant's college education to become an administrative assistant, and the Program revised the participant's Plan based on the new goal. Case file documentation showed that the participant was frequently out of contact with the counselor, often for 1 year or more at a time, yet the Program continued to pay for the participant's college coursework. The case was closed in January 2013 without the participant achieving the employment goal. The Program had paid for a total of $52,000 in goods and services for this participant.

- For Participant No. 3, who was determined eligible in 1994 and had an employment goal to become a medical doctor, the Program paid for the participant to obtain a bachelor's degree and a doctoral degree, as well as a doctorate in medicine from a university in the Caribbean. Case notes indicated that the participant applied to schools located within the United States but was not accepted to those schools. Case notes stated the participant was repeatedly out of compliance with the Plan and Program

requirements, including not keeping contact with the counselor for long periods, not submitting monthly progress reports, and misusing Program funds. The case notes also indicated the participant had difficulty progressing toward the employment goal. The participant's counselors amended the Plan numerous times to authorize new degree programs to improve the participant's chance of being accepted into a medical school and allowed the participant more time to complete each degree. Although the case file documentation indicated that the participant had completed the degrees, the participant's case was still open and the participant had not achieved the employment goal of medical doctor as of October 2013 because the participant was unable to pass the medical licensure exam. As of August 2013, the Program had paid for a total of $315,000 in goods and services for this participant. Further, paying for the participant's graduate education outside of the United States did not appear to be a necessary, appropriate, or prudent use of federal and state funds.

- For Participant No. 4, who was determined eligible in 1994, the Program staff allowed the participant to change employment goals and change college majors, which resulted in the Program paying for the participant's college classes under both majors. The participant originally had an employment goal of elementary school teacher and changed it to human services assistant. According to Program staff, the participant attended classes part-time and was allowed by Program staff to change majors and the employment goal to human services assistant, all of which significantly delayed the participant's progress toward completing a degree and achieving employment. As of August 2013, the participant's case was still open, the participant had not completed a degree or reached his or her employment goal, and the Program had paid a total of $150,000 for goods and services. Additionally, Program staff told us that the participant's records from 1994 through 2004 were inadvertently destroyed, so we were unable to review all documents since the participant had been in the Program.

- For Participant No. 5, who was determined eligible in 2001, the Program staff allowed the participant to change employment goals and change college majors, which resulted in the Program paying for the participant's college classes under both majors. Specifically, in 2008, the participant changed majors and the employment goal from a public health educator to freelance writer. According to case file documentation, the participant attended classes part-time and counselors amended multiple Plans to extend the time for the participant to complete a degree. In addition, case notes showed that the participant was out of contact with the counselor from January 2012 until July 2013, but the case was not closed. As of August 2013, the participant's case was still open, the participant had not

completed a degree or met the employment goal, and the Program had paid a total of $21,000 for goods and services.

- For Participant No. 6, who was determined eligible in 2006 and originally had an employment goal to become an engineer, the Program paid for the participant to take classes toward two bachelor's degrees in two different fields from two different institutions, although the participant was expelled from the first institution and failed to stay in contact with the counselor for more than 2 years. When the participant was expelled, the counselor approved a change to the Plan for the participant to obtain an information technology degree at another institution. Case file documentation from 2010 showed that the participant was also suspended from the second institution, and the counselor lost contact with the participant in early 2011. The most recent case note was dated March 2012 and stated that the counselor had been unable to contact the participant. As of August 2013, the participant had not achieved the employment goal but the case was still open despite lack of contact with the counselor for nearly 2 years. Further, the Program had paid a total of $46,000 in goods and services for this participant.

- For Participant No. 7, who was determined eligible in 2006 and had an employment goal of animal groomer, between 2006 and 2009 the Program paid for dental services and to repair the individual's automobile. According to hard-copy and electronic case file documentation, the participant's services were suspended in 2009 but were reinstated in 2010 to provide additional dental work and assistance with obtaining employment as an animal groomer. Altogether the Program spent $15,600 on dental work for the participant, although case file documentation did not support that dental work was necessary for the participant to become an animal groomer. As of August 2013, the participant had not achieved the employment goal, but the case was still open and the Program had paid a total of $23,000 for goods and services.

- For Participant No. 8, who was determined eligible in 2008 and had an employment goal of administrative assistant, the Program failed to close the participant's case within a reasonable time frame when the case file showed that the participant was unwilling to participate in the Program. Specifically, the case file documentation noted that the participant refused to comply with medical evaluations that were needed to determine the services the participant should receive and refused to provide financial information so that the counselor could determine whether the participant could contribute toward the cost of services. The case file documentation also stated that the participant did not stay in contact with the counselor for long periods, yet the case remained open until July 2012, when the

counselor learned that the participant had obtained employment. At that time, Program staff closed the case even though they were unsure what type of employment the participant had obtained or whether the participant met his or her employment goal. The Program had paid a total of $1,700 in goods and services for this participant.

Why did the problems occur?

The problems we identified occurred for the following reasons:

- **No thresholds on the amount of time a participant can receive services.** The Division has not established policies regarding a reasonable length of time for a participant to receive services, as allowed by federal regulations. For example, although counselors estimate in each participant's Plan the amount of time, typically in months, that it will take the participant to reach his or her employment goal, the Division has not established benchmarks or reasonable time frames, such as 2 years for a participant not seeking a degree or 5 years for a participant seeking a degree, for providing services to help the participant reach his or her employment goal. Other states we surveyed have established policies that limit or have increased requirements regarding the duration of time that the Program will pay for services. For example, Georgia has established a policy limiting the time allowed to complete a bachelor's degree to 5 years.

- **Lack of procedures for ensuring service costs are reasonable and necessary.** The Division has not established policies or procedures, including cost thresholds, to ensure the Program only pays reasonable, necessary costs for participants. For example, the Division does not have a policy limiting authorizations to the cost of in-state tuition or equivalent out-of-state tuition. In addition, Division policy does not require the participant to pay any costs that exceed in-state tuition or the equivalent. According to Division data, in Fiscal Year 2013 the Program paid a total of $930,000 to colleges and universities in 25 other states, including Florida, Hawaii, and New York, for participants' tuition and fees. Several of the vocational rehabilitation programs in other states that we surveyed—Washington, West Virginia, Alabama, Oklahoma, and Maryland—have developed policies limiting their programs' cost or payment of tuition to in-state tuition.

  According to the Division, its fee schedule serves to limit tuition costs because the schedule states that "When a [participant] chooses an out-of-state or private college or university and there are other appropriate and less costly alternatives that meet the individual's vocational rehabilitation needs within Colorado, [the Program] will not be responsible for those

costs that are greater than the least costly alternative." However, based on our review of case files and interviews with Program staff, we found that staff repeatedly determine that there are no alternatives available to meet participants' education needs in Colorado, such as when a Colorado school will not accept a participant or does not have the exact degree program that a participant desires. Further, the Program has paid for participants' out-of-state tuition without requiring the participants to pay for the amount that exceeded an equivalent in-state tuition.

In addition, the Division does not sufficiently ensure participants do not waste Program funds when the individuals fail to meet expectations outlined in their Plans or complete the services that the Program purchased. For example, the Division does not have a policy or process to recover Program costs or discontinue services to participants who drop out of college, get expelled, change degrees without prior Program approval, or fail classes.

- **Lack of monitoring of participants' duration in the Program.** The Division has not established a process for monitoring participants' length of time in the Program and assessing the reasonableness of continuing to serve those participants who fail to meet employment goals after receiving Program services for multiple years. For example, there is no process for supervisors to identify cases that extend several years or to review a sample of those cases to assess the appropriateness of employment goals and changes to the goals, or to monitor for participant compliance with the Plan. Further, there is no review and oversight by Division management of participant cases that have extended several years beyond the length of time that counselors originally estimated was needed for the participant to reach his or her employment goal or of those cases that represent a substantial cost to the Program to determine why Program staff continued services or revised employment goals rather than closing cases. In addition, the Division does not have a standard and consistent process for reviewing and approving exceptions to its policies or fee schedule, in line with federal regulations.

Why do these problems matter?

The problems we identified with the Division's lack of oversight and controls over the duration and costs of participants' Program services are important for the following reasons:

- **The Program cannot ensure participants achieve employment in a timely manner.** The purpose of the Program is to provide services to participants to prepare for and engage in employment. When the Division

does not establish reasonable thresholds for the number of years it will provide services before it will begin limiting a participant's services or close the participant's case, it cannot ensure participants will meet their goals in a timely manner. When the Division does not identify and review cases that have been open for extended periods, it cannot evaluate whether the participants' employment goals are reasonable and attainable.

- **The Program cannot ensure federal and state funds are used appropriately and efficiently.** Paying for services for participants who are not making sufficient progress toward meeting employment goals within reasonable time frames is not an appropriate or prudent use of limited Program funds. For the eight case files we reviewed for participants who had received services for at least 5 years since they were determined to be eligible, the Program spent a total of more than $816,000 on vocational rehabilitation services, yet each of the participants had been out of compliance with his or her Plan at some point and had not achieved his or her employment goal. Further, expenditures for college tuition and training represent a significant cost to the Program and totaled $4.9 million in Fiscal Year 2013. Due to the limited controls the Division has over the approval of participants' tuition, the Division cannot ensure that the funds that it has paid for participants' tuition were procured at the least possible cost to the federal government and State. Finally, paying for participants to receive services outside of the United States, such as college in a foreign country, as a general practice appears inappropriate given that vocational rehabilitation is a federal grant program and creates difficulties for counselors regarding their abilities to monitor participants' progress toward achieving their employment goals.

  Additionally, by not closing the cases of participants who do not cooperate and do not comply with Division policies, the Division cannot realize the potential cost savings that it could use to serve new individuals who are on the Program's wait list and are in need of services, as discussed in Chapter 2, Recommendation No. 9. Specifically, in Fiscal Year 2013, while the Program had open cases for more than 1,100 participants who had been in the Program for 5 years or more and continued to receive services, the Program had more than 4,200 eligible individuals on its wait list. When participants can receive services indefinitely without sufficient procedures to ensure reasonableness, it is less likely that individuals on the wait list will be served in a timely manner.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 2:

The Department of Human Services (the Department) should improve controls to ensure participants in the Vocational Rehabilitation Program (the Program) reach their employment goals within reasonable time periods and federal and state funds are used prudently and efficiently by:

a. Establishing and implementing policies regarding reasonable time frames, such as 2 years for participants not seeking a degree and 5 years for degree-seeking participants, for participants to receive Program services, as allowed by federal regulations.

b. Establishing and implementing methods to control Program costs. These methods should include setting reasonable thresholds for the costs of different types of Program services; instituting controls over authorizations and payments for academic training and tuition that limit the Program costs to in-state tuition or the equivalent; and recovering Program costs or discontinuing services for any participant who withdraws or is expelled from college or otherwise fails to reasonably meet the requirements in his or her Individualized Plan for Employment.

c. Establishing and implementing an ongoing review process, such as at the Division of Vocational Rehabilitation level or by a special team of Department management and staff, to assess the appropriateness of continuing to serve participants who fail to meet employment outcomes and goals within the time frames and thresholds established in parts "a" and "b" above. This process should include implementing a methodology for reviewing and approving exceptions to the limitations, when reasonable, and notifying participants who remain in the Program for extended periods without sufficiently progressing toward their goal of a reasonable time frame to meet their goal before Program services will end.

d. Establishing and implementing procedures to close cases, as appropriate, when participants fail to meet the reasonable time frame for meeting employment outcomes and goals, set in part "c" above, after they have been notified of such case closure.

Department of Human Services Response:

Agree. Implementation date: July 2014.

a. The Division of Vocational Rehabilitation (the Division) will establish and implement policies regarding reasonable participant timeframes to

ensure adequate progress toward the achievement of an employment outcome. The duration of each service needed by a participant must be determined on an individual basis and reflected on the participant's Individualized Plan for Employment. The Division will look at operational process improvements, policy revisions, and training and supervision of staff to ensure that participants are making timely and satisfactory case progress and receiving services only for the duration necessary to address their individual barriers to employment.

b. The Division agrees to establish reasonable thresholds regarding costs of services in a manner that complies with 34 C.F.R., pt. 361.50. The Department also agrees to establish controls over authorizations and payments for academic training and tuition that limit Program costs to in-state tuition or the equivalent, if appropriate. The Division will request written guidance from the Rehabilitation Services Administration about how to address the recovery of costs, as appropriate, when participants fail to reasonably meet the requirements in his or her Individualized Plan for Employment. The Division will revise its policies and procedures to clarify that cases will be closed when participants do not make appropriate case progress.

c. The Division will establish a Division-level ongoing review process to ensure that participants, particularly those with cases that have been open for extended periods of time, are making sufficient case progress. Additionally, the Division will provide training along with increased coaching and supervision to strengthen counselors' skills and capacity to effectively manage, review, and document participant progress. Data obtained from the review process will provide Department and Division management with information to more adequately assess whether sufficient case progress is occurring.

d. The Division will review existing policies and procedures regarding case closure and will revise them to ensure compliance with federal and state laws. The Division will also provide training and supervisory oversight to assure that vocational rehabilitation counselors make appropriate case closure decisions.

Controls Over Service Authorizations and Payments

The Division has developed a service authorization and payment process to provide services and goods to participants eligible for the Program. According to

Division staff, Program counselors work with each participant to develop an employment goal and determine the services the participant will need to complete his or her employment goal. The identified services and goods that the participant will need are to be documented in the participant's Plan. Counselors can authorize a wide range of goods and services, such as hearing aids, job interview clothing, job placement services, academic training, psychological counseling, and assistive technology devices for participants, which are typically provided by vendors. Participants can also receive some Program services, such as vocational counseling and guidance, directly from Program staff rather than vendors. For the participant to receive goods or services from a vendor, the counselor must complete a Service Authorization form that includes information about the type of good or service, the vendor that will provide it, the dollar amount authorized to pay for the good or service, and the date the Authorization form was created.

The Division has created a fee schedule that provides guidance on the cost of goods and services provided by the Program. This fee schedule includes either an allowable range of fees or an allowable threshold for payments for goods and services provided by the Program. The participant's counselor must authorize an amount for each good or service based on the fee schedule in accordance with the Division's policy of least possible cost. If the cost of the authorized good or service is over a certain dollar threshold specified by Division policy or Division management, the counselor must have supervisory approval before giving the Service Authorization form to the participant to obtain the service or good. A copy of this form is to be maintained in the participant's hard-copy case file.

Federal regulations require the Division, as a recipient of federal grant funds, to monitor and properly document all payments made with federal dollars to ensure that the funds are used for allowable purposes. For goods or services that participants receive from a vendor, the counselor verifies the transaction by (1) obtaining an invoice or receipt from the participant or contacting the participant to verify he or she received the service (such as an appointment with a doctor) and (2) reviewing the invoice or billing statement that the vendor sends to the field office. The counselor matches any invoices and receipts that he or she receives to the participant's Service Authorization form and approves and signs the payment invoice before providing it to an administrative assistant within the counselor's office to process the payment.

What audit work was performed and what was the purpose?

The purpose of our audit work was to determine whether the Division has sufficient processes and controls to ensure that the services that participants receive and payments made on their behalf are allowable, reasonable, and appropriate based on federal and State regulations, Division policy, and the Division's fee schedule.

First, we reviewed the hard-copy documentation and AWARE data for a sample of 85 participants who received Program services in Fiscal Year 2013 to determine whether: (1) the services were authorized in accordance with the participants' Plans and before services were provided, (2) the authorizations were documented in the participant case files and AWARE, (3) the authorized services related to a disability that was documented in the participant's case file, and (4) the Program staff obtained supervisory approvals as required by Division policy.

Second, we identified 63 of the 85 participants that had payments made to external vendors on their behalf during Fiscal Year 2013. We reviewed a sample of 63 payments, one for each of the 63 participants, totaling $60,450. We reviewed the 63 sampled payments to determine whether: (1) Program staff paid the correct amount based on the Service Authorization form and related unit rate contained on the Division's fee schedule, (2) the Service Authorization form contained evidence of supervisory approval as required by Division policy, (3) the payment was properly supported with an invoice or receipt, (4) the payment was approved by a counselor, and (5) the service or good was documented as authorized on the participant's Plan. In addition, for a sample of 14 vendors that received payment from the Program, we confirmed that they had a business filing with the State and were, therefore, valid vendors.

We also interviewed Department accounting and internal audit staff, Division management and staff, and a sample of 15 administrative staff, counselors, and supervisors from seven of the Program's field offices throughout the state to understand the Division's requirements and field offices' practices for authorizing, providing, and paying for Program services and goods.

How were the results of the audit work measured?

We used the following criteria to assess the Division's controls over service authorizations and payments:

Internal controls over transactions. The federal Office of Management and Budget's (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133),* requires that states implement internal controls to ensure that transactions are properly executed, recorded, and accounted for to permit the preparation of reliable financial statements and federal reports, maintain accountability over assets, and demonstrate compliance with laws, regulations, and other compliance requirements. Federal regulations (Methods of administration, 34 C.F.R., pt. 361.12) require the State to properly and efficiently administer the Vocational Rehabilitation Program. As a best practice, a comprehensive system of financial controls includes a post-payment review process to ensure that controls are operating as intended; all payments are

necessary, appropriate, and supported by adequate documentation; and participants receive services deemed necessary to meet their needs.

Additionally, State Fiscal Rule 1-9 states that departments, agencies, and institutions of higher education are responsible for the design and implementation of programs and internal controls to prevent, deter, and detect fraud. To reduce the risk of error or fraud, agencies should separate the duties and responsibilities for reviewing the transactions, recording them, authorizing transactions, and handling any related assets.

Services, goods, and associated payments must be reasonable and appropriate. OMB's *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (Circular A-87),* provides basic guidelines for a cost to be allowable under a federal award. These guidelines state that the costs charged to a federal award must be necessary and reasonable and that the cost be adequately documented. OMB's *Circular A-133* states that transactions must be executed in compliance with laws, regulations, and the provisions of contracts or grant agreements. State Fiscal Rule 2-1 states that all expenditures by state agencies and institutions of higher education shall meet the standards of propriety as being for official state business purposes only and reasonable and necessary under the circumstances. In addition, State Fiscal Rule 2-3 requires that receiving reports, or other sufficient documentation, be prepared for all goods and services received, and that staff ensure that they show actual quantities prior to processing a voucher for payment. According to Division policy (Section 12.11), all goods and services must be necessary and appropriate, procured at the least possible cost to the Division, and essential to assess an individual's eligibility and severity of disability and establish his or her vocational rehabilitation needs.

Authorization of and payment for goods and services. Division policy (Sections 10.2 and 10.3) contains the following provisions regarding the authorization of goods and services:

- An authorization for Vocational Rehabilitation Service form reflects the Division's commitment to pay for specific goods and services rendered in accordance with the terms and conditions of the authorization.

- Any service paid for, in part or in whole, by the Division shall be authorized, in writing, by a counselor prior to its initiation unless the case file documents that prior written authorization is not possible; in those instances, supervisory approval is required.

- Once a participant's Plan has been developed and signed by the individual and the counselor, only the services or goods documented in the Plan may be authorized.

- Counselors must authorize services and goods and approve payment in accordance with the Division's fee schedule. Market-based standardized rates of payment and other rate-setting procedures are established in writing by the Division's Director for each available vocational rehabilitation service.

Required supervisory approvals. Division policy (Section 10.41 and 10.24) requires supervisors to approve purchases of more than $5,000 in writing, and authorizations for which the payment will be made directly to the participant must be approved by the Division's Administrator of Field Services. In January 2013, the Division implemented a temporary policy that decreased the threshold needed for supervisory approval of service authorizations to $2,000 or more. In April 2013, the policy was revised to require a supervisor to also approve payments that are made directly to participants.

Mileage reimbursement rates. State Fiscal Rule 5-1 specifies that a state employee can be reimbursed for each mile actually and necessarily traveled on State business using the employee's personal vehicle at 90 percent of the prevailing Internal Revenue Service (IRS) rate per mile. As of January 2013, the IRS rate for vehicles is 57 cents per mile and the State's rate is 51 cents per mile for two-wheel drive vehicles.

What problems did the audit work identify?

We found problems with Program field office staff's authorization and payment processes related to the purchasing of goods and services for participants, as discussed below.

Service Authorizations

We identified problems related to service authorizations in 24 (28 percent) of the 85 participant case files we reviewed. We found that Program staff authorized participant services that did not correspond to a documented need, impairment, or disability; authorizations for services were missing, created after the services had been provided, or did not have supervisory approval; payments were over the authorized amounts; and authorized services did not appear reasonable and necessary, as described below. Some sampled participant case files had multiple exceptions. The problems we identified with service authorizations resulted in a total of $24,727[1] in known questioned costs.

- **Lack of evidence that an authorized service was needed to address a disability or impairment.** In five participant case files, the Program staff did not document, in the case file or in AWARE, a disability or job-related impairment related to the service that was authorized. For example, four

participants had been authorized vision examinations and eyeglasses, but there was no documentation that they had vision-related disabilities. For another participant, Program staff authorized the participant to receive dental work, eyeglasses, and hearing aids but did not document any disabilities in these areas. These problems resulted in a total of $5,695 in known questioned costs.

- **Missing written authorizations.** For 11 participant case files, the hard-copy case files did not contain all of the required written authorizations for those participants. These errors resulted in $623 in known questioned costs.

- **Authorizations created after services were provided.** For two participant case files, Division staff did not complete the Service Authorization form until after the date of the vendor invoice, meaning that services were provided without prior authorization as required by Division policy. This problem resulted in $2,725 in known questioned costs.

- **Lack of required supervisory approval.** Five participant case files did not contain evidence of appropriate supervisory approval, as described below. These errors resulted in $11,644 in known questioned costs. Specifically, for two participants, authorization amounts for hearing aids exceeded $5,000, but the authorizations did not contain evidence that the supervisor had approved the authorization as required by Division policy; one authorization for a direct payment of $500 to the participant for child care services was not approved by the Administrator of Field Services as required by Division policy; and the Division paid $285 for two participants to receive services that had not been authorized prior to the initiation of services and did not include supervisory approval as required by Division policy when a service is provided before it is authorized by the counselor.

- **Authorized services did not appear reasonable or necessary.** Four participant case files contained authorizations for services for which the Program paid but that did not appear to be necessary or appropriate. Specifically, for two participants who wore and had hearing aids, the Program paid for the participants to receive new hearing aids, but there was no documentation in the hard-copy case file or in AWARE of malfunctions or problems with the participants' existing hearing aids. For two other participants, the Program included college courses in the participants' Plans, but the participants were already attending college when they applied to the Program. There was no documentation in the hard-copy case file or AWARE of the rationale for why the Program began paying the participants' tuition when the participants had been able

to pay for these costs. These problems resulted in a total of $3,976 in known questioned costs.

- **Payments exceeded the amounts authorized.** In three participant case files, the Division paid the vendor more than the total amount shown on the Authorization forms. These problems resulted in a total of $314 in known questioned costs.

Payments for Services

We also identified problems with 24 (38 percent) of the 63 payments we reviewed, including payments for services that were not authorized by a counselor, did not follow the fee schedule, exceeded the amount authorized, lacked required supervisory approval, or lacked documentation to support the amount paid, as discussed below. Some sampled payments had multiple exceptions. The problems we identified resulted in a total of $14,216 in known questioned costs. However, $5,384 of the $14,216 are identified as questioned costs in the problems with service authorizations noted above, and therefore, $8,832[1] are the total known questioned cost related to payments for services.

- **Payments for services that were not authorized or not in the Plan.** Seven of the sampled payments, totaling $2,189, were for services that did not match the Service Authorization form or were not documented in the participant's Plan. For example, one payment was for eyeglasses although vision restoration was not included in the Plan. For another payment, the service authorized was learning evaluation services, but the payment was for a cancellation fee for the participant missing an appointment for a learning evaluation. These problems resulted in $1,661 in known questioned costs.

- **Payments did not match the fee schedule.** Five of the payments, totaling about $2,381, and their related authorizations did not match the Division's fee schedule for the service or the fee schedule did not list an amount. For example, in two instances, the fee schedule included a rate for a psychological evaluation of $201 per hour, but the authorization and subsequent payment showed a total payment authorized as $550 with no hourly amount specified. These problems resulted in $2,381 in known questioned costs.

- **Overpayments.** Three of the payments, totaling $393, exceeded either the amount authorized or invoiced by the vendor by a total of about $6. For example, for one payment for medical records, the amount paid to the vendor was more than the vendor charged on the invoice, and there was no evidence that the vendor refunded the overpayment or that the Division

attempted to reconcile the cost. The $6 represents known questioned costs. Although the overpayment amount noted is minimal, payment amounts should agree with supporting invoices.

- **Lack of supervisory approval.** Two of the payments, totaling $9,251, lacked documentation or evidence of supervisory review and approval prior to the services or goods being authorized and then paid. One payment was for more than $5,000 and therefore required supervisory approval; the other payment occurred after January 2013 and exceeded the $2,000 threshold needed for supervisory approval. These payments of $9,251 are known questioned costs.

- **Lack of supporting documentation for payments.** Six of the payments, totaling $1,920, lacked sufficient supporting documentation, such as an invoice from a vendor or a receipt, for us to determine whether the payment amount was appropriate. Further, two of these payments were for travel reimbursements and were missing information, such as addresses and supporting documentation for the mileage amounts and rates used for reimbursement. These problems resulted in $1,710 in known questioned costs.

- **Lack of counselor approval for purchases.** Six of the payments, totaling $3,255, lacked evidence of the counselor's review and approval of the service or good that was purchased. These payments of $3,255 are known questioned costs.

- **Authorizations were processed incorrectly, contained errors, or were incomplete.** Three of the payments, totaling $515, did not have appropriate authorizations. Specifically, for one payment, the counselor's authorization of the service was dated after the date of the vendor's invoice. For the second payment, two authorizations were issued for the same service. We verified, in this case, that the two authorizations did not result in duplicate payments. For the third payment, the authorization listed two types of services that had different payment amounts in the fee schedule, so we could not determine whether the amount authorized and paid was appropriate. These problems resulted in $265 in known questioned costs.

Based on our interviews and walk-throughs of the payment process with staff, we also determined that the field offices lack appropriate segregation of duties in relation to their payment process. Although supervisors are required by Division policy to approve authorizations for $2,000 or more, counselors approve payments for the services that they have authorized and there is no supervisory review or other oversight of the payments. Specifically, the counselors authorize

the services and goods for participants, receive the invoices and receipts from vendors and participants, verify that the participants received the services and goods, approve transactions for payment, and then typically provide the approved invoice to administrative staff who enter the payment information and transaction into AWARE for payment to the vendor. Additionally, some staff we interviewed reported that sometimes the counselors enter the payment into AWARE when administrative staff are not available. There is no additional review or approval of the payment information within AWARE.

Why did the problems occur?

Overall, the Division does not have adequate controls and oversight over service authorizations and payments. Specifically, as we discuss below, the Division lacks: (1) policies and clear guidance regarding reasonable and appropriate services and payments; (2) sufficient monitoring of service authorizations and payments; (3) specific requirements for supporting documentation to support each payment, such as receipts, invoices, and any other documentation appropriate to support the transaction; (4) proper segregation of duties; (5) post-payment review processes; and (6) training to staff involved in payment processing. We found:

- **Lack of standard policies and procedures to ensure authorized services and payments are reasonable and appropriate.** The Division does not have a policy or procedure to ensure that Program staff only authorize services that relate to participants' documented disabilities and impairments. In addition, the Division has not established procedures or controls that ensure Program staff (1) authorize services before they are provided and obtain appropriate supervisory approvals, (2) pay only the dollar amounts that have been authorized, and (3) maintain documentation of authorizations. Division staff told us that Service Authorization forms are not required to be in the hard-copy case files because the forms are stored electronically in AWARE. However, Division policy requires authorizations to be in writing, and Division-provided training materials stated that the authorizations must be printed and signed. In addition, Division staff indicated that supervisory approvals were not required for two transactions (totaling $5,699 and $5,160, respectively) we reviewed because the items in those transactions required prescriptions, yet the Division's policy specifically requires that goods or services that cost $5,000 or more—$2,000 or more after January 2013—must be approved by a supervisor without regard to whether the items require prescriptions. The Division does not have controls, such as a monthly review of reports from AWARE, to ensure that all high-dollar services and transactions are approved by a supervisor.

Further, in reviewing the Division's fee schedule, we noted that it indicates that the payment amount authorized on some of the services and goods should be the "lowest available usual and customary rates" but does not define how Program staff determine this amount and what documentation is needed for support. In addition, when the Division reimburses a participant's mileage related to travel, the Division's fee schedule specifies that Program staff are to review websites to determine miles per gallon for the vehicle used and the cost of fuel per gallon. The Division does not use the annually established federal or state mileage reimbursement rates, which would be consistent with State Fiscal Rules for mileage reimbursements and federal methodologies. The Division also stated that it requires services to be preapproved, but if there is an error on the Service Authorization form or a cancellation fee needs to be paid rather than the services approved, the Division has not provided guidance as to how the counselors should correct the error or document cancellation fees so that AWARE does not appear to show that the service was provided when it was not.

- **Lack of monitoring of service authorizations and payments.** Counselors are not monitored to ensure that the services they authorize for participants and approve for payment comply with federal regulations and Division policies. Currently, for all service authorizations under the dollar threshold requiring a supervisory approval, counselors are solely responsible for authorizing the services for participants and reviewing and approving invoices for payment. Division staff indicated that supervisors generally do not review participants' case files or service authorizations under the dollar threshold unless the counselor is new or the participant files a complaint.

- **Lack of requirements for supporting documentation.** The Division does not have a policy requiring the case file to include documentation to support each payment, such as receipts and invoices. Further, the Division does not have a policy requiring counselors to verify that participants receive services and goods, document the verification and approval by signing the receipt or invoice, and maintain the documentation in the participant's file.

- **Lack of segregation of duties related to payments.** The Division does not appropriately segregate staff duties related to payment authorizations and processing to ensure that the staff member who is responsible for authorizing services differs from the individual who approves payment for those services. Further, the Division does not have a policy requiring staff other than a supervisor's direct report to approve the supervisor's payments that he or she has authorized for participant services.

- **Lack of post-payment review process.** The Division does not have a post-payment review process to ensure that payments are appropriate. Post-payment review processes should include: (1) comparing a risk-based sample of payments with supporting documentation to ensure that payments were appropriate and for allowable services and recovering payments made in error or for unallowable services, and (2) monitoring activities, such as calling, sending questionnaires to, and/or visiting a sample of participants to ensure that they received the services that vendors billed on their behalf. To be the most effective, post-payment reviews should be conducted using a risk-based sampling approach designed to address high-risk payment types, such as services billed in 15-minute increments, and review high-risk providers, including providers with an unusually high volume of payments. Additionally, the review process should include a method for tracking and analyzing errors found during the post-payment review to identify patterns and problem areas. The Division could use this information to modify payment policies and procedures as necessary.

- **Lack of proper training on payment processing.** The Division also has not properly trained Program staff on accounting controls, including each staff member's role in the payment process. Further, Program staff reported that they have not received training on the payment process regarding the types of documentation, such as invoices or receipts, that should be provided as support for the payments, the types of approvals that are needed on the documentation, the payments that are allowable or unallowable for the Program, such as payments that are more than the range or amount specified in the fee schedule, and when a payment is appropriate or not appropriate to make.

Why do these problems matter?

Division policies require the Program to provide services and goods that are necessary and appropriate, at the least possible cost. Authorizing services without documentation of their need or a related impairment, paying more for services than was authorized, and failing to obtain and document supervisory approval of higher risk purchases has resulted in unnecessary and unreasonable costs to the Program. Further, Colorado's Program has limited funding to provide services to participants and, due to budget constraints, has not been serving participants who are determined eligible for the Program since April 22, 2013, when the Division implemented a wait list. During Fiscal Year 2013, the Division authorized about $22 million in federal and state funds for participant services.

By not having proper internal controls, including segregation of duties and supervisory review of payments, there is a risk that fraud or errors will occur and

not be identified or addressed. In addition, without proper controls over service authorizations and associated expenditures, the Division cannot ensure that public funds are used efficiently, effectively, and for their intended purposes to ensure participants meet their employment goals. Further, noncompliance with federal grant requirements could lead to federal disallowances or sanctions. In addition, it is important that AWARE reflects accurate payment information, such as cancellation fees, for the Division to use in monitoring participants in the program and overseeing program expenditures.

[1] Known questioned costs total $33,559. This total will not equal the sum of the amounts noted in the bullets on pages 51 through 54 because the case files had more than one problem. Therefore, the related questioned costs are included in more than one bullet. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 3:

The Department of Human Services (the Department) should improve controls over service authorizations and payments for the Vocational Rehabilitation Program (the Program) by:

a. Establishing and implementing policies and procedures requiring that the Program only authorize services that are needed to address participants' barriers to employment based on their documented disabilities and impairments.

b. Establishing and implementing procedures that ensure staff authorize services before they are provided, obtain and document appropriate supervisory approvals, pay only the amounts that have been authorized, and maintain Service Authorization forms in the case files.

c. Developing and implementing comprehensive written policies and procedures over the Program's payment process that includes requirements for maintaining documentation that supports the payment amount and purpose, ensuring service authorizations match the payments made, and approving and verifying the receipt of services and goods. In addition, the policies and procedures should define the lowest available usual and customary rates, specify clear restrictions and parameters for

purchases, and include written guidance for staff to follow when reviewing and approving payments.

d. Using the federal or state mileage reimbursement rate as specified by State Fiscal Rules when calculating a participant's mileage reimbursement.

e. Adequately segregating staff duties within the payment process. Specifically, the Department should ensure that individuals who authorize and approve services and goods are segregated from the processing of payments and do not directly receive vendor or participant receipts or invoices. The Department should also ensure direct reports are not approving payments for their supervisors.

f. Establishing and implementing processes to monitor service authorizations and associated payments to ensure that services are authorized before the participant receives the services and that payments for services do not exceed the amounts authorized. This should include a post-payment review procedure that reviews a sample of payments at least annually and mechanisms for revising policies and procedures as necessary based on patterns of errors identified during the annual review.

g. Training Program staff on accounting controls and payment policies and procedures.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Department will ensure that the Division of Vocational Rehabilitation (the Division) reviews and strengthens existing policies and practices to ensure that the only goods and services that may be authorized and purchased by vocational rehabilitation counselors are those that directly address an individual's barrier to employment in his or her identified vocational goal, which will be documented in their Individualized Plan for Employment.

b. Agree. Implementation date: April 2014.

The Division will strengthen its policies and procedures ensuring that services are authorized prior to provision and that appropriate supervisory approvals are obtained and documented in the case files. The Division will review and adjust AWARE authorization processes to ensure that payments for the receipt of authorized goods and services follow the fee schedule and that there is proper alignment

between the amount authorized and the amount paid. This will be accomplished by a procurement improvement team to identify and document strong, step-by-step processes for authorization and payment of goods and services that are compliant with federal and state laws.

c. Agree. Implementation date: July 2014.

The Division will work with the Department's Divisions of Audit, Procurement, and Accounting to implement best practices in all areas of procurement, authorization, payment, and maintaining supporting documentation to provide the necessary goods and services to participants using the AWARE system. Adjustments to the AWARE system will be identified and implemented as feasible. The fee schedule will be reviewed to ensure that "lowest available usual and customary rates" are sufficiently defined and all established fees are clearly outlined.

d. Agree. Implementation date: December 2013.

The Department will implement and train on the use of the state mileage reimbursement rate for all participant mileage reimbursements.

e. Agree. Implementation date: April 2014.

The Division will work with the Department's Divisions of Audit, Procurement, and Accounting to ensure best practices are implemented and followed in all areas of procurement, authorization, payment, and supporting documentation processes.

f. Agree. Implementation date: July 2014.

The Department will ensure that the Division develops a post-payment oversight process to review a statewide sample of payments and associated documentation to check for compliance with the policies, procedures, and practices implemented in response to Recommendation No. 3 by July 2014. This review will occur at least annually and the results of the review will be provided to the Division Director for review and follow-up action that may include system-wide adjustments to policies, procedures, and practices through appropriate training; individual office, region, or district process improvement corrections; and/or individual performance plan adjustments and supervisory action.

g. Agree. Implementation date: July 2014.

The Division will ensure that all staff that have responsibility for any component of the procurement, authorization, approval, and payment processes associated with the provision of the necessary goods and services to participants will receive comprehensive training that addresses all new and existing policies and procedures.

Eligibility Determinations

The Division oversees the process to determine applicants' eligibility for the Program. Individuals may apply for the Program by completing an application and participating in an intake interview with a Program vocational rehabilitation counselor in one of the Division's 29 field offices located throughout the state. Program counselors perform the eligibility determinations by assessing the applicant's disability or reviewing documentation of the disability, determining whether the disability is a significant impediment to employment, and assessing the likelihood that the applicant will benefit from services.

The Division's AWARE system maintains information that Program staff record about each Program applicant and participant, such as his or her eligibility, demographics, and disabilities; the services that counselors have authorized the participant to receive through the Program; and the participant's Plan, which specifies the participant's employment goal and the services the counselor determines the participant needs to meet the goal. In addition, the Program field offices maintain a hard-copy case file for each participant that includes information such as a copy of the participant's identification or driver's license, the Program application, the participant's Plan, and the counselor's case notes.

What audit work was performed and what was the purpose?

The purpose of the audit work was to assess the Division's controls over eligibility determinations and determine whether its processes comply with federal regulations and Division policy.

We reviewed the case files for our sample of 85 participants who received Program services during Fiscal Year 2013 to determine whether the participants met the Program's eligibility criteria and Program staff complied with federal regulations and Division policies when conducting eligibility determinations. We also interviewed Division and Program staff to understand the eligibility determination process. At the time of our review, five of the sampled 85 participants had received only limited services of application assistance from a

Program counselor and were on the Program's wait list for vocational rehabilitation services.

How were the results of the audit work measured?

We applied the following criteria from federal regulations and Division policy when evaluating the Division's internal controls and processes for determining participants' eligibility for the Program:

Eligibility criteria. Federal regulations (Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42) require that the determination of an applicant's eligibility for vocational rehabilitation services be based only on the following requirements:

- The eligibility determination should be based on the "determination by qualified personnel that [the applicant's disability] constitutes a physical or mental impairment… that constitutes or results in a substantial impediment to employment for the applicant." Division policy (Section 6.12) states that the counselor shall determine if there are medical, psychological, vocational, educational, communications, and other related factors that interact with the impairment(s) that create a vocational impediment. If a substantial impediment to employment does not exist, then the individual is not eligible for the Program.

- Applicants that have been determined eligible for Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) are presumed eligible for vocational rehabilitation services, and each is considered an individual with a significant disability.

- The Program counselor must determine whether the applicant requires vocational services to prepare for, secure, retain, or regain employment consistent with the applicant's unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

- There is a presumption that the applicant can benefit in terms of an employment outcome from the provision of vocational rehabilitation services, unless the Program counselor demonstrates, based on clear and convincing evidence, that the applicant is incapable of benefiting from vocational rehabilitation services due to the severity of the applicant's disability. Division policy (Section 6.26) further states that when there are no services that can be provided to overcome the severity of the individual's disability, then the counselor cannot support an applicant's chosen employment outcome and the individual will not be eligible for the Program.

Case files should document eligibility. Federal regulations [Record of services, 34 C.F.R., pt. 361.47(a)] specify that there must be a record of services, or case file, for each applicant that includes documentation supporting the eligibility determination. In addition, for those participants who are determined to be SSI/SSDI eligible, these participants must provide evidence of this eligibility, such as an award letter, or the Program staff can contact the Social Security Administration to confirm the participant's eligibility. To meet federal requirements, Division policy (Section 6.24) states that the case file must document the basis upon which the applicant has been determined eligible and contain a written and signed Certification of Eligibility form. Division policy (Section 6.23) also allows for additional diagnostic services and assessments if the existing data do not permit counselors to identify the individual's current level of functioning or if data are unavailable, insufficient, or inappropriate to make an eligibility determination. In April 2013, Division policy (Section 6.24) was revised to state that a Certification of Eligibility form is not used and instead eligibility is documented on the eligibility determination page in AWARE. In addition, Division policy (Policy manual introduction section page 2) states that Program staff shall ensure the collection and entry of accurate and timely data into AWARE to ensure accurate federal and state reporting and that counselors will use case notes to document counseling and guidance and all relevant rehabilitation activities.

Division policy (Section 5.2) also specifies that each participant's record must include: (1) a copy of the participant's identification, such as a driver's license, state identification card, or passport, and (2) an Affidavit of Lawful Presence form signed by the participant that states that the participant is either a United States citizen or a legally permanent resident or that he or she is otherwise lawfully present in the United States pursuant to federal law. Further, if medical information must be obtained from providers, then the case record must include a completed Authorization for Disclosure of Health Information form, signed by the participant (Section 2.4).

Eligibility determinations must be completed within 60 days. Federal regulations [Processing referrals and applications, 34 C.F.R., pt. 361.41(b)(1)] require that, once an individual has submitted an application for Program services, an eligibility determination be made within 60 days unless exceptional and unforeseen circumstances beyond the control of the state preclude making an eligibility determination within 60 days and the state and the individual agree to an extension of time. Division policy (Section 6.21) further states that documentation describing the reason for a time extension, its anticipated length, and the applicant's agreement to the time extension shall be in the case file and shall be completed prior to the expiration of the 60 days unless documentation shows good cause why the extension was not completed in a timely manner.

What problems did the audit work identify?

In 25 (29 percent) of the 85 case files we reviewed, we identified problems related to eligibility determinations, including lack of documentation to support that the participant was eligible for the Program, missing documentation required by Division policy, and untimely determinations. In some cases, we identified multiple problems with the same case file. We identified two participants who did not appear to be eligible based on a lack of documentation to support that the participants had a substantial impediment to employment or would benefit from services, as required by federal eligibility requirements, which resulted in a total of $14,057[1] in known questioned costs. We found:

- **Ineligible participants.** For two participant files, documentation made it appear that the participants did not have the ability to benefit from the vocational rehabilitation services as required by federal regulations and, therefore, the participants did not appear eligible for the Program. For example, in one case, the participant stated in the application that he or she could not work and had not been employed since 1992 yet requested assistance in obtaining new hearing aids to replace the participant's existing hearing aids. The counselor determined that this participant was eligible despite the participant's statements that he or she could not work and paid $4,920 for the participant to receive new hearing aids.

- **Missing eligibility documentation.** We found that 14 participant files were missing one or more required eligibility documents. One of these errors resulted in $9,137[1] in known questioned costs. Specifically:

    - Five participant files did not contain documentation, either in hard-copy files or AWARE, supporting all of the participants' physical or mental impairments. Specifically, the documentation of one or more of the participant's impairments was either missing or outdated, meaning the documentation was more than 2 years old at the time of eligibility determination, and did not show the participants' current functioning.

    - Four participant files included case notes that the individuals were eligible for the Program because they were eligible for SSI or SSDI benefits but did not contain any documentation verifying the participants received those benefits.

    - Two participant files were missing the signed Certification of Eligibility form.

- Three participant files were missing a valid copy of the participants' identification document. This resulted in $9,137 in known questioned costs.

- One participant file was missing a signed Affidavit of Lawful Presence form.

- One participant file was missing the Authorization for Disclosure of Health Information form.

- **Late eligibility determinations.** For six participant files, Program staff did not determine the participants' eligibility within 60 days as required by federal regulations, and there was no extension letter documented in the case file, as required by the Division. In these six cases, the eligibility determination was between 2 and 114 days past the 60-day time line.

- **Data entry errors.** For 11 participant files, the application date recorded in AWARE did not match the date recorded in the hard-copy files. The application date is used to determine whether the eligibility determination was made within the required 60-day time line; therefore, it is important that the correct date is recorded in AWARE.

Why did the problems occur?

We identified three main reasons for the problems we found with eligibility determinations and documentation needed to support eligibility determinations:

- **The Division does not require documentation of the applicant's disability or impediment from a medical professional.** Division policy allows counselors significant discretion to determine whether an applicant for the Program has a disability or impediment to employment, and the Division does not require staff to obtain and maintain documentation from a medical professional qualified to make the diagnosis. For example, some Program counselors we interviewed stated that the Division does not require proof or documentation, such as from a medical professional, of an individual's disability or impediment if the counselor is able to observe or detect during an interview with the applicant that he or she has an impairment. However, federal regulations do not specify that a *counselor* may determine if the participant has a disability or significant impediment to employment; federal regulations specify that "qualified personnel" should determine whether there is a significant impediment to employment and only state that a vocational rehabilitation counselor should determine whether a participant needs vocational rehabilitation services. According to RSA management, "qualified personnel" is an

individual qualified to make the diagnosis. Other states we surveyed, including Wisconsin and Utah, reported that they require a licensed medical professional, such as a physician or psychiatrist, to provide the Program written documentation of the applicant's disability that demonstrates that the individual has a significant impediment to employment in order for the individual to be eligible for the state's program.

- **Additional training is needed.** Based on the errors identified and the interviews with Program staff, it appears that the Division needs to provide additional staff training to help staff comply with eligibility determination and documentation requirements. Despite the training provided by the Division on caseload management, case file documentation, and time management, multiple Program staff in different field offices that we interviewed indicated that some staff believe it is difficult to meet the Program's documentation requirements.

- **The Division lacks ongoing supervisory reviews.** Although the Division has identified eligibility and documentation problems in its field offices in the past, it has not established a policy requiring ongoing supervisory reviews to ensure staff comply with documentation requirements or a mechanism, such as corrective action plans, to hold staff accountable for addressing and correcting the problems. As we discuss in Chapter 4, Recommendation No. 18, the Division conducts quality assurance (QA) reviews to determine each Program counselor's compliance with federal regulations and Division policy but does not require corrective action plans. In Fiscal Year 2013, the Division's QA reviews identified deficiencies similar to those that we identified, including case files that lacked eligibility documents required by Division policy and lack of staff verification of participants' SSI and SSDI benefits to ensure the applicants could be presumed eligible for the Program. The problems we identified in this finding may continue if the Division does not have an ongoing process that ensures staff compliance with federal and Division eligibility and documentation requirements.

Why do these problems matter?

Maintaining accurate and complete eligibility determination documentation, as well as performing timely determinations, is important to demonstrate the Program's compliance with federal and state requirements. If counselors do not include each required form of eligibility documentation—such as a copy of the individual's identification document, the affidavit of lawful presence, and evidence verifying that an applicant is receiving SSI or SSDI benefits—the Division cannot demonstrate that the participant is eligible for the Program.

Providing ineligible individuals Program services is a misuse of federal grant monies and state funds. Further, when the Division does not determine eligibility in accordance with the 60-day federal requirement, services to participants are delayed at a time when the participants may be unemployed and needing services to become employed.

[1] Known questioned costs total $14,057. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 4:

The Department of Human Services should strengthen controls over Vocational Rehabilitation Program (the Program) eligibility determinations and documentation by:

a. Establishing and implementing a written policy and procedure requiring counselors to obtain documentation of the applicant's disability from an appropriate medical professional and maintain documentation of the disability in the case file.

b. Establishing and implementing a written policy and procedure requiring ongoing supervisory reviews to ensure that Program staff comply with eligibility and documentation requirements.

c. Providing Program staff training, as determined appropriate, that assists in ensuring that staff are aware of and comply with federal and state eligibility and documentation requirements.

Department of Human Services Response:

Agree. Implementation date: July 2014.

a. The Division of Vocational Rehabilitation (the Division) will modify policy to include procedures ensuring eligibility determinations are accurately made and documented by vocational rehabilitation counselors. The Division will indicate in policy that the first of the four eligibility criteria (the existence of a physical or mental impairment) shall be documented by a professional who is qualified to make that determination. The Division will implement policies and procedures that ensure the counselor's determination of the

impediment (barrier) to employment, along with the remaining two eligibility criteria, are documented in every participant's case file.

b. The Division will implement policies and procedures for supervisory reviews to ensure that the Division is serving individuals with disabilities in a consistent manner and that eligibility determinations are documented accurately and comprehensively in the case files. The Division will convene a workgroup to assist with developing supervisory reviews, including staff within the Region VIII Technical Assistance and Continuing Education Program (a federally-funded technical assistance program), and to review other states' vocational rehabilitation programs to identify best practices in conducting supervisory reviews.

c. The Division will implement training on federal and state eligibility and documentation requirements to ensure that vocational rehabilitation counselors comply with requirements related to eligibility determinations.

Assessments for Setting Employment Goals

The Program counselor and participant work together to choose an appropriate employment outcome or goal. The setting of a goal is an important part of a participant's vocational rehabilitation and should lead to the participant's successful employment. Counselors work with participants to determine their employment goals through a process called the comprehensive assessment. To help determine the employment goal, counselors consider the following eight federally required factors for the participant:

1. Strengths
2. Resources
3. Priorities
4. Concerns
5. Abilities
6. Capabilities
7. Interests
8. Preferred choice of employment goal

Counselors gather information from a variety of sources to assess the eight factors in light of the participant's education, work experience, and disabilities that affect the participant's employment needs. The result of the comprehensive assessment process is the participant's Plan, which contains information such as the employment goal, the services that the participant will receive to achieve that goal, the vendors that will provide the services, and the estimated duration of the Plan.

What audit work was performed and what was the purpose?

The purpose of our audit work was to determine whether the Division has sufficient processes to ensure that participants' employment goals and associated Plans are established in accordance with federal regulations and Division policies. We reviewed a sample of 85 participant case files from Fiscal Year 2013 to determine whether the comprehensive assessment was completed, timely, and contained enough information to appropriately assess the eight factors for each participant in accordance with federal regulations and Division policies. We interviewed Division and Program staff to understand processes for conducting comprehensive assessments and completing Plans.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's processes for overseeing comprehensive assessments and Plan development:

Plan requirements. According to federal regulations [Content of the Individualized Plan for Employment, 34 C.F.R., pt. 361.46(a)(1)], each Plan must include a description of the eligible individual's specific employment outcome, and the outcome should be consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, career interests, and informed choice. In addition, Division policy (Section 11.6) states that the Plan must be signed by the Division counselor and the participant.

Comprehensive assessment form. The Division developed a standard comprehensive assessment form for staff to document the counselor's written analysis. The standardized form lists the eight assessment factors and includes spaces for counselors to document an analysis for each factor. Division policy (Section 9.5) requires the counselor's written analysis of the participant's rehabilitation needed to address his or her vocational impediments in order for the participant to attain an appropriate employment outcome.

Timing of the Plan. According to Division policy (Section 11.3), the Plan shall be developed as soon as possible following the determination of eligibility. The time between the determination of eligibility and finalization of the Plan shall not exceed 120 calendar days unless additional comprehensive assessment is necessary. In April 2013, the Division revised its policy to change the time line requirement for finalizing Plans from 120 days to 90 days.

What problems did the audit work identify?

We found that for 25 (29 percent) of the 85 participant cases we reviewed, the comprehensive assessments were not conducted or were incomplete, or

participants' Plans were not completed within the time lines required in Division policy, as described below. For some cases, we identified multiple problems.

- **Missing or incomplete assessment.** For 19 participant cases, the comprehensive assessment was missing from the participant's case file or was incomplete in that the staff did not document their analysis of all of the eight factors that Division policy requires in the assessment.

- **Goal did not match the assessment.** For one participant case file, the participant's employment goal did not appear to match the comprehensive assessment. The participant's employment goal was to become a counselor, but there was no evidence that Program staff took into account the participant's disability documentation. Based on our review of the disability documentation, it did not appear that the participant could meet his or her employment goal.

- **Unsigned Plans.** For five participant case files, the Plan was not signed by the participant, the counselor, or both. This resulted in $740[1] in known questioned costs.

- **Untimely Plans.** For five participant case files, the Plan was not completed and signed by the participant and counselor within the time frames prescribed by Division policy. For five cases that should have had a completed Plan within the Division's 120-day policy requirement, the Plans exceeded the 120-day target by between 3 and 80 days.

Why did the problems occur?

The problems we identified occurred for the following reasons:

- **The Division allows inconsistent processes.** The Division has not established a consistent process for completing and documenting a participant's comprehensive assessment. For example, the Division does not require staff to use the standardized assessment form; rather, the Division allows counselors to document the assessment using either the form or through a case note in AWARE. Staff documentation of their analysis of the eight factors also varied because the Division does not require staff to document an assessment of each factor. The Division has not specified, such as through policy or training, the level of detail that staff must document in the comprehensive assessment.

- **Lack of supervisory review.** The Division also does not have a policy or procedure requiring supervisors to review the comprehensive assessments or participant Plans to ensure they are complete, timely, and reflect a

reasonable and appropriate employment goal based on the comprehensive assessment process. Additionally, as we discuss in Chapter 4, Recommendation No. 18, the Division's quality assurance review in Fiscal Year 2013 also identified deficiencies with the comprehensive assessment process for setting employment goals and determining participants' service needs, but the Division does not have processes in place to ensure that problems found through the quality assurance reviews are corrected.

Why do these problems matter?

The problems we identified with the Program's comprehensive assessment process and establishment of participants' employment goals are important for four reasons. First, missing and incomplete comprehensive assessments limit the Program's ability to ensure that counselors assess all of the factors needed to determine whether each participant's employment goal is appropriate as federally required. When counselors do not utilize the standardized form, they do not have a tool to prompt them to analyze each factor. Second, when Plans are not signed by a participant and/or a counselor, the Program lacks evidence that the participant and counselor agreed on the employment goal and the planned services. The lack of a signed Plan makes it difficult for the Program to ensure the participant will comply with the Plan. Third, when Plans are not completed timely, it delays service provision to participants. Finally, when counselors and participants do not establish an employment goal that is achievable by the participant, there is a risk that the participant will not meet the goal or succeed in the Program.

[1] Known questioned costs total $740. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 5:

The Department of Human Services should improve Vocational Rehabilitation Program (the Program) processes for conducting assessments to determine participant employment goals and completing the participant Individualized Plan for Employment (Plan) by:

a. Establishing and implementing written policies and standardized processes for completing and documenting the comprehensive assessment.

b. Providing training to Program field office staff on policies and processes for completing the comprehensive assessment and employment Plan.

c. Implementing a supervisory review process over counselors' comprehensive assessments and the creation of participant employment Plans to ensure that all factors required to determine participant employment goals are fully documented and that Plans are signed and completed in compliance with Division of Vocational Rehabilitation policies.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Division of Vocational Rehabilitation (the Division) will implement a standard process for completing and documenting the comprehensive assessment to ensure vocational goals are clearly and thoroughly substantiated prior to the development of the Individualized Plan for Employment. Procedural updates requiring the consistent use of the Employment Outcome and Service Needs form were communicated to all staff on September 13, 2013 and Division policy 9.5 was revised accordingly on October 1, 2013. The Division is also working on improvements to include best practices from other states related to documenting the vocational goal. Policies and procedures will be further revised and expanded to clarify that any vocational goal change during the course of the participant's case requires a newly completed assessment.

b. Agree. Implementation date: July 2014.

The Division delivered staff training in September 2013 to specifically address policy and procedure updates, and strategies for thoroughly completing and documenting the comprehensive assessment. Division staff are in the early stages of conducting a training needs assessment, which will be incorporated into a comprehensive training plan for State Fiscal Year 2014.

c. Agree. Implementation date: April 2014.

The Division staff will incorporate Division-level quality assurance processes to ensure that comprehensive assessments and requirements are in compliance with policies and procedures through the use of a recently developed form to document follow-up actions needed and performed by counselors. The new supervisory review process will

require supervisors to follow up with each counselor to ensure that corrections identified through the quality assurance process are reflected in the case record.

Comparable Services and Benefits

The Program provides some services, such as medical services, eyeglasses and hearing aids, mental health counseling, substance abuse treatment, and college tuition, for Program participants that are sometimes available to participants through other programs or organizations. According to the federal regulations (Comparable services and benefits, 34 C.F.R., pt. 361.53), states must determine whether comparable services and benefits exist under any other program before providing certain services, such as training through college course work, occupational goods and services, hearing restoration, and transportation, to a Program participant using Program funds. Comparable services and benefits are those available to the participant and provided or paid for, in whole or in part, by other federal, state, or local public agencies, health insurance, or employee benefits. For example, the Program considers Pell grants awarded as part of federal financial aid to be a comparable service or benefit for a Program participant who needs college courses or academic training as part of achieving his or her employment goal. Other examples of comparable services or benefits include medical services provided by Medicaid and the Colorado Indigent Care Program. For some services, Division policy states that a comparable benefits search is not required, such as for assessment services that assist with determining eligibility and vocational rehabilitation needs, vocational rehabilitation counseling and guidance, and rehabilitation technology services and goods.

According to our interviews with Program staff, the counselors are typically responsible for identifying the comparable services and benefits that are available to the participant and documenting those services and benefits in the participant's Plan, with corresponding documentation in the hard-copy case file. The Plan identifies the providers or vendors for all services, including those that the Program and outside organizations will provide. Some staff also indicated that the Division maintains a searchable database of information on comparable services and benefits. According to interviews, counselors typically use the Division's AWARE system to draft the participant's Plan and complete the comparable services and benefits section electronically to include as part of the Plan. AWARE allows staff to record whether there are comparable services and benefits available to the participant by checking a box for "None," meaning the staff member was not able to find comparable services or benefits, or "Other," meaning staff identified a comparable service or benefit. If staff check "Other," they can type the name of the provider of the comparable service in AWARE. If a staff

member does not choose "None" or "Other," the AWARE system automatically records "No Items Selected" in that section of the participant's Plan.

What audit work was performed and what was the purpose?

The purpose of our audit work was to assess the Program field offices' processes for identifying and documenting comparable services and benefits. In our sample of 85 participant files from Fiscal Year 2013, we identified 79 of the 85 files that had services within their Plans that required a search for comparable services and benefits based on Division policy. Specifically, Division policy exempts certain services, such as assessments by counselors to determine participant eligibility and vocational rehabilitation needs, from requiring a search for comparable services and benefits. We evaluated these 79 files to determine whether Program staff completed a search for comparable services and benefits and documented the availability of the comparable service or benefit in the participant's Plan and included applicable documentation on the comparable service or benefit within the case file. We also interviewed Division and Program staff to understand the process for determining and documenting comparable benefits.

How were the results of the audit work measured?

We used the following criteria to measure the results of our audit work:

Comparable services or benefits required. Federal regulations [Comparable services and benefits, 34 C.F.R., pt. 361.53(c)] specify that if comparable services or benefits exist under any other program—such as programs in other federal, State, or local public agencies; health insurance; or employee benefit plans—and are available to the participant at the time needed to ensure the progress of the individual toward achieving the employment outcome in the participant's Plan, the state must use those comparable services or benefits to pay for all or part of the costs of the vocational rehabilitation services.

Comparable services or benefits must be explored. According to Division policy (Sections 10.1 and 12.24.1), comparable services and benefits under any program must be explored and utilized to meet all or part of the cost of any vocational rehabilitation service. Specifically relating to tuition, the Division will not finalize the provisions for training services in an institution of higher education until the individual's financial aid award status is determined and documented, in accordance with the time lines governing financial aid award decisions at the chosen training facility.

According to Division policy (Section 10.1), certain services or benefits are exempt from a comparable benefits search, which include: (1) assessment services to determine eligibility and vocational rehabilitation needs; (2) vocational

rehabilitation counseling and guidance; (3) referral and other services to secure needed services from other agencies; (4) job-related services; (5) rehabilitation technology services and goods; and (6) post-employment services if included as part of the services provided in 1 through 5 above. However, Division policy states that "Although a search is not required for an exempt service or good, the [Program] counselor is not precluded from identifying comparable benefits as long as it does not delay services or otherwise negatively impact the vocational rehabilitation program."

Comparable services or benefits search must be documented. Division policy (Section 10.1) states that the participant files must contain evidence of the comparable services and benefits search prior to expenditure of Division funds for any good or service that is not exempt from the search. In addition, according to Division management, if staff are unable to identify comparable services or benefits for a participant, the staff typically note "None" on the participant's Plan in AWARE.

What problems did the audit work identify?

We found problems with 35 (44 percent) of the 79 participant cases for which Program staff should have searched for comparable services and benefits, resulting in $10,943[1] of known questioned costs. For some cases, we identified multiple problems. Specifically, we found:

- **Lack of evidence that staff searched for comparable services and benefits.** In 15 participant case files, staff did not document a search for comparable services and benefits for services that were outlined in the participants' Plans and did not qualify as exempt services. These 15 participants received a total of $34,800 in services in Fiscal Year 2013. The AWARE system automatically recorded "No Items Selected" for each of these cases because staff did not choose the "None" or "Other" option, indicating that the staff may not have performed the search; there was also no documentation in the hard-copy file indicating staff searched for comparable services or benefits. These problems resulted in $10,943 in known questioned costs.

- **Staff noted no comparable services and benefits were available when documentation showed otherwise.** For 18 participant case files, Program staff marked "None" in AWARE to indicate there were no comparable services or benefits associated with the purchase of hearing aids, although there was evidence in another case that comparable benefits were available for hearing aids. For that one case, staff had assisted the participant with applying to a non-profit organization for funding toward the purchase of hearing aids that were part of the participant's Plan. The non-profit

organization approved the participant's application and paid $1,800 toward the cost of the participant's hearing aids, which were about $5,000. There was no documentation in any of the 18 case files or AWARE to indicate that staff had searched, such as on the Division's database, for comparable benefits or attempted to determine whether an entity could contribute toward the cost of hearing aids.

- **Staff did not appear to determine whether financial aid was available.** For two participants in our sample who were approved to take college courses as part of their Plans, AWARE noted "None" for comparable services or benefits, but there was no documentation that Program staff had assisted participants in applying for financial aid or determined the participants' financial aid award status, as required by Division policy.

Why did the problems occur?

The following four factors contributed to the problems we identified:

- **Lack of clear guidance on identifying comparable services and benefits.** We found that the Division's written policies do not specify how Program staff should search for and identify comparable services and benefits. For example, policy does not state that staff must check each participant's potential eligibility for other programs, such as those administered by the Department of Human Services, or Medicaid and the Colorado Indigent Care Programs administered by the Department of Health Care Policy and Financing, nor do policies require that staff research the comparable services and benefits that may be available through non-profit organizations or retailers.

- **Staff were unaware of information the Division maintains on comparable services and benefits.** Although the Division appears to maintain a listing of comparable services and benefits on its intranet that is accessible to all field offices, the Division has not adequately disseminated the information to its field office counselors.

- **Staff believed searching for comparable services and benefits is time consuming.** The Division has not established a time frame, such as in written policy, specifying a reasonable amount of time that staff should take to search for comparable benefits and to assist participants in applying for and receiving services through other programs, such as Medicaid and the Colorado Indigent Care Programs. Some staff informed us that they believe that searching for comparable services and benefits and assisting participants to apply for benefits through other programs can cause delays in participants receiving the services they need, so to avoid

delays the participants are provided services through the Program. Although Division policy states that an activity that jeopardizes a participant's immediate job placement or an extreme medical risk is considered urgent, for the case files we reviewed where staff had not identified comparable services and benefits, there was no evidence of an urgent need for the participants.

- **Participants have been allowed to refuse comparable services and benefits.** Some staff stated that a barrier to identifying comparable services and benefits is that participants refuse to apply for other assistance programs or refuse to accept services through other programs. The Division has not clarified in its policies that a participant's refusal to use comparable services and benefits constitutes a violation of the Division's policy that the Program provide services at the least possible cost and, therefore, will result in denial of vocational rehabilitation services.

Why do these problems matter?

The Program has limited funding to provide services to participants and currently has a wait list, so it is not serving all participants who are eligible for the Program. Identifying comparable services and benefits, including those offered by nongovernmental organizations, is an important component of reducing the overall cost to the Program of serving participants in need of a range of services that may be offered through other programs. For example, in the 15 case files where we identified that staff had not documented a search of comparable services and benefits, the participants received a total of $34,800 in services in Fiscal Year 2013. Had staff identified and secured services through other programs for just a portion of these services, it would have created a savings for the Program or freed up funds that could have been used for other participants.

[1] Known questioned costs total $10,943. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 6:

The Department of Human Services should improve Vocational Rehabilitation Program (the Program) controls and processes for using comparable services and

benefits to cover, in whole or part, the costs of Program services, as required by federal regulations by:

a. Implementing written policies and procedures for identifying and maintaining updated information on available comparable services and benefits for the range of services that the Program provides and ensuring the information is accessible to all applicable field office staff.

b. Establishing a target time frame in written policy for field office staff's search for comparable services and benefits and staff's assistance to participants with the application for services through other programs.

c. Clarifying policies to indicate that when a participant refuses to use comparable services and benefits, the participant shall be responsible for the costs of the services. The policy should address Program staff's related documentation requirements.

d. Providing training to field office staff on federal and Division of Vocational Rehabilitation requirements and processes for identifying and documenting comparable services and benefits. This training should include working with staff within other agencies with similar program services to obtain information on the comparable services and benefits that may be available to Program participants and processes for assisting participants in the application process for comparable services and benefits.

Department of Human Services Response:

Agree. Implementation date: July 2014.

a. The Division of Vocational Rehabilitation (the Division) will update its policies and procedures providing structure and guidance about how to research, obtain, and apply available comparable benefits and services. The Division will convene a workgroup to assist with developing guidance for comparable benefits, including staff at the Region VIII Technical Assistance and Continuing Education Program (a federally-funded technical assistance program). In addition, the Division will establish a comprehensive list of locally and regionally available comparable benefits and services, and provide that list to vocational rehabilitation counselors who are responsible for determining and obtaining necessary goods and services for participants. A mechanism for ensuring this list is maintained and kept current will be implemented in accordance with this effort.

b. The Division will update its policies and procedures to ensure that staff search for available comparable benefits and services that have been identified and included on the Individualized Plan for Employment within a targeted time frame. Staff may assist the participant in applying for other benefits as feasible.

c. The Division will revise its policies and procedures to ensure that vocational rehabilitation counselors are identifying and documenting available comparable benefits in the case file, and participants are utilizing available comparable benefits that appropriately address the barriers to employment. If a participant refuses the application of an appropriate comparable benefit, she or he shall be responsible, in whole or in part, for the cost of the service, which will be documented in the case file.

d. The Division will work with staff within other agencies with similar program services to obtain information on the comparable services and benefits that may be available to Program participants. The Division will ensure that all appropriate staff will receive training on the updated policies and procedures regarding the identification and application of comparable benefits and services. The Division will train staff to assist program participants to apply for comparable benefits and services as feasible.

Determining Severity of Disability

Federal regulations (Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42) require states to conduct an assessment for determining eligibility and priority for services. In Colorado, the Program field office counselors perform the assessment for priority of services as part of the eligibility determination process. Counselors determine a participant's priority for services by classifying the participant's disabilities based on how those disabilities affect the participant's functional capacity. The Division has defined a participant's functional capacity as "a set of life activities or skills in which the ability to function is significant to successful independence and/or employment." As discussed previously, the Division has identified the following eight life activities or skills for the purpose of determination of severity of disability: mobility, motor skills, interpersonal skills, communication, work tolerance, work skills, self-care, and self-direction. In addition, the counselors estimate and list the number and the estimated length, in months, of vocational rehabilitation services that they believe a participant will need.

Based on the limitations in functional capacity posed by a participant's disabilities, and the number and length of services the participant is estimated to need, the counselors categorize participants into one of three categories that indicate the severity of disability: (1) Most Significantly Disabled, (2) Significantly Disabled, and (3) Individual with a Disability. The disability categories provide the basis for the order in which participants will be selected for services when the Program has a wait list, as discussed in Chapter 2, Recommendation No. 9. The following table summarizes the number of participants classified into each disability category, the average number of services that each category group received, the average types of services each group received, and the average functional limitations per group, for our sample of 85 participants.

Vocational Rehabilitation Program
Severity of Disability Categories and Characteristics of Sample of 85 Participants

Category Determined by Staff	Total Number of Cases	Average Number of Services	Average Types of Disabilities for Participants	Average Functional Limitations
Most Significantly Disabled	53	4.87	- Schizophrenia or other Psychotic Disorders - Psychosocial Impairment - Intellectual or Developmental Disability - Depressive Mood Disorder - Substance Abuse/Dependence - General Physical Impairments	Communication, Interpersonal Skills, Self-Direction, Work Skills, Work Tolerance, Self-Care, and Motor Skills
Significantly Disabled	21	4.52	- Hearing Loss - Learning Disabilities - Cognitive Disorders - Visual or Communicative Impairments - Physical Impairment	Communication, Interpersonal Skills, Work Skills, and Work Tolerance
Disabled	11	3.45	- Hearing Loss - Other Physical Impairments, Unknown Cause - Cognitive Impairments	Motor Skills, Work Tolerance, and Communication

Source: Office of the State Auditor's analysis of Division of Vocational Rehabilitation eligibility determination documentation for the sample of 85 participants.

The Eligibility Determination form within the Division's AWARE system shows the participant's eligibility date, specific disability, severity of disability category, functional limitations, impediment to employment, the estimated number and months of services, and the reason for the length of services. The participant is provided a notification letter that shows the severity of disability category and whether the Division can provide the participant services or if the Division has

instituted a wait list for that category and is, therefore, currently unable to provide services.

What audit work was performed and what was the purpose?

The purpose of our audit work was to evaluate the Program's processes for classifying the severity of participants' disabilities. We interviewed Division and Program staff and reviewed the sample of 85 participant case files from Fiscal Year 2013. We reviewed the Division's hard-copy documentation and information recorded in AWARE to determine how each sampled participant was categorized based on the severity of his or her disability, whether documentation of the disability was maintained in the case file, the types of disabilities the participant had, the functional capacities affected by each disability, and the number and types of services that counselors determined the participant would need at the time of the eligibility determination. We also reviewed whether the Program notified the participants about the eligibility determination consistently and accurately, which would include the category of severity of disability into which the Division placed the participant.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's severity of disability determination process:

Determination of disability severity. The following table shows the definitions of the three categories of severity of disability as defined by federal regulations and Division policy.

Vocational Rehabilitation Program Definitions of the Categories of Severity of Disability		
Category	**Federal Definition**	**Division Definition**
Most Significantly Disabled	An individual with a significant disability who meets the designated state unit's criteria for an individual with a most significant disability.	A participant has a severe physical or mental impairment that seriously limits at least three or more functional capacity areas (mobility, motor skills, interpersonal skills, communication, work tolerance, work skills, self-care, and self-direction) in terms of an employment outcome and whose successful vocational rehabilitation can be expected to require two or more core vocational rehabilitation services for at least 5 months.
Significantly Disabled	An individual who has a severe physical or mental impairment that seriously limits one or more functional capacities in terms of an employment outcome; whose vocational rehabilitation can be expected to require multiple vocational rehabilitation services over an extended period of time; and who has one or more physical or mental disabilities or combination of disabilities causing comparable substantial functional limitation.	A participant who has a severe physical or mental impairment(s) that seriously limits at least one factor in two or fewer functional capacity areas and who otherwise meets the same criteria as for a most significant disability. An individual who is determined to be eligible for SSI/SSDI on the basis of his or her own disability is presumed to have a significant disability.
Individual with a Disability	An individual who has a physical or mental impairment that substantially limits one or more major life activities; who has a record of such impairment; or who is regarded as having such impairment.	An individual who meets Program eligibility criteria but has a disability that does not meet the criteria for most significant or significant disability.
Source: Office of the State Auditor's analysis of federal regulations (Applicable definitions, 34 C.F.R., pt. 361.5) and Division of Vocational Rehabilitation policy Sections 8.2 to 8.4.		

Timing of severity of disability determinations. Division policy (Section 8.1) requires field office counselors to determine severity of disability at the same time as the determination of eligibility when the Division has a wait list in place. When the Division does not have a wait list, field office counselors must complete determinations of disability severity as soon as possible but no later than the completion of the Plan development.

Notification of participants. Division policy (Section 7.2) requires that, upon placement into a priority category, the eligible individual shall receive written notification of his or her priority classification and information regarding the policies and procedures governing availability of vocational rehabilitation services, which is done through the Order of Selection notification.

What problems did the audit work identify?

For 41 (48 percent) of the 85 participant cases we reviewed, we identified problems with the severity of disability determinations and notifications as described below.

- **Program staff did not classify participants' severity of disability consistently.** For the 53 out of 85 sampled participants who were categorized as "Most Significantly Disabled," their disabilities ranged significantly from mental health disorders to physical impairments and for 11 of the 53 participants in this category, Program staff estimated that the individuals needed two or three Program services. For example, while one participant categorized as "Most Significantly Disabled" had disabilities associated with a physical impairment, hearing loss, communication loss, and mental health impairment and needed nine services including job coaching, job placement, mental health counseling, and vocational guidance and counseling, another participant with a mental health impairment and substance abuse noted as his or her disability needed only two services including job coaching and mental health counseling.

  We further found that, for 14 participants in our sample with hearing loss or hearing impairment as their only disability, the participants were inconsistently categorized: four individuals who needed 2 to 7 services for 5 to 12 months were categorized as "Most Significantly Disabled," four individuals who needed 3 to 5 services for 5 to 12 months were categorized as "Significantly Disabled," and six individuals who needed 1 to 6 services for 2 to 4 months were categorized as "Individual with a Disability." In addition, as we discuss in Chapter 2, Recommendation No. 4, Program staff did not consistently document participants' physical or mental impairments. Staff must assess participants' impairments to accurately determine participants' functional limitations, which is one factor used to classify participants' severity of disability.

- **Discrepancies in the estimated number of services that individuals needed.** For 41 participant case files, the number of services the counselor estimated the participant would need to address an impairment and meet an employment goal, which was listed on the Eligibility Determination form, did not match the services listed under the eligibility rationale on the same form. For example, in one case, the field office counselor documented the participant's estimated number of services as both two and six on the same form. Because one basis for the severity of disability is the estimated number of services the counselor believes the participant will need to meet an employment goal, we could not determine whether the classification of the disability severity was accurate.

- **Some individuals were not consistently and accurately notified of their disability priority category**. In six participant case files, we found inadequacies with the field offices' Order of Selection notification letter. As discussed, the field offices are required to utilize the notification letter to communicate to the participant his or her severity of disability and whether or not the participant will be placed on a wait list. We found:

  - For two individuals who were not placed on a wait list, the Order of Selection notification letter was missing from both the hard-copy case file and AWARE, so we could not determine whether Program staff notified the individuals, as required, of their severity of disability and whether the Division was able to serve the participants.

  - For two individuals, Program staff did not send the notification timely. Specifically, field office staff sent the notifications 5 and 9 months, respectively, after the two individuals' severities of disability were determined.

  - For two individuals, the notification reported a different disability priority category than what Program staff had documented in the case file at the time staff determined eligibility. Specifically, one individual was notified that his or her category was "Significantly Disabled" but AWARE showed the individual was actually categorized as "Individual with a Disability;" the other individual was notified that his or her category was "Most Significantly Disabled," but AWARE showed the individual was actually categorized as "Significantly Disabled."

Why did the problems occur?

The problems we identified occurred for the following reasons:

- **The Division has not established a method that accurately or consistently assesses severity of disability.** During interviews, some Program counselors stated that the severity of an individual's disability and priority category is determined based on the estimated number of Program services that the individual will need. However, Division policy states that an individual is "Most Significantly Disabled" if he or she has a severe physical or mental impairment that affects three or more functional capacity areas and needs two or more core vocational rehabilitation services for at least 5 months. Program staff did not document the methodology used to determine the functional limitations, so we could not determine the appropriateness of the functional limitations staff identified

and, therefore, the accuracy and consistency of the severity of disability determination.

In addition, Program staff use a checklist approach developed by the Division to indicate an individual's functional limitations, estimated number of services, and estimated length of time of services and to determine an individual's severity of disability category. We found that if staff mark that an individual needs services for 5 months, then the individual is automatically placed into the "Most Significantly Disabled" category; likewise, if staff check that the individual needs services for 2 months, the individual is automatically placed into one of the other two disability severity categories, even if the individual meets the functional limitations criteria for "Most Significantly Disabled." In fact, we found that if a Program counselor estimates that a participant needs vocational rehabilitation counseling and one other service, under current practice, the counselor may classify the participant as "Most Significantly Disabled," despite the significance of the participant's disabilities. Although the estimated number of services is one factor that the Division is required to consider when determining the severity of a participant's disability, the intent of federal regulations is for the Program to prioritize services based on the severity of an individual's disabilities.

The Division does not have a scoring or weighted system for determining severity of disability, which may be a more accurate method for assessing severity than the Division's current method. For example, Alabama determines the severity of disability for individuals who apply to its vocational rehabilitation program by using a functional limitations assessment tool. This tool evaluates the individual's functional abilities, such as motor skills, speaking, and sight, and calculates a severity score out of 90 where individuals with more-severe functional limitations have higher scores. Alabama uses the score to categorize each individual into one of three severities of disability categories and prioritizes program services for individuals with higher scores.

- **Lack of clear guidelines for counselors to utilize when determining participants' severity of disability.** Division policy defines the categories of disability but does not require staff to use a consistent method, such as a checklist, to ensure counselors consistently categorize the severity of disabilities. Further, the Division provided training on its policies and procedures to Program staff during Fiscal Year 2013 but did not provide guidance on how to estimate the number of services a participant will need. Division staff indicated that the determination of the estimated number of services is based on counselor judgment. Program staff may

have incentive to make the number of services as high as possible to get a participant into a disability severity level that would place the participant in a higher disability priority category.

- **The Division has not implemented a supervisory review over the severity of disability classifications.** In Maryland, the supervisor or designee is required to review the eligibility and severity of disability determinations and enter a case note in the electronic case management system, documenting his or her approval or disapproval of the decisions. Division staff indicated that it also does not have a process, such as through quality assurance reviews, to compare the estimated number of services recorded in different sections of the Eligibility Determination form to determine whether the counselor's documentation is consistent and estimates are reasonable.

- **Division policy does not reflect the staff's common practice of sending a notification letter when there is no wait list.** While we found that staff typically followed the best practice of sending all eligible individuals an Order of Selection notification to inform them of their severity of disability category and that the Program can provide services, Division policy does not require staff to send these notifications unless a wait list is in place. Division policy also does not include time lines for sending individuals this notification to ensure they receive timely information about their priority category for Program service.

Why do these problems matter?

The problems we identified with participants' severity of disability determinations and notifications are important for the following reasons:

- **The severity of disability classification drives service prioritization.** A participant's disability severity determines the participant's placement on the wait list and priority for services; specifically, those individuals who are categorized as "Most Significantly Disabled" are considered to be the highest priority and are, therefore, served before others on the wait list. When processes for determining the disability category are not consistently applied, the Division cannot ensure that eligible individuals are prioritized for services based on the severity of their disabilities, as required by federal regulations.

- **The State should ensure accurate reporting on severity of disability classifications.** The Department reports a summary of its vocational rehabilitation services by participants' disability severity levels to the

State and federal governments. Specifically, the State Plan includes the number of participants who are most significantly disabled, significantly disabled, and disabled that are served by the Program during a fiscal year and the expenditures associated with those individuals. In addition, the Division utilizes the disability categories for internal reporting to Department management on information on the status of the Program. Therefore, it is important that severity of disability is properly determined to ensure accurate reporting to internal and external sources.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Eligibility, Reporting. Classification of Finding: Significant Deficiency.)

Recommendation No. 7:

The Department of Human Services should improve the process for determining participants' severity of disability for the Vocational Rehabilitation Program (the Program) by establishing a consistent and accurate method for assessing the severity of disabilities for Program applicants, modifying policies to provide clear guidance and tools for determining the severity of disability level, requiring notification of disability severity level to participants in all cases, and incorporating a supervisory review of this assessment. This process should include evaluating the benefits of implementing a scoring or weighted system for determining severity of disability and ensuring that staff are adequately trained on the new policies and procedures.

Department of Human Services Response:

Agree. Implementation date: July 2014.

The Division of Vocational Rehabilitation (the Division) will improve accuracy and consistency for determining severity of disability by evaluating the current service delivery policy to determine where there are inconsistencies and/or need for clarification; reviewing other states' policies for determining severity of disability, specifically those that use a scoring and/or weighted system, and their practices for supervisory reviews of assessments; and outreach to the Region VIII Technical Assistance and Continuing Education Program (a federally-funded technical assistance program) for input about the Division's current methodology for assessing the severity of disability. The Division will revise its policies and procedures accordingly to provide clarification and guidance for vocational rehabilitation counselors, including the requirement that participants receive written notification of their priority

classification, and will implement supervisory reviews of a sample of determinations to ensure accuracy.

Case Management

Case management is a multi-step process to ensure that all Program participants receive standardized, comprehensive, and efficient customer service, at the same level of quality, statewide. The case management activities that Program staff provide are diverse and include assisting participants with applying for Program services, maintaining ongoing communication with participants, monitoring each participant's compliance with his or her Plan, and developing methods to help keep participants engaged so that they continue to progress through the Program. Case management also includes maintaining participant records, which are kept both in hard-copy files and in AWARE.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether Program staff consistently document their case management activities in a manner that demonstrates compliance with federal regulations and state policy and rules. We reviewed the sample of 85 participant case files to determine whether Program staff provided sufficient, ongoing case management activities to help ensure participants successfully completed the Program and whether staff sufficiently documented those activities. We also interviewed a sample of Program staff from a sample of seven field offices to understand their processes for managing cases.

How were the results of the audit work measured?

In April 2013, the Division revised its written policies for the Program. The sampled case files that we reviewed were in progress both before and after the policy update. The policies below applied to the case files we reviewed. We applied the version of the following policy that corresponded to each participant case based on where the participant was in the eligibility determination and service delivery process:

Accurate and timely data entry. Division policy (Policy manual introduction section p. 2) requires staff to ensure the collection and entry of accurate and timely data into AWARE. In 2013, the Division revised this policy to include a requirement for counselors to use case notes to document counseling and guidance and all relevant rehabilitation activities.

Monitoring and review of the Individualized Plan for Employment. According to Division policy (Section 11.7), the participant's Plan shall be reviewed in accordance with the Plan schedule. The counselor shall assure monitoring and review of the implementation of the Plan on a regular basis and document such reviews. In 2013, the Division revised this policy to include a requirement for the Program counselor and the participant to engage in regular communication on the participant's progress in meeting service objectives and to document the communication in the participant's case file. The Division does not define "regular communication" in policy, but staff reported to us that they are expected to contact participants at least monthly.

Case closure. As discussed in Chapter 2, Recommendation No. 2, Division policy (Section 17.1) provides numerous reasons for closing a case. For example, Division policy specifies that case closure shall occur at any time when it has been determined that one of the following has occurred: (1) the individual has achieved an appropriate employment outcome after the provision of necessary and planned services under the Plan; (2) the individual is not eligible or is no longer eligible; (3) continued services are not appropriate or the individual is not available for other reasons; (4) after repeated attempts by the counselor, the individual cannot be contacted or located; and (5) the individual fails to cooperate.

What problems did the audit work identify?

In 16 (19 percent) of the 85 case files we reviewed, we identified problems related to case management, as outlined below. For some participants' cases, we identified multiple problems. The problems we identified resulted in a total of $4,051[1] in known questioned costs. We found:

- **Limited staff contact with the participant.** Eight participant case files showed limited staff contact with the participant. Specifically, in seven cases, there was no record, in a hard-copy case file or AWARE, of any Program staff communication with the participants for between 3 and 9 months during Fiscal Year 2013. In the remaining case, Program staff had not communicated with the employed participant in either of the first 2 months of new employment in order to assess job stability, as required by Division policy.

- **No evidence of regular progress reports or confirmation that participants were the ones who received the Program services.** Five participant case files lacked evidence, either in the hard-copy file or in AWARE, that the participant or third party, such as the participant's job coach, provided the Program counselor regular reports on the participant's progress as required by the participant's Plan. In two cases, the Program

paid $3,823 for the participants to receive hearing aids, but there was no evidence in the hard-copy case file or AWARE that the participants had actually received the hearing aids. In another case, the Program paid $228 for a participant to receive an occupational license, but there was no evidence in the file or AWARE that the participant had obtained the license. These problems resulted in $4,051 in known questioned costs.

- **Cases not closed timely.** Eight participant case files contained documentation showing an acceptable cause for closing the case, as required by Division policy, but the cases were either not closed timely or not closed at all by Program staff. Specifically, one of these cases was closed 4 months after staff documented the reason for case closure, six cases were still open and recorded in AWARE as "in service" as of July 2013, and one participant was placed on the wait list.

Why did the problems occur?

The case management problems we identified occurred for the following reasons:

- **Ambiguous case management guidance from the Division.** Overall, the Division's written policies and procedures are not sufficiently written to ensure that staff and counselors communicate with participants regularly, document all case management activities, or close cases timely. Policy only states that communication should be "regular." Program staff we interviewed indicated that, through trainings and internal communication, Division management have stated that a best practice is for counselors to communicate with unemployed participants at least monthly and document this communication in the case file; however, this best practice is not required. Further, Division policy does not contain a time frame or procedure for closing cases when they meet the Division's criteria for case closure. For example, there is no guidance regarding staff determination of a participant as "unavailable" or "uncooperative" for case closure purposes.

- **No methods to ensure quality case management.** Regarding the instances we identified in which staff did not follow Division policy requiring monthly follow-up contact with employed participants, although the Division has an annual quality assurance process in place to review for noncompliance, the Division does not specifically require documentation of noncompliance problems in staff performance reviews or otherwise hold staff accountable for noncompliance, as discussed in Chapter 4, Recommendation No. 18. In addition, the Division does not require ongoing supervisory reviews of case management activities in each field office to ensure staff comply with Division policy.

Why do these problems matter?

Maintaining accurate and complete case file documentation is important to demonstrate Program staff compliance with Division policy and to ensure participants receive consistent assistance and monitoring from staff. Further, infrequent contact with Program participants could lead to participants not receiving timely services or losing motivation to follow through with their employment Plans in order to finish the Program successfully. If counselors do not obtain progress reports from third parties and participants, when required by the participant's Plan, the staff cannot determine a participant's progress accurately or make timely decisions about the need to modify the participant's Plan or close the case. Without written policies and training on the contact frequency for unemployed participants, documentation for each contact, and time frames and procedures for closing cases, the Division is unable to ensure that cases are frequently and consistently monitored.

[1] Known questioned costs total $4,051. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Significant Deficiency.)

Recommendation No. 8:

The Department of Human Services should ensure compliance with federal and state case management requirements for the Vocational Rehabilitation Program (the Program) by:

a. Implementing written policies specifying minimum requirements for communicating with unemployed participants, such as requiring counselors to contact these participants at least once every 30 days, and requirements for supervisory review of field office staff's case management activities and timely case closure when cases meet the closure criteria in policy.

b. Providing training to Program field office staff on required documentation of case management activities, requirements for ongoing supervisory reviews of case management, and case closure procedures, including best practices for case management and documentation.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Division of Vocational Rehabilitation (the Division) will strengthen its policies and procedures pertaining to participant contact and timely case closure. The Division will implement supervisory reviews of case management practices. In October 2013, the Division updated its Policy Manual to require documented contact at a minimum of every 90 days for all Program participants. The policy revision also requires monitoring the progress of participants' in the Individualized Plan for Employment. Beginning in December 2013, the Division's quality assurance tool will include a follow-up form to ensure that quality assurance findings related to participant contact are addressed and that the case file reflects appropriate progress on the part of the participant toward an employment outcome. When appropriate progress is not made, the case will be closed in a timely manner.

b. Agree. Implementation date: October 2014.

The Division delivered staff training in September 2013 to address policy and procedure updates that became effective in October 2013. After additional revisions to the Division's Policy Manual are completed by July 2014, additional training will include improved strategies for case management activities and timely case closure, along with a review of the new supervisor oversight requirements.

Wait List Management

Federal regulations (Ability to serve all eligible individuals 34 C.F.R., pt. 361.36) require states to have an "order of selection," or wait list, process that prioritizes services to participants when projected fiscal and personnel resources for the Program are not sufficient to serve all individuals who are eligible for the Program. During Fiscal Year 2013, the Division implemented a wait list for Program services, in line with federal requirements, because the Division's fiscal year expenditures for vocational rehabilitation services outpaced the federal and state funding available to provide those services. Specifically, according to the supplemental request submitted to the JBC, in about February 2013 the Department learned that the Division was going to overspend its annual appropriation by $5.5 million; in March 2013, the Department requested and received a $5.5 million supplemental appropriation, consisting of about

$1.2 million of State General Funds, to address the Program's revenue shortfall; and the Department also implemented a wait list for Program services in March and April 2013. We further discuss the problems we identified with the fiscal management of the Program in Chapter 3, Recommendation No. 10.

As we discussed in Chapter 2, Recommendation No. 7, the Division classifies each individual who has been deemed eligible for the Program into one of the following three disability severity categories: (1) Most Significantly Disabled, (2) Significantly Disabled, or (3) Individual with a Disability. The Division uses these categories to prioritize services to wait-listed individuals. In its Fiscal Year 2013 State Plan, the Division noted that when there is a wait list in place, eligible individuals in the "Most Significantly Disabled" category will be served first, followed by individuals in the "Significantly Disabled" category, and then those in the "Individual with a Disability" category.

On March 1, 2013, the Division first established a wait list for eligible individuals classified as "Individual with a Disability." On April 22, 2013, the Division expanded the wait list to include eligible individuals classified as "Most Significantly Disabled" and "Significantly Disabled." As of August 2013, a total of 4,279 eligible participants were on the wait list in Colorado. The following table shows the number of eligible individuals on the wait list categorized by the severity of their disability, as determined by Program staff.

Vocational Rehabilitation Program
Eligible Individuals on the Program Wait List by Severity of Disability
As of August 27, 2013

Severity of Disability Category	Number of Individuals on the Wait List	Percentage of Total
Most Significantly Disabled	3,014	70%
Significantly Disabled	1,049	25%
Individual with a Disability	216	5%
TOTAL	**4,279**	**100%**

Source: Office of the State Auditor's analysis of wait list data provided by the Division of Vocational Rehabilitation.

Program staff offer wait-listed individuals assistance with completing their Program applications, determine each applicant's eligibility for the Program, and provide the individuals information and referral services. Wait-listed individuals do not receive any other services offered through the Program until they come off the wait list.

What audit work was performed and what was the purpose?

The purpose of our audit work was to assess Division practices for managing the Program's wait list. We reviewed the Program wait lists in place in May 2013 and August 2013, respectively. We interviewed Division staff and Program staff from a sample of seven field offices to assess Division processes for managing the wait list, including prioritizing those who are on the wait list to ensure that the highest-need individuals will be served first, in compliance with federal regulations, and ensuring field offices have consistent processes for transitioning individuals off the wait list. We also reviewed hard-copy case files and information recorded in the Division's AWARE system for our sample of 85 participants who were eligible for services during Fiscal Year 2013 to determine whether the individuals who applied for the Program after the wait list was implemented had been properly placed on the wait list, as required by the Division. We surveyed other states to determine best practices for managing vocational rehabilitation program wait lists.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's processes for determining placement on and operating under an order of selection wait list:

Wait list placement. Division policy (Section 7.3) states that individuals who have established a signed and approved employment Plan prior to the implementation of a wait list will continue to receive vocational rehabilitation services. According to Division staff, the Division does not have a written policy specifying when and how individuals must be placed on the wait list, but the Division requires that an individual must be placed on the wait list if he or she is either determined eligible or had a Plan signed and approved after the implementation of the wait list (i.e., after March 1, 2013 for individuals categorized as "Individual with a Disability" and after April 22, 2013 for those categorized as "Most Significantly Disabled" and "Significantly Disabled").

Wait list management. Federal regulations [Ability to serve all eligible individuals; order of selection for services, 34 C.F.R., pt. 361.36(a)(3)] for the Program specify that if the state is unable to provide the full range of vocational rehabilitation services to all eligible individuals who apply for services, the state must identify service and outcome goals for those individuals and the time within which their goals may be achieved in each priority category within the order of selection, or management of the wait list. The state must also ensure that individuals with the most significant disabilities will be selected first for the provision of vocational rehabilitation services. Division policy (Section 7.1) further states that participants in the higher priority category will be served before a participant in the next lowest category. When the Division cannot serve all

eligible individuals within a priority category, the individuals within that category will be served in chronological order based on the date of their Program applications.

What problems did the audit work identify?

Overall, we identified the following three problems during our review of the Division's wait list management practices:

- **Lack of management strategies and time lines for the wait list.** The Division has not developed a plan for managing its wait list for Vocational Rehabilitation Program services, such as a strategy for identifying service and employment goals for wait-listed individuals or target dates for providing vocational rehabilitation services to individuals within each wait list priority category to establish and meet their employment goals, as required by federal regulations. In addition, the Division policy specifies that individuals in the highest priority category will be served before individuals in the lower categories in the event that there is a wait list, but the Division has not developed a policy or plan for serving individuals in any of the disability categories. As of the end of our audit in September 2013, Division staff provided us a draft model they had developed to project the amount of Program funding available to serve individuals on the wait list, but they indicated that they were still in the process of developing a plan for managing the wait list.

- **Lack of methods for projecting Program expenditures and available funding for participants on the wait list.** The Division does not have a comprehensive method for projecting Program expenditures and the funding available to serve wait-listed participants. We reviewed the Division's draft model for projecting its available funding to serve wait-listed individuals and found that the model only used prior year expenditure data and average per-participant costs from Fiscal Year 2013 to project the Fiscal Year 2014 costs and available funding for serving wait-listed individuals. Based on our audit work, we found that per-participant costs varied significantly, ranging from about $1 to $114,000 to serve each participant in Fiscal Year 2013. Changes in the number of participants and the types of services they receive have a significant effect on Program expenditures, which, in turn, affects the Division's ability to accurately project available funding for future years. We further discuss the issue that the Division does not track estimated costs of services authorized or approved in Chapter 3, Recommendation No. 10.

- **Lack of compliance with Division wait list procedures.** We identified one participant out of the 85 sampled who did not have a completed

employment Plan in place by April 22, 2013, but was not placed on the wait list, which was a violation of Division requirements.

Why did the problems occur?

Overall, the Department reported that it is waiting to finalize a wait list management plan until it addresses the problems within the Division that have been identified internally and through our audit. Further, the Division does not require supervisory reviews of counselors' placement of individuals on the wait list to ensure staff follow Division policy regarding the wait list.

While we recognize that it may not be prudent for the Department to begin serving any wait-listed individuals until it can ensure the Division has made significant improvements to the Program's operations, controls, and financial management, the Division needs to have written policies, procedures, and a comprehensive plan for managing the wait list in place for staff to follow once the Division is able to begin serving new participants. For example, Wisconsin's vocational rehabilitation program, which also has a wait list for services and prioritizes participants based on the severity of disability similar to Colorado, has a policy for managing its wait list and time line targets for serving wait-listed individuals in each severity of disability category.

In addition, to comply with federal regulations that require states to "identify the time within which the goals may be achieved for [individuals] in each priority category," Wisconsin has a written policy with target time frames for serving wait-listed individuals based on each individual's disability category. For example, once Wisconsin's vocational rehabilitation services program begins serving a priority category, it has a target to serve those wait-listed individuals within an average of 4 months. Wisconsin also uses a projection tool that it created to monitor available funding and the costs of current participants to determine when it will have funding available to move individuals off the wait list and serve them. Wisconsin uses its projection tool to determine how many individuals to move off the wait list each month and to project dates for moving individuals off the wait list in the future.

Why do these problems matter?

The Program's wait list has grown rapidly since it was implemented. For example, more than 3,000 eligible individuals were on the Program's wait list in May 2013, and almost 1,300 more individuals were added to the wait list between June and August 2013. Not having a wait list management plan, including time frames for addressing the wait-listed individuals' needs, increases the likelihood of further delays serving wait-listed individuals once the Division has sufficient operational and financial controls in place and the funding available to serve new

participants. Without a plan to serve individuals in each priority category, the Division cannot ensure it will have a consistent process to begin serving each category of wait-listed individuals.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Eligibility. Classification of Finding: Significant Deficiency.)

Recommendation No. 9:

The Department of Human Services should ensure the Division of Vocational Rehabilitation develops and implements a written policy and strategy for managing the wait list for the Vocational Rehabilitation Program (the Program) that include estimated time frame targets for serving wait-listed participants in each of the three disability categories, a supervisory review process to ensure staff follow wait list policies, and comprehensive methods for projecting Program expenditures and estimating available funding needed to begin serving individuals on the wait list.

Department of Human Services Response:

Agree. Implementation date: February 2014.

The Division of Vocational Rehabilitation (the Division) will develop a policy and strategy for managing Order of Selection wait lists. The Division will improve the methodology to project caseload costs and estimate funding needed to begin serving participants in each of the three disability categories. The Division will use the information to establish targeted timeframes for serving participants in each of the three disability categories. The Division will increase emphasis on monitoring case costs and supervision of the plan and implementation strategy. The Division will implement a supervisory review process to ensure staff follow wait list policies and procedures.

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Resource Management

Chapter 3

Federal regulations require the Department of Human Services' (the Department) Division of Vocational Rehabilitation (the Division), as a recipient of federal grant funds, to ensure that Vocational Rehabilitation Program (the Program) funds are used for allowable purposes. The Division is also responsible for determining whether participants can contribute financially toward the costs of their services. Further, as a state agency, the Division should have internal accounting processes and control systems that include adequate budgeting, expenditure authorization and oversight, restrictions on the use of assets, and effective recordkeeping and review procedures to protect public funds and assets and ensure that expenditures are reasonable, appropriate, and solely for state business [Section 24-17-102(1), C.R.S.]. The Division receives a federal grant and state funds to administer the Program. For Federal Fiscal Year 2013, the Division was awarded about $40 million in federal grant funds for the Program; the Division was appropriated $11.4 million in state and local funds for the Program during State Fiscal Year 2013.

We identified numerous and systemic problems with the Division's financial management of Program resources, which point to an overall lack of controls over and accountability for the Division's use of federal and state funds. We reviewed how the Division oversees and manages Program funds and assets in the following areas: (1) budget development and Program expenditure monitoring; (2) Division corporate credit accounts; (3) participants' use of Program funds and equipment; (4) participants' financial contributions toward the Program services they receive; and (5) fees and bonuses paid to Program vendors. The problems we identified in each of these areas are discussed in the remainder of this chapter.

Fiscal Management

During State Fiscal Year 2013, the Division's Program revenues totaled $53.5 million; Division expenditures for the Program also totaled about $53.5 million. The State contributes 21.3 percent of total Program funds, and the federal government contributes the remaining 78.7 percent, up to the total federal grant amount for Colorado. The State's portion is funded through appropriations from the State General Fund and reappropriated local funds from the Colorado Department of Education. Division staff develop the Program's annual budget and funding request that is submitted to the Governor's Office, the Joint Budget Committee (the JBC), and the General Assembly for approval. According to

Division staff, the Division has been monitoring Program expenditures on a monthly basis since Fiscal Year 2012 to help ensure Program expenditures do not exceed revenues. Division management forecasts expenditures based on the total dollar amount of Program services that staff authorize for participants and record in the Accessible Web-Based Activity and Reporting Environment (AWARE) application. In State Fiscal Year 2013, the Division was close to overspending its appropriation and requested and received a supplemental appropriation totaling about $5.5 million, including about $1.2 million in State General Funds and about $4.3 million in federal funds. The Department reported to the JBC that the Division would over-spend the Program's Fiscal Year 2013 appropriation unless the supplemental request was approved. The table below summarizes Program revenues and expenditures for Fiscal Years 2009 through 2013.

Vocational Rehabilitation Program
Revenues and Expenditures (in Millions)
Fiscal Years 2009 Through 2013

	2009	2010	2011	2012	2013
Revenues	$41.7	$40.8[1]	$49.5[1]	$49.3[1]	$53.5[2]
Expenditures	$41.7	$40.8	$49.5	$49.3	$53.5

Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System (COFRS) and documentation provided by the Department of Human Services.
[1] Includes federal funds from the American Recovery and Reinvestment Act in Fiscal Years 2010, 2011, and 2012.
[2] Includes a $5.5 million supplemental appropriation in March 2013.

What audit work was performed and what was the purpose?

The purpose of our audit work was to review the Division's processes for managing the Program's financial resources and determining the Program's annual budget. We reviewed Program budget and expenditure documentation we received from the Department and the Division and interviewed Department and Division staff. We also evaluated a sample of 85 participant files from Fiscal Year 2013 to determine how the Program estimates the costs of participant services and uses that information to forecast and monitor Program expenditures.

How were the results of the audit work measured?

We used the following criteria to evaluate the Division's management of Program financial resources:

The Program is not an entitlement. Federal regulations [Assessment for determining eligibility and priority for services, 34 C.F.R., pt. 361.42(a)(5)]

specify that nothing is to be construed to create an entitlement to participants for any vocational rehabilitation service.

Efficiency and financial accountability. Federal regulations (Methods of administration, 34 C.F.R., pt. 361.12) require the State to properly and efficiently administer the Program and to carry out all functions for which the State is responsible under federal regulations. These methods must include establishing procedures to ensure financial accountability and accurate data collection.

Cost estimates and projections. When the State is unable to serve all eligible individuals during the current or preceding fiscal year due to a wait list, federal regulations [Ability to serve all eligible individuals; order of selection for services, 34 C.F.R., pt. 361.36(b)(2)(i)] require that the determination to provide the full range of services to all eligible individuals be based on: (1) the projected number of individuals with disabilities who will apply and be determined eligible, (2) the projected costs of serving those individuals, (3) the projected costs of administering the Program, and (4) the projected revenues.

What problems did the audit work identify?

Overall, we identified problems with the Division's management of Program finances. Specifically, the Division has not implemented methods to contain Program costs or accurately forecasted or monitored Program expenditures, as we describe below.

- **The Division did not take sufficient steps to contain Program costs.** In its March 2013 written request for the $5.5 million supplemental appropriation, the Department stated that the projected costs of Program services exceeded the Division's established Fiscal Year 2013 budget for participant services by more than $5.3 million, or 34 percent because the Program had experienced a significant increase in spending for participant services. However, Division management in place during Fiscal Year 2013 did not sufficiently limit spending by Program field office staff (Program staff). Although the Division began requiring supervisory approval for purchases of $2,000 or more in January 2013, we found that Program spending is highly decentralized and has been determined by individual counselors at the field offices rather than overseen from a higher level by Division management. As discussed in Chapter 2, Recommendation No. 3, all counselors authorize services and there are no limits on the costs of services that participants may receive.

- **The Division did not forecast expenditures accurately to ensure it could fund all individuals eligible for Program services.** The Department's supplemental appropriation request stated that the Division

made a policy decision to actively engage current participants, such as those who have lost contact with the Program, in rehabilitation processes to increase successful employment outcomes. However, the Division did not appear to plan for or incorporate in the budget any anticipated costs associated with increased engagement. Increasing participant engagement would have an effect on Program expenditures because more participants could receive services from the Program.

Further, we found that the Division determines the annual Program budget based on inaccurate forecasts of Program expenditures. Division forecasts do not include the total cost of Program services that staff authorize for each participant. Specifically, the Division forecasts Program expenditures based only on the total Program services that staff authorize and record in AWARE, which does not include the costs of services staff record in the Colorado Financial Reporting System (COFRS), the State's accounting system. Some Program costs that the Division records in COFRS that it does not record in AWARE include the costs of Program participants' bus passes and goods purchased for participants using procurement cards.

- **Program staff did not accurately estimate the costs of services that participants would receive or did not estimate costs at all.** During our case file review, we found that for 65 (76 percent) of the 85 participant case files, the estimated costs of the participants' services were not documented or were not accurate. Specifically, although each participant's Individualized Plan for Employment (Plan) includes a section for counselors to document the total estimated cost for a participant, this section of 46 participant Plans we reviewed showed $0 in costs. However, after these Plans were developed, Program staff authorized services totaling $151,000 for the 46 participants. The costs of these services ranged from $60 to $24,000 per participant. Further, for another 19 participants' Plans we reviewed, the estimated costs documented in the Plan did not agree to the service cost amounts that counselors authorized.

In addition, we found that the Department was not aware of the extent of Program spending problems. Based on our interviews with Department and Division staff and our reviews of documentation, former Division management and Division staff identified concerns with Program spending and the potential for the Division to overspend its appropriation in August 2012—7 months before the Department requested a supplemental appropriation. According to Department documentation, the Division reported the problems associated with increased spending and the potential for overspending to the Department in December 2012, but the Department did not know the full extent of the problems within the Division until February 2013.

Why did the problems occur?

Overall, we found that the Division does not have sufficient policies, procedures, and oversight to manage its financial resources and ensure its expenditures are within available resources. As stated in the previous findings, the Division has insufficient practices for ensuring participants reach their employment goals within reasonable time frames and at the least possible costs; authorizing Program services and ensuring services are appropriate; and securing comparable services and benefits for participants through other available programs. As discussed in Chapter 2, we found that the Division does not have adequate processes for ensuring Program payments are accurate, made for necessary services, and processed timely. As we discuss later in this chapter and in Chapter 4, we also found that the Division does not adequately monitor participant use of Program funds and state assets and recover funds, when appropriate; monitor corporate account spending, administrative costs, and procurement card purchases for reasonableness and timely payments; ensure participants make contributions toward the costs of services when they are financially able to do so; and ensure contracts are in place to protect federal and state resources. Controls are needed in each of these areas to accurately oversee expenditures, forecast Program expenses or costs, and ensure the Program's spending does not exceed available funding.

In addition, we found that the following factors contributed to the Division's fiscal problems:

- **The Division does not have a method to accurately estimate the costs of participants' services.** Although counselors estimate the number, types, and duration of services that participants will need to reach an employment goal, the Division has not developed a method to track estimated participant costs and use those estimates to project future Program costs and liabilities. For example, a counselor may plan for the Program to pay for a participant's tuition, books, and transportation over the next 5 years, yet the Division has not developed a process to track those estimated costs and forecast anticipated costs during the year and in future years. Further, although we found that some Program staff had documented the estimated costs of participants' services within some Plans, Division staff informed us that it does not require Program field office staff to estimate or document the costs of services that participants will receive, and the Division does not use the cost estimates when staff choose to document this information.

- **The Division lacks methods to contain costs.** The Division has not required field offices or counselors to have budgets, monitor costs, or contain costs in recent years. According to Program staff, in Fiscal Year 2014 the Division began requiring the Program's four regional supervisors

to manage budgets for their regions. However, some Division staff reported that it has been the Division's belief that the Program could only contain costs by implementing a wait list. We surveyed eight other states' vocational rehabilitation programs and found that each of the eight states— Alabama, Georgia, Maryland, Oklahoma, Utah, Washington, West Virginia, and Wisconsin—employ some cost containment measures, such as prohibiting Program staff from paying for participants' psychological counseling, which may be covered by other federal or state programs, and restricting expenditures for participants' college tuition to in-state tuition rates.

- **The Division lacks budgeting expertise.** The Division has not ensured that staff have the expertise needed to establish the Program's budget and properly manage Program finances. Based on our interviews with JBC, Department, and Division staff, the Division staff responsible for developing the Program's budget have limited experience in the State's budgeting and appropriation process and are not sufficiently versed in the State's accounting and control requirements.

- **The Department did not have sufficient procedures to monitor Division activities.** Although the Department requires each of its divisions to report performance information to Department management on a monthly basis, Department documentation indicated that Division management was not forthcoming with Department management about the extent of the Division's spending problems. Further, the Department did not have other monitoring methods, such as thorough accounting or internal audit reviews of Program purchases and services, to identify the spending problems and ensure the Division had adequate methods for managing Program finances.

Why do these problems matter?

Sound financial management is a fundamental responsibility of government agencies. Accurate forecasting of expenditures and revenues is essential to ensure that public monies are used for the purposes for which they are intended and that programs are managed within the appropriations made by the General Assembly. Division staff reported that Program staff do not document the estimated costs of services and that the Division has not established a process to track this information because the estimates may not reflect the actual costs. Nonetheless, when the Division does not estimate the costs of each participant's services, it cannot project the costs of planned services in the current year and in future years; this information is needed for budget development and to determine whether expenditures will exceed revenues. In addition, when staff are not given budgets, required to monitor spending, or required to contain costs, there is a greater risk of

overspending and that staff will not be held accountable for ensuring Program funds are spent appropriately and prudently.

Not only has the Division's spending affected Coloradoans because of the necessity of a wait list for vocational rehabilitation services, but the Division's budgeting and expenditure problems have impacted future Program funding. As part of its Fiscal Year 2013 request for a supplemental appropriation, the Division also requested a $4.88 million increase in its Fiscal Year 2014 appropriation. This request was not approved by the General Assembly after JBC staff expressed concerns about the Division's inability to manage its Fiscal Year 2013 existing appropriation.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 10:

The Department of Human Services (the Department) should improve the fiscal management of the Division of Vocational Rehabilitation (the Division) and the Vocational Rehabilitation Program (the Program) by:

a. Establishing and implementing a comprehensive budgeting process that includes procedures for estimating service costs for each participant in each fiscal year, and using the estimates to more accurately forecast Program expenditures in the current and future fiscal years.

b. Ensuring that Division staff responsible for developing the Program budget and monitoring expenditures and revenues have expertise and training in state and federal budgeting processes and proper accounting and fiscal procedures.

c. Implementing a process for Departmental review and approval of the Division's annual budget and routine Division reporting to Department management on the Program's estimated costs for participants, service authorizations, budget-to-actual costs, and expenditures-to-spending authority.

d. Implementing a regular Departmental review of Division expenditures until the Division can demonstrate full implementation of proper accounting controls. Once the Division demonstrates adequate controls, the Department should follow up and periodically review a sample of Division transactions to ensure ongoing compliance.

Department of Human Services Response:

a. Agree. Implementation date: January 2014.

The Division will establish and implement a comprehensive budgeting process to include estimating the total cost of each new and revised Individualized Plan for Employment (Plan or IPE) entered into AWARE for new participants. In September 2013, vocational rehabilitation counselors were directed to begin entering estimated Plan costs prior to completion of each IPE. The Division will utilize these estimates to more accurately forecast Program expenditures in current and future fiscal years.

b. Agree. Implementation date: April 2014.

The Division will improve fiscal management of the Program by ensuring that fiscal staff complete training to ensure expertise with Vocational Rehabilitation Program budgeting practices and federal fiscal obligations; and will work in collaboration with the Department's Divisions of Accounting and Budget to ensure staff have expertise in state budgeting, accounting, and fiscal procedures.

c. Agree. Implementation date: April 2014.

The Department will implement a process for review and approval of the Division's annual budget prior to the end of each state fiscal year. The Division will provide routine fiscal reporting to the Department outlining the Program's estimated costs for participants, service authorizations, budget-to-actual costs, and expenditures-to-spending authority. The Division will work in collaboration with the Department's Divisions of Accounting and Budget to ensure sound fiscal management practices are in place.

d. Agree. Implementation date: January 2014.

The Department's Budget Division will review the Division's fiscal reports outlining the Program's expenditures on at least a quarterly basis, or as agreed upon between the Division and the Department. The Budget Division will determine when adequate accounting controls have been demonstrated for conversion to a more periodic review.

Corporate Credit Accounts

The Division maintains 26 corporate credit accounts for use by the Program field offices for the purpose of purchasing goods—such as computer hardware and software, industrial tools and equipment, work clothing, and books—for Program participants. Program participants can make purchases in a store by presenting a copy of a Service Authorization form signed by a Division counselor. Further, Program staff can make an online purchase for a participant by recording a purchase authorization number in the transaction details of the Authorization form. The participant must provide a copy of the receipt to his or her counselor and sign a form verifying his or her receipt of the goods and acknowledgment that the Division owns the goods. Division staff are responsible for setting up and managing the credit agreements with the vendors. Payment of the purchases on these accounts is the responsibility of the Division's field offices. The following table lists the vendors and the credit limits for each of the Division's corporate credit accounts. In Fiscal Year 2013, the Division reported that it made a total of about $590,000 in purchases on the 26 corporate accounts.

Vocational Rehabilitation Program Corporate Accounts and Credit Limits As of August 2013	
Vendor	**Credit Limit**
Amazon.com (Online Only)	$40,000
Avia Pharmacy Services (Safeway)	No Limit
Barnes & Noble Inc.	$5,000
Best Buy	$10,000
Comp USA (Online Only)	No Limit
Citibank South Dakota NA (Sears)	$40,000
Eschenbach Optical	$3,000
Farm Plan	$2,500
FedEx/Kinko's	No Limit
Grainger	$1,000
Hobby Lobby	$1,000
Home Depot	$10,000
JC Penney	$15,000
King Soopers Pharmacy Services	No Limit
King Soopers/City Market	$5,000
Kohl's Department Store	No Limit
Lowe's	$10,000
Micro Center	$15,000
Mike's Camera	$1,000
MKBS (Metro Taxi)	No Limit
Northern Tools	$15,000
Office Depot	$15,000
Optelec	$1,200
Walgreens	No Limit
Wal-Mart	$20,000
Universal Companies	$2,500
Source: Listing provided by the Division of Vocational Rehabilitation.	

What audit work was performed and what was the purpose?

The purpose of our audit work was to evaluate the sufficiency of the Division's controls over its corporate credit accounts, including which staff had access to make purchases and whether the accounts had been paid timely and in full each

month. We specifically reviewed whether the purchases on the corporate accounts were clearly made for Program participants and whether the Division's reconciliation processes were adequate to identify errors or potential problematic purchases. We interviewed Division staff regarding the Division's controls over the corporate accounts. To determine whether the Division appeared to pay the corporate bills timely, we reviewed the Division's May 2013 documentation, such as the account statements, for eight of the accounts. We also reviewed transactions from the March, April, and May 2013 statements and detailed invoices for three of the Division's corporate accounts (Amazon, Sears, and Wal-Mart).

How were the results of the audit work measured?

We used the following criteria when evaluating the Program's processes for corporate accounts:

Reasonable and allowable expenditures. State Fiscal Rule 2-1 requires that all expenditures by state agencies shall meet the standards of propriety as being for official state business purposes only and reasonable and necessary under the circumstances. In addition, State Fiscal Rule 2-3 requires that receiving reports, or other sufficient documentation, be prepared for all goods and services received, showing actual quantities, any unsatisfactory condition, and compliance with specifications, before a voucher is processed for payment. According to Division policy (Section 10.3), counselors must authorize services and goods associated with a participant's employment Plan and approve payment in accordance with the Division's fee schedule. Further, Division staff stated that, after a purchase, participants are required to provide receipts to their counselors, who match the receipts to the Service Authorization form and sign off on the receipt or Service Authorization form to approve the transaction for payment. In addition, Division policy (Section 12.11.5) states that when equipment, tools, and other non-prescriptive devices, such as computers, are purchased for and issued to participants, the participant shall provide written acknowledgment of the State's ownership of the equipment, and the counselor will maintain the signed acknowledgment in the participant's case file. The equipment remains the property of the State until the participant's successful closure from the Program occurs, at which time the equipment becomes the property of the participant.

Internal controls to ensure proper payments. Title 31, Section 3321 of the United States Code, which is known as the "Improper Payments Information Act of 2002," requires states to establish and maintain sufficient internal controls that effectively prevent improper payments and promptly detect and recover improper payments that are made. An improper payment is defined as a payment that should not have been made or was made for an incorrect amount, such as any payment for an ineligible service, duplicate payment, payment for services not

received, and any payment that does not account for a credit for any applicable discounts. State Fiscal Rule 2-10 requires agencies to have processes for reviewing and reconciling card statements and states that agencies shall: (1) complete a preaudit when the disbursement is made to the bank or when distributions are made, (2) reconcile the disbursements made to the bank with the total of validated individual charges for the agency, and (3) use the dispute mechanism when charges from the bank are challenged. The Department's Procurement Card Manual states that its dispute mechanism is for the cardholder to file formal disputes with the bank upon discovery but no later than 60 days after the transaction was posted. A signed copy of the dispute form must be provided to the bank to document the transaction being disputed. The Department then requires this transaction to be identified on the monthly procurement card statement. Division policy (Section 3.6) mandates that goods and services provided to participants should be necessary, appropriate, and procured at the least possible cost, and that any purchase must be authorized, in writing, prior to its initiation.

Controls to restrict access to authorized persons. Statute (Section 24-17-102(1), C.R.S.) requires state agencies to have internal accounting and administrative controls that shall provide: (1) restrictions permitting access to state assets only by authorized persons in performance of their assigned duties; (2) adequate authorization and recordkeeping procedures to provide effective accounting controls over state assets, liabilities, revenues, and expenditures; and (3) an effective process of internal review. These provisions are intended to protect state assets and ensure that expenditures are reasonable, appropriate, and solely for state business.

Timely payment. State Fiscal Rule 2-2 requires transactions to be paid within 45 days after products or services have been received and a notice of payment due has been provided by the vendor.

Approval for open charge accounts. State Fiscal Rule 2-10 prohibits state agencies from enrolling in other credit or debit card program agreements for purchases covered by the procurement card program. The Fiscal Rule indicates that state agencies participating in the procurement card program shall use the state procurement card for purchases at local vendors in lieu of open or other charge accounts. The Department's procurement card administrator and the Department's controller or chief fiscal officer must approve exceptions to this requirement in advance.

What problems did the audit work identify?

Overall, we identified purchases made on the corporate credit accounts that appeared questionable and found that the Division does not consistently pay the

outstanding balances due on its accounts. The problems we identified are described in the following sections.

Questionable Transactions

In reviewing the Division's May 2013 corporate account statements and invoices, we identified purchases that appeared potentially inappropriate, including purchases for iPhones, gift/shopping cards, phone cards and prepaid phone time, higher-end laptops, and children's clothing. We reviewed a sample of 30 purchases totaling $15,186 and credits totaling $1,305 from the Amazon, Sears, and Wal-Mart statements in March, April, and May 2013. For each of the 30 transactions, we reviewed all related supporting documentation the Division had on file, including the Service Authorization forms, receipts, and participant Plans. We identified purchases that appeared questionable, inappropriate, or that were missing authorization numbers, which, according to Division staff, are required for a participant to make a purchase. We found one or more problems with 27 (90 percent) of the 30 sampled transactions, resulting in a total of $13,837[1] in known questioned costs. Specifically, we found:

- For 12 sampled transactions totaling $10,084, the case files either did not contain the receipt or the form signed by the participant that indicated acknowledgment of the State's ownership of the goods purchased, as required. All 12 transactions were from the same corporate statement. We reviewed the statement and determined that the 12 transactions, which ranged from $23 to $4,479, were for clothing and tool purchases made by three participants. Ten of these transactions were made by one participant who purchased approximately $5,464 in tools and had received multiple authorizations to make purchases. Because the Division could not provide supporting documentation for the 12 transactions, we questioned the $10,084 in Program costs related to these transactions.

- For 23 sampled transactions totaling $14,662, the Division did not provide a copy of the participants' complete Plans or the Plans did not fully describe the goods that the participants would need to purchase or their anticipated costs. The 23 transactions included purchases for a computer, newborn and children's clothing, a toy, tools, and various household items and cleaning supplies. As a result of the lack of documentation, we were unable to determine whether the items purchased were necessary and appropriate for the participants to meet their employment goals, as required by Division policy. We identified known questioned costs of $1,710 for an incomplete Plan provided by the Division.

- For 15 sampled transactions totaling $9,690, the Service Authorization forms did not clearly specify the good, number of goods, and/or the

associated counselor-approved cost for the purchased items. For example, although 11 of the Service Authorization forms indicated participants could make purchases for tools or clothing, the forms did not provide specifics, such as the types of tools or clothing and the quantities allowed for purchase. In addition, one Service Authorization form referred to a list of authorized items attached to the form, but no list was attached. As a result of these problems, we were unable to determine whether the items purchased had been approved by the participants' counselors or whether the items were purchased at the least possible cost, as required by Division policy.

- For one sampled transaction, the receipt indicated that the related purchases were for newborn, children's, and men's clothing, although the authorization was for work clothes for a woman with a goal to work in laundry services. This resulted in $249 of known questioned costs.

- For one sampled transaction, the Service Authorization form issued by the counselor was for $500, but the receipt and account charge was for $547. This resulted in known questioned costs of $47.

- For four sampled transactions totaling $1,458, the transactions did not appear reasonable or necessary for the participant to reach his or her employment goal and therefore did not appear to be allowable Program expenditures. These sampled transactions included purchases for three Sears Mall Store gift cards totaling $1,120, a Coleman tent for $153, and six items totaling $185 for which the invoice only stated "www.sears.com" with no description of what was purchased. This resulted in known questioned costs of $1,458.

- For three sampled transactions totaling $1,409, the Division was not able to provide any documentation supporting the transactions. These transactions included one purchase for $119 and two credits totaling $1,290 for which the Division did not have any documentation to explain the charges or to show the credits had been applied to the original purchases. This resulted in known questioned costs of $1,409.

Unpaid Balances

We found that the Division does not always pay the full balances due on the corporate accounts, and as a result, balances on these accounts have been rolling from month to month. At the end of July 2013, we requested that the Division provide a copy of all of the corporate account statements for May 2013 and the ending balances as of June 30, 2013. In September 2013, the Division provided the May 2013 statements for eight of its 26 corporate accounts but was unable to

provide the remaining 18 account statements. Based on our review of the May 2013 statements that were provided, we identified $59,035 in unpaid beginning balances on the eight accounts. Further, as shown in the following table, the Division reported that it had $59,663 in outstanding balances on the corporate accounts as of June 30, 2013. When we requested supporting documentation for these balances, the Division reported that it had been contacting its corporate account vendors and obtaining verbal information for the ending balances but did not have documentation, such as account statements, to support the vendors' verbal statements or to allow the Division to reconcile the ending balances provided. Upon our request for documentation of account balances, the Division obtained some documentation from the vendors, including emails from vendors showing the outstanding balances, but the documentation did not include the details of the transactions or dates, so the documentation was not sufficient to complete reconciliations.

Vocational Rehabilitation Program Corporate Accounts Ending Balances As of June 30, 2013	
Vendor	**Ending Balance[1]**
Amazon.com (Online Only)	$2,562
Avia Pharmacy Services (Safeway)	$258
Barnes & Noble Inc.	$0
Best Buy	-$513
Comp USA (Online Only)	-$8
Citibank South Dakota NA (Sears)	$2,178
Eschenbach Optical	$299
Farm Plan	$0
FedEx/Kinko's	$186
Grainger	$0
Hobby Lobby	$601
Home Depot	$171
JC Penney	$5,333
King Soopers Pharmacy Services	$19,964
King Soopers/City Market	$643
Kohl's Department Store	$10,807
Lowe's	$0
Micro Center	$2,205
Mike's Camera	$0
MKBS (Metro Taxi)	$128
Northern Tools[1]	--
Office Depot	$720
Optelec	$233
Walgreens	$895
Wal-Mart	$13,001
Universal Companies[1]	--
TOTAL	**$59,663**

Source: Balances provided by the Division of Vocational Rehabilitation.
[1] The Division was still confirming these balances when we concluded our audit test work.

During our review we also learned that all Division and Program field office staff working in the Program had access to make and authorize purchases on the corporate accounts. After bringing this to Division management's attention, it

reported in August 2013 that it specifically limited access to one account—the Division's Amazon credit account—to 31 employees who are allowed to either use the account to make purchases or authorize purchases to be made on the account. The Division did not report limiting access to any of the other accounts.

In addition, we noted that the Division has not obtained approval to utilize open charge accounts for vendors in accordance with State Fiscal Rule 2-10. This rule requires departments to obtain approval for an exception from the rule requiring agencies to only use procurement cards for purchases. Specifically, the Division has not obtained this approval from the Department's procurement card administrator and the Department's controller or chief fiscal officer for these purchases.

Why did the problems occur?

Overall we found that, although the Division staff are responsible for managing the Division's corporate accounts, the Division does not have processes for monitoring, limiting access, reconciling, resolving disputes for charges, or ensuring appropriate year-end reporting for these accounts, as discussed below. Further, the Department was not aware that the Division had the open charge accounts for providing benefits to participants in the Program; as a result, the Department's procurement card administrator and either the controller or chief fiscal officer had not granted the Division an exception to the fiscal rule requiring such approval for open charge accounts.

- **Lack of monitoring.** According to Division staff, the Division does not monitor each vendor account's balance to avoid reaching the respective credit limit, and it is only when a purchase is denied by a vendor that the Division becomes aware that an account has reached its limit.

- **Access to charge accounts not limited.** Once we brought this matter to the Division's attention, in August, the Division limited access to the Amazon credit account. However, the Division has not limited access for its other corporate accounts to appropriate Division staff. Division management has not placed restrictions on the number of people at each field office who are granted access to make purchases on these other accounts.

- **No reconciliation.** Division staff also indicate that there is no formal reconciliation process in place to match charges on the monthly vendor statements with authorizations and receipts. Rather, the Division performs reconciliations only in the event of a dispute with a vendor. Division staff reported that reconciliations are cumbersome and, in some cases, not possible for the Division to complete because authorization numbers for

the associated purchases are not provided by vendors and shown on the statements in all instances. As a result, for those charges without authorization numbers, Division staff cannot tie the charges on the statements to supporting documentation, such as receipts. Division management stated that they have instructed the field offices to not pay for purchases for which an associated authorization cannot be identified, leading to the payments not being made timely and past-due balances on the accounts.

- **Lack of process for resolving disputes.** The Division has not established a process for resolving disputes with the corporate account vendors. Division management stated that field offices are required to review the billing information from the vendors and make payments. According to Division management and Program staff, if there is a dispute, the field office staff work with the vendors directly to resolve the disputes. Field office staff may request the assistance of Division staff in resolving disputes.

- **No fiscal year-end reporting.** The Division has not established controls to ensure corporate account balances are properly reported at fiscal year-end. The Division also does not observe an official close period for the accounts and does not report fiscal year-end account balances to the Department's accounting unit.

Why do these problems matter?

According to Division staff, several vendors, including Amazon, Home Depot, Kohl's, Office Depot, and Wal-Mart, are not allowing any additional purchases or charges on the accounts as of July 2013 because of the past-due balances. This has led to an interruption in providing goods and services from these vendors to participants until an alternative vendor is found.

Without appropriate controls in place over these accounts, the Department cannot ensure that fraudulent or inappropriate purchases do not occur or are identified and addressed if they do occur. There is also a risk that the Division's past-due balances will negatively impact the State's relationship with these vendors.

[1] Known questioned costs total $13,837. This total will not equal the sum of the amounts noted in the bullets on pages 111 and 112 because one of the sampled transactions had more than one problem. Therefore, the related questioned costs are included in more than one bullet. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Material Weakness.)

Recommendation No. 11:

The Department of Human Services (the Department) should improve controls over the Division of Vocational Rehabilitation's (the Division) corporate accounts by:

a. Ensuring that the Division obtains an exception for the open charge accounts from the Department's procurement card administrator and the Department's controller or chief fiscal officer or discontinues the use of the corporate accounts.

b. Establishing and implementing a process to monitor, reconcile, and resolve disputes in regards to charges on the corporate accounts. This process should include assigning responsibility for performing a monthly reconciliation of each account, obtaining copies of all account statements, ensuring that all charges on the account are appropriate and supported with receipts and invoices, and working with vendors to resolve charges noted on the statements that do not include authorization information.

c. Ensuring that payments for the corporate accounts are made timely and by the payment due dates.

d. Limiting the number of employees at each field office who are approved to make purchases on the corporate accounts.

Department of Human Services Response:

Agree. Implementation date: January 2014.

a. The Division will determine which of its current corporate accounts are necessary to continue to serve the needs of participants in a timely and effective manner. The Division will complete the process of obtaining an exception from the Department's procurement card administrator and the Department's controller for the subset of necessary accounts, and inactivate the remainder by January 2014. The Division will also work with the Department's accounting staff to develop a policy for managing the remaining corporate accounts, as defined in part "b" below. Should the request for exception be denied,

the Division will inactivate all corporate accounts and determine alternative methods of providing goods and services.

b. The Division will establish a process to monitor, reconcile, and resolve disputes for corporate account charges. The Division will assign individual responsibility for completing a monthly reconciliation of each account, obtaining and archiving copies of all account statements, ensuring charges are supported by receipts and invoices, and working with vendors to resolve charges noted on the statements that do not include authorization information. The Division will establish a review process to ensure all charges on the corporate accounts are appropriate, using assistance from the quality assurance unit to examine specific questionable expenses, as necessary.

c. The Division will follow State Fiscal Rules and Procurement Rules to ensure timely payments on the corporate accounts, by the payment due dates. The Division will also develop and implement a process to identify unpaid authorizations in the Accessible Web-Based Activity and Reporting Environment (AWARE) system.

d. In collaboration with the Department's Accounting staff, the Division will perform an extensive review of each corporate account and will limit the number of Program staff with account access.

Participant Use of Program Funds and State-Owned Equipment

The Division allows the Program field offices to purchase a variety of goods and services for participants to assist them in meeting their employment goals. Field office staff purchase some goods online, such as computers and books, and give them to participants. For other types of goods, such as work clothing, work tools, cell phones, and office supplies, participants may purchase the goods directly from retailers, such as Sears and Wal-Mart, once they have received written authorization from a Program counselor. For selected participant expenses, such as gas and rent, that the counselor determines exceed the participant's normal expenses and are necessitated by the participant's participation in their Plan, the Division pays the participant directly. For example, a participant who is going on job interviews may receive Program funds to pay for gas to travel to each interview, or a participant who needs job training may receive Program funds to pay for a class and books.

What audit work was performed and what was the purpose?

The purpose of our audit work was to evaluate the Program field offices' processes for reporting suspected fraud and misuse of Program funds or property by participants to the Department and addressing the alleged incidents to help ensure they are investigated and resolved in a timely manner. We interviewed the Department's internal audit staff and Division staff to determine whether they had knowledge of instances of participants misusing Program funds or property and understand the controls in place for preventing and reporting fraud. We reviewed Department and Division policies and procedures related to identifying, reporting, investigating, and resolving suspected instances of misuse of funds and property. We reviewed hard-copy case files and documentation in AWARE, including case notes and correspondence, to identify Division processes for reporting participants' misuse of Program funds and suspending or terminating the participants' services, when appropriate.

How were the results of the audit work measured?

We used the following criteria when evaluating Division and Program field office processes for reporting and addressing suspected fraud or misuse of Program funds and property:

Participant misuse of funds and required reporting. Federal regulations [Review of determinations made by designated state unit personnel, 34 C.F.R., pt. 361.57(b)(4)] and Division policy (Section 4.3) allow the State to suspend, reduce, or terminate Program services if the State has evidence that the services were obtained through the participant's misrepresentation, fraud, collusion, or criminal conduct. Fraud includes intentional misappropriation of assets and theft or embezzlement of public property. State Fiscal Rule 1-9 specifies that any suspected theft or embezzlement of state funds or assets should be immediately reported to the Department's chief executive officer and chief financial officer and that appropriate action should be taken. The Department's Fraud Policy (I-2.7) further requires that any suspected theft of public monies or resources be reported to the Department's Audit Division for investigation and to the appropriate Department management and program staff. The policy states that Department management is responsible for addressing issues of prevention and detection of fraud within their respective offices or divisions.

Internal controls over improper payments. Title 31, Section 3321 of the United States Code, which is known as the "Improper Payments Information Act of 2002," requires states to establish and maintain sufficient internal controls that effectively prevent improper payments from being made and promptly detect and recover improper payments that are made. An improper payment is defined as a payment that was made for an incorrect amount or should not have been made,

including any payment to ineligible recipients, for ineligible services or services that were not provided, duplicate payments, and any payment that does not account for credit for applicable discounts. State Fiscal Rule 1-9 requires agencies to design and implement controls to prevent, detect, and deter fraud.

Equipment purchased for participants. Division policy (Section 12.11.5) states that equipment purchased for participants:

- Remains the property of the State of Colorado until the participant's vocational rehabilitation case is successfully closed. The participant record will contain written acknowledgment of State ownership when the equipment is initially issued.

- Will be requested, in writing, to be returned if the participant is terminated without a successful vocational rehabilitation outcome. If the equipment is not returned after two such requests, recovery efforts may be turned over to the Office of the Attorney General.

- Will be retained, after recovery, to be reissued to other participants who may have need of such items. Documentation of reissued items will be placed in the participant record from whom state property was recovered as well in the participant record to whom it is being reissued.

What problems did the audit work identify?

During the audit we identified three instances in which Program field office staff documented the suspected misuse of funds and property by participants during Fiscal Year 2013 but did not report the instances to the Department's Audit Division, Department management, or Division management. In two instances, participants were suspected of misusing Program funds and in the third instance, the participant was suspected of misusing Program property. We identified these instances during interviews and our review of participant case files. These three cases totaled $4,029[1] in known questioned costs, as described below.

- One participant received a direct payment by check, totaling $2,050 in Program funds, to attend a 3-week, out-of-state training class in August 2012. Program field office staff had authorized the participant to use the funds for the training fee, food, and lodging while attending the training. According to Program documentation, the participant's counselor learned shortly after the participant received the funds that the participant did not attend the full training and instead spent the funds on medication, a rental car, and other personal expenses that were not related to the training. Program field office staff have been working with the participant to repay these funds to the Program. According to the Department, as of October

2013, the Program had not closed the case to end services to the participant, who was still eligible to receive Program services, and the funds had not been recovered from the participant.

- One participant, whom the Program enrolled in a university outside of the United States, was provided a laptop computer for about $1,329 purchased by the Program's field office as part of the participant's 2010 employment Plan. In November 2012, when the participant was still receiving Program services, the participant's counselor discovered that the participant had returned the laptop to the vendor that sold the computer and the participant received a gift card as store credit from the vendor. According to the participant's case file documentation, the gift card was used to purchase a video game system. The participant's counselor wrote letters to the participant requesting that the participant reimburse the vendor for the purchase, but documentation did not specify why the staff believed that the participant needed to reimburse the vendor. Because laptops and other equipment the Program purchases for a participant's use remain the property of the State until a participant's case is closed, the participant should reimburse the Program and not the vendor. As of October 2013, the Program had not closed the case to end services to the participant and the Department had not recovered the funds from the participant, who is still able to receive services, according to Department staff. We identified other concerns with this case which are discussed in Chapter 2, Recommendation No. 2.

- One participant acquired an iPad tablet computer and other supplies totaling $650 from a retailer in December 2012 by providing a fictitious Program authorization number although the participant did not have authorization from the Program to make the purchase. Program field office staff discovered this purchase in January 2013 after receiving the invoice from the vendor. According to Department staff, as of October 2013, the Program had not paid the vendor invoice so no Program funds had been spent in this instance, but Program staff were working with the participant to either return the computer and supplies to the vendor or pay for the items from the participant's personal funds. Also as of October, the Program had not closed the case to end services to the participant who was still eligible to receive Program services.

Because field office staff did not report any of the three cases to the Department's Audit Division, the Department's internal auditors did not conduct an investigation of these instances until the end of our audit after we notified internal audit staff of the instances. According to Department staff, the Audit Division completed an investigation after our audit fieldwork and determined that although the three participants misused Program funds, the Audit Division did not obtain

evidence that the participants intentionally misused Program funds. Internal audit staff also stated that they are limited in the investigations and monitoring that they can conduct for the Program because they do not have access to AWARE.

Why did the problems occur?

The problems we identified occurred for the following reasons:

- **The Division has not developed procedures for staff to follow for reporting or addressing suspected misuse of funds or property**. Although the Department has a policy requiring that staff report any suspected theft of public monies or resources to the Department's Audit Division for investigation as well as to the appropriate Department management and program staff, the Division has not developed and included procedures within its policy manual that specify how the reporting should occur. Further, the Division has not trained its staff on required reporting of the misuse of Program funds or property. Division and Program field office staff we interviewed appeared to be unaware of the Department's policy requiring that suspected fraud or misuse of public funds or property be reported to the Department's Audit Division and Department management. Additionally, Division staff told us that they believed that the field office where a participant receives services is responsible for investigating suspected misuse of funds or property; this practice does not comply with Department policy. The Division also lacks specific procedures for staff to follow for case closure and termination of services when a participant is found to have intentionally misused funds or property or when a participant refuses to repay misused funds.

- **The Division lacks a supervisory review process to ensure identified misuse is reported.** The Division does not monitor field office staff through a supervisory review to ensure that instances of suspected misuse of funds or property are communicated to Department and Division Management and the Department's Audit Division appropriately.

- **The Division lacks controls for direct payments.** The Division's controls do not include a limit on the dollar amounts of direct payments to participants or a supervisory approval for all direct payments to participants. The three cases of unreported suspected misuse of public funds and property involved the Program's practice of providing payments and equipment directly to the participants, which greatly increases the risk that the funds may not be used for their intended purposes.

- **The Division lacks methods for tracking State-owned equipment**. The Division does not have a centralized mechanism for tracking State-owned

equipment issued to participants, including the identification number of the equipment, the value of the equipment, the participant to whom the equipment is checked out, the location of the equipment, or if the equipment is available for reissuance. Rather, each individual counselor is responsible for tracking the purchase, issuance, and return of the equipment. Division policy does not include standard procedures for the counselors to follow for tracking equipment issued to participants, nor does the Division require counselors to ensure that a State-issued identification tag is affixed to equipment issued to participants. For example, the State of Washington's vocational rehabilitation program has a written policy requiring its staff to track equipment it provides to participants that is considered desirable, reusable, or high-value, such as computers, cell phones, and tools. According to the State of Washington's policy, its program staff are required to check a centralized tracking database to determine if the program already has the equipment in stock and, if not, its staff may purchase it for the participant to loan from the Program.

Further, while Division policy allows Program staff to turn over recovery efforts to the Office of the Attorney General after Program staff have made multiple failed attempts to recover the equipment, the Division has not established a process to notify the Attorney General in these instances. In addition, the Division does not enforce the policy to turn over these cases to the Attorney General nor does the Division track instances. According to the Division, none of the Program field office supervisors were aware of a recovery case that had been turned over to the Attorney General in the past 5 years.

Further, although the Department has provided internal auditors with direct access to other systems in the Department—such as the Colorado Benefits Management System, which is used for the Temporary Assistance for Needy Families (TANF) program and the Supplemental Nutrition Assistance Program (SNAP), and the systems for the Colorado Child Care Assistance Program and the Low-Income Energy Assistance Program—the Department has not provided the internal auditors with direct access to AWARE. Internal audit staff reported that it would benefit from access to the AWARE system to perform a comprehensive and accurate analysis of participant cases.

Why do these problems matter?

The problems we identified are important for the following reasons:

- **Program funds that are not used for their intended purposes could have been used for other participant services.** Permitting participants to

purchase goods or services directly with Program funds makes it difficult for the Division to ensure that funds will be used for their intended purposes. In Fiscal Year 2013, the Program paid $678,000 directly to participants. When limited Program funds are not used for Program purposes and not recovered from participants who misused the funds, it reduces the funds available for other eligible participants. For example, in Fiscal Year 2013 the Division paid an average of $2,100 in services per participant in the Program. Based on the average cost of services per participant, we estimate that the $4,029 in questioned costs we identified from the suspected misuse of funds could have been used to provide vocational rehabilitation services to at least one other participant on the wait list.

- **Independent investigations of suspected misuse of Program funds or property may not be timely.** By not ensuring that Division staff promptly report suspected cases of misuse of funds or property to the Department's Audit Division and by not providing direct access to AWARE, the Department cannot ensure timely and independent investigations of the cases. Department internal audit staff reported that there have been previous instances of fraud and suspected misuse of funds by participants in the Program, further highlighting the need for strong Program policies, procedures, and training on preventing and reporting potential misuse of funds or property.

- **Public funds were not used in a prudent or accountable manner.** Instances of suspected misuse of Program funds or property by participants indicate that public funds were not being used in a prudent or accountable manner, which undermines the public's perception of the integrity of the Program. Further, during Fiscal Year 2013, the Division purchased a total of about $1.2 million in assistive technology devices and occupational and self-employment goods for participants. Without a mechanism to track State-owned equipment that is issued to participants, the counselors cannot determine whether items are available for reissuance, which would be a cost-effective alternative to purchasing new items. Equipment not placed back into circulation timely could become obsolete, damaged, or otherwise unsuitable for reissue. Without an identification tag, equipment that has been lost, stolen, or exchanged without the Program's knowledge cannot be identified as State-owned property and returned to the Program. Without a process to turn over recovery efforts to the Office of the Attorney General, the Division lacks a means to ultimately hold participants who refuse to return State-owned equipment accountable.

- **Continuing services to participants who misuse funds or property indicates noncompliance with federal requirements.** By not having sufficient procedures to (1) suspend or terminate services when a participant misuses Program funds or property or (2) ensure compliance with the Department's Fraud Policy, the Division is not in compliance with federal grant requirements, which could lead to federal disallowances and sanctions.

[1] Known questioned costs total $4,029. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 12:

The Department of Human Services (the Department) should improve controls over the use of federal and state funds and processes for reporting and addressing instances of suspected misuse of funds or property in the Vocational Rehabilitation Program (the Program) by:

a. Developing and implementing policies and procedures for reporting instances of suspected misuse of funds or property. These policies and procedures should comply with federal regulations, State Fiscal Rules, and Department policy and include a policy specifying that, in circumstances of fraud, field office staff should stop services, thoroughly document the incident in the case file, and close the participant's case.

b. Monitoring through supervisory review to ensure that instances of suspected misuse of funds or property are appropriately communicated to the Department's Audit Division and Department management in accordance with Department policy.

c. Evaluating the necessity and appropriateness of providing direct payments to participants to purchase goods and services. If the Department determines that the practice of making direct payments should continue, it should strengthen controls, such as by limiting the dollar amount of the purchase(s), requiring supervisory approval of direct payments, and revising written policies and procedures accordingly.

d. Providing direct access for the Accessible Web-Based Activity and Reporting Environment (AWARE) application to the Department's internal audit staff.

e. Developing and implementing procedures for tracking the issuance, return, and reissuance of equipment purchased for participants. These procedures should include creating and maintaining a statewide tracking database of equipment purchased for participants and a requirement for attaching State-issued identification tags to the equipment.

f. Developing and implementing procedures to turn over recovery efforts to the Office of the Attorney General in a timely manner once Program staff have been unsuccessful at recovering State-owned equipment from participants.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Division will develop policies and procedures to ensure that suspected incidents of fraud or misuse of Program funds or property on the part of a participant are reported in a timely manner through supervisory channels to the Department's Audit Division. The Division will further collaborate with Audit Division staff to establish a process for determining the seriousness and intent of participant actions that are under investigation. If fraudulent activity is confirmed, information will be thoroughly documented in the case file and the case will be closed, as appropriate. In addition, the Audit Division will train Division and field office staff on the Department's Fraud Prevention Policy by March 2014.

b. Agree. Implementation date: April 2014.

The Division will incorporate into its periodic supervisory and quality assurance review questions for determining whether there are any indications of fraudulent activity or misuse of federal and/or state funds or property. The reviewer will verify that appropriate reporting requirements were met, as established in the policies and procedures in part "a". The fraud questions will be developed in collaboration with the Audit Division and incorporate appropriate safeguards to ensure maintenance of confidentiality requirements.

c. Agree. Implementation date: July 2014.

The Division will work with subject matter experts and technical assistance resources to review the necessity and appropriateness of providing direct payments to participants, and mechanisms for doing so. If it is determined that restricted payments need to be issued directly to participants, the Division will revise its policy and procedures to include parameters, such as limitations to the amount and type of direct payments, as well as required supervisory approval steps and appropriate documentation thereof.

d. Agree. Implementation date: Implemented and Ongoing.

In November 2013, the Division granted guest access for internal Audit Division staff to information on any participant suspected of fraudulent behavior or misuse of Program funds or property, and for other fraud prevention purposes. The Division will continue to grant read-only access to case management information contained in AWARE to Department internal auditors in a manner that complies with federal regulations.

e. Agree. Implementation date: December 2014.

The Division will define parameters for and develop a statewide system for tracking appropriate purchased goods and equipment, which will include defining what equipment is "recoverable." The system will include to whom the equipment was provided; if and when the equipment needs to be returned; dates the equipment was returned; and the reissuance of the equipment, when applicable. The Division will explore AWARE functionality for the purposes of this statewide tracking system; research the viability of and mechanisms for the use of state-issued identification tags; and, if feasible, propose a strategy and time line for implementing the use of identification tags.

f. Agree. Implementation date: July 2014.

The Division will develop and disseminate clear procedures to vocational rehabilitation counselors for responding to situations in which participants refuse to appropriately return equipment that meets the established definitions of "recoverable" in part "e." These procedures will include structured communications and steps for involving the Department's Audit Division, which will notify the District Attorney's Office or Attorney General's Office, as appropriate.

Participant Contributions

According to federal regulations (Participation of individuals in cost of services based on financial need, 34 C.F.R., pt. 361.54), when determining the extent to which the individual who is eligible for the Program will financially participate in, or contribute to, the cost of the vocational rehabilitation services he or she receives, each state may choose to consider the financial need of the participant. Colorado's Program determines the financial need of all individuals eligible for the Program except those who are eligible to receive benefits under the federal Supplemental Security Income (SSI) and Social Security Disability Income (SSDI) programs, because they have already been determined by these programs to have limited income and resources and, therefore, are determined to not have an ability to contribute, as outlined in Division policy. Further, statute [Section 26-8-105(4)(b), C.R.S.] requires that any goods or services, besides those required to determine an individual's eligibility and his or her vocational service needs, shall be provided only to the extent that the individual is found to require financial assistance. To determine whether a participant can contribute toward the services he or she will receive and how much he or she will contribute, the Division uses a tool called the financial need analysis form to calculate the participant's monthly income, expenses or deductions, liquid assets, and the contribution amount, when applicable.

What audit work was performed and what was the purpose?

The purpose of our audit work was to review and assess the appropriateness of the Program field offices' process for determining whether participants should contribute to the cost of the services they receive, the contribution amount that participants should pay, and whether participants pay the contribution amounts determined by the Program.

We reviewed the sample of 85 participant files from Fiscal Year 2013 and identified that 60 of the 85 files required a financial need analysis based on Division policy. Specifically, the remaining 25 participants did not require a financial need analysis at the time of our review because these individuals had not received any services, such as vocational training services, that would require a financial contribution; were receiving SSI or SSDI; or were on the Program's wait list; or because the case had been closed before the financial need analysis could be completed. We evaluated these 60 files to determine whether Program staff completed the financial need analysis form, calculated the participant's income and expenses accurately based on the information and source documentation provided by the participant, and documented the participant's ability to contribute, as well as the required contribution amount, in the hard-copy file. We identified 10 participants out of our sample of 60 who were determined by Program staff to have an ability to contribute financially toward their services. For those

10 participants, we also reviewed whether the participant paid the contribution amount that staff had documented on the financial need analysis form. We interviewed Division and Program staff and evaluated the financial need analysis form to determine whether it contained enough information for staff to accurately compute participants' financial contributions.

We also reviewed the cost-of-living allowance the Division used to calculate a portion of participants' monthly expenses and interviewed vocational rehabilitation program staff in eight states—Alabama, Georgia, Maryland, Oklahoma, Utah, Washington, West Virginia, and Wisconsin—to determine those states' processes for assessing and collecting participant contributions.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Program field offices' processes for determining whether a participant will financially participate in, or contribute toward, the cost of his or her vocational rehabilitation services; determining the contribution amount, when applicable; and ensuring that the participant pays the contribution amount determined by the Program that the participant agreed to pay:

The Program may pay for services only if participants need financial assistance. According to state statute [Section 26-8-105(4)(b), C.R.S.], "Any goods or services, other than diagnostic and related services (including transportation) required for the determination of eligibility… [and] the services to be provided… shall be provided at the public cost only to the extent that the individual with disabilities is found to require financial assistance in accordance with the rules and regulations of the Department."

Policies applied uniformly. According to federal regulations [Participation of individuals in cost of services based on financial need, 34 C.F.R., pt. 361.54(b)(2)(B)(ii)], the state must establish policies that are applied uniformly to all individuals in similar circumstances if the state chooses to consider financial need when providing services to participants.

Documentation of financial need and participant contributions. Division policy (Sections 10.5, 10.51, and 10.52) requires counselors to determine and document the individual's financial need prior to the preparation and approval of an employment Plan. The documentation should also indicate the individual's contribution amount.

Proof and calculation of financial information. Beginning in 2007, Division policy (Sections 11.51 and 10.52) allowed for the statement of the eligible individual to establish the financial basis for the need determinations. If the

individual's statement was not consistent with other reports obtained, the counselor could request financial information to verify the statement. The financial need determinations are to be calculated based on after-tax income from all sources in the family. In April 2013, the Division revised its policy (Section 10.51) to specifically require that participants provide proof of income and assets, but it did not change the previous requirements. The 2013 policy requiring proof of income and assets was in effect for three of the 60 financial need analysis forms we reviewed.

Cost-of-living allowance. Division policy (Section 10.51.3) allows for a standardized allowance for normal living costs based on family size. The Division Director establishes these rates, in writing, and they are required to be reviewed annually and adjusted when needed. The individual is allowed to exclude four times the calculated family cost-of-living allowance to determine net liquid assets.

Other programs within the Department of Human Services, such as the Low-Income Energy Assistance Program and the Colorado Child Care Assistance Program, utilize federal poverty guidelines, which are modified annually, to determine whether participants should contribute payment toward the services they receive in those programs. The participant's contribution amounts are then calculated based on the income amounts of the household. Four of the eight other states that we surveyed—Georgia, Maryland, Utah, and West Virginia—administer a financial need analysis similar to Colorado's and have written policies that specify a cost-of-living benchmark as a percentage of the federal poverty guidelines and cost-of-living published annually by either the federal Department of Health and Human Services or Department of Labor. Colorado does not specify in its policy how the cost-of-living allowance is calculated.

What problems did the audit work identify?

We identified four problems with the participant files we reviewed: (1) inconsistencies in information contained on participants' financial need analysis forms and applications; (2) inconsistencies in the processes Program staff use when conducting and documenting participants' financial need analyses; (3) lack of proof of participants' income; and (4) lack of evidence that participants paid the contribution amount, in all instances, when Program staff had determined the participants were financially able to do so. Overall, we determined that 42 (70 percent) of the 60 participant files that required a financial need analysis based on Division policy contained one or more of these problems. These problems resulted in a total of $5,135[1] in known questioned costs.

- **Information on participants' financial need analysis forms did not match the application.** In 36 participant files, the income and expenses that Program staff recorded on the financial need analysis form did not

match the income and expense information reported in the participants' applications for services. For example, one participant reported $1,920 in income on the application, but the income shown on the analysis form was $500. For the 36 files, we were unable to determine how staff performed the after-tax income calculation when entering income into the analysis form. These problems resulted in a total of $2,439 in known questioned costs.

- **Financial need analysis forms were not consistently completed by staff when required.** For three participant files we reviewed in which a financial need analysis form was required by Division policy, Program staff did not complete the analysis form. There was no documentation in the hard-copy files or AWARE showing that the Program had made a determination of whether the three participants should have contributed to the cost of their services. Because staff did not document a financial need analysis, we completed a financial need analysis for the three participants using the Division's form and the participants' income and expense information found in their case files. Based on our analysis, we determined that none of them would have been required to contribute to the cost of their services. Accordingly, we did not identify questioned costs resulting from this issue.

- **Participant files lacked proof of income.** For the three participant files in our sample in which a financial need analysis was completed after the new Division policy was effective in April 2013, none of the files contained proof of the participants' income and assets as required.

- **Participant files lacked evidence that participants paid the contribution amounts they agreed to pay.** We found no evidence that three of the 10 participants for whom the financial need analysis form showed that the participant was required to pay a contribution, paid the contribution amounts that he or she agreed to pay. These participants should have contributed $999 toward the cost of their services, which are considered known questioned costs for the Program. In addition, for four of the 10 participants, Program staff did not document the participant's contribution amount in the participant's Plan, as required by Division policy. This resulted in $1,697 in known questioned costs.

We also found that the Division has not reviewed or updated the cost-of-living allowance it uses to determine participant contributions. As discussed earlier, Division policy requires staff to exclude a cost-of-living allowance from the participant's net liquid assets when calculating the participant's contribution amount. The cost-of-living allowance figure the Division uses is $1,066 plus $567 per person in the family unit multiplied by four. For example, for a participant

with a family of four, the cost-of-living allowance would be calculated as $3,334 ($1,066 plus $567 multiplied by four, or $2,268) multiplied by four, or $13,336 excluded from net liquid assets. We found that the Division has not reviewed the cost-of-living allowance annually or updated it, as required by Division policy, since at least 2007, which is when Division staff believe the allowance was implemented. Division staff also could not explain the reasoning behind the current figures used to calculate the allowance.

Why did the problems occur?

We identified two main reasons why the problems related to participant contributions occurred, as described below.

The Division lacks clear written policies and procedures in the following four areas:

- Division policy does not specify how Program staff should document changes in participants' financial circumstances. Division staff reported that they believed some of the financial need analyses did not match supporting documentation because the participants' financial circumstances could have changed between the dates they applied for services and when the analysis forms were completed. However, staff could not provide documentation that participants' financial condition had in fact changed.

- Division policy requiring that "financial need determinations will consider after-tax income" is unclear and inconsistent with other federal programs run by the Department. Division staff told us that information on participants' financial need analysis forms did not match the applications in the instances we identified because participants often report gross (or before-tax) income on their applications, and Program staff must input after-tax income into the analysis form, as required by the Division's policy. The Division could not provide written policies or procedures explaining how staff should calculate after-tax income if the participant does not provide a pay stub or how staff should consider it when assessing a participant's financial need and determining the contribution amount.

  In addition, other federal programs at the Department, including Temporary Assistance for Needy Families and the Low-Income Energy Assistance Program, utilize gross (or before-tax) income for determining participant contributions for their programs. Federal regulations for the Program do not prescribe how states must determine contributions. Therefore, the Department should assess the reasonableness of the Division's use of after-tax income and consider requiring it to use gross

income to ensure the federal programs run by the Department calculate contributions consistently. Because Division policy requires staff to utilize a financial need analysis to determine a participant's contribution toward services, the Division should document its methodology underlying the analysis.

- The Division does not have written procedures for applying the participants' contribution amounts to the services or goods outlined in the participants' Plans, documenting the contribution amounts, and ensuring those amounts are contributed by the participants.

- The amounts used by the Division to determine a participant's cost-of-living allowance are not defined in policy and are outdated because the Division has not implemented a process to annually assess whether the allowance is appropriate, reasonable, and provides an accurate evaluation of a participant's financial position.

The Division has not implemented a supervisory or other review process. The Division does not have a supervisory review process to ensure that Program staff complete the financial need analysis correctly, document the contribution amount in the participant's Plan, and ensure participants make required contributions. The Division's quality assurance team reviews a sample of participant case files annually to check whether Program staff complete the financial need analysis form and participants pay contributions. However, as discussed in Chapter 4, Recommendation No. 18, the Division does not have a corrective action process to ensure errors identified during the quality assurance review are corrected.

Why do these problems matter?

Division policies require the Division to provide vocational rehabilitation services and goods that are necessary, appropriate, and provided at the least possible cost. Assessing participants' financial contribution to services and goods is an important component of evaluating the overall cost to the State because the participants' contributions toward the services they receive reduce the amount expended by the State. For example, we identified three participants in our sample who did not appear to pay the $999 in total contributions that Program staff had calculated, which represents lost income for the Program. Using outdated and unsupported information, such as the cost-of-living allowance, to calculate participant contributions may also result in lost income. For example, since at least 2007, the Division has used a monthly cost-of-living allowance of $567 per person in the family unit plus $1,066, or about $19,600 annually for one person, but the Division has not defined the basis for using these figures.

In addition, when Program staff use inconsistent processes for determining participants' required contributions, there is a risk that participants may be treated inequitably depending on the Program office where they apply. Revising and implementing written procedures for monitoring the field offices' practices for assessing and documenting participant contributions would help ensure that the field offices operate consistently in accordance with federal regulations and Division policy.

[1] Known questioned costs total $5,135. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility. Classification of Finding: Material Weakness.)

Recommendation No. 13:

The Department of Human Services (the Department) should improve its processes for assessing participants' contributions in the cost of vocational rehabilitation services by:

a. Implementing changes to the Division of Vocational Rehabilitation's (the Division) policy manual to provide clear guidelines for calculating and documenting participant contributions. This should include procedures for documenting changes to participants' financial situations that occur between application and staff completion of the financial need analysis.

b. Reviewing the Division's current methodology for calculating participants' financial need, including the cost-of-living allowance calculation, for appropriateness and making changes as deemed necessary.

c. Instituting a supervisory review process to ensure that financial need analysis forms are completed correctly as required by Division policy, information used to complete the analysis form and calculating the participant's required contribution is properly documented, the participant's required contribution is documented in the Individualized Plan for Employment, and participants' required contributions are paid.

d. Reviewing the Division's policy and practice of using after-tax income for calculating participant contributions and determining whether gross income should be used for this calculation for consistency with other federal programs at the Department. If after-tax income continues to be

used, then the Department should establish a documented methodology for calculating after-tax income.

Department of Human Services Response:

Agree. Implementation date: July 2014.

a. The Division will implement changes to its Policy Manual to provide clear guidelines for calculating and documenting participant contributions, as well as handling and documenting any financial changes during the participant's period in the Program. The Division will collaborate with other federal programs within the Department to model requirements on already established financial need testing procedures, as allowable under the Vocational Rehabilitation Program's federal requirements.

b. As the Division establishes policies and procedures for financial need testing in alignment with other federal programs within the Department, the current methodology for calculating participants' financial need, including the cost-of-living allowance calculation, will be modified accordingly.

c. The Division will strengthen the quality assurance and supervisory review processes to ensure the financial need analysis forms are completed correctly, the information used is properly documented, and the required contributions are incorporated into the participant's Individualized Plan for Employment (Plan or IPE) and applied or paid in accordance with the Plan. The Division's updated quality assurance process, which will be effective in December 2013, requires any deficiencies to be corrected and reported using the newly developed follow-up action form. As an additional step to improve service delivery, technical assistance materials illustrating the appropriate application of participant contributions, will be prepared and made available to vocational rehabilitation counselors.

d. The Division will establish policies and procedures for financial need testing in alignment with other federal programs within the Department. If these programs primarily use gross income for financial need calculations, the Division will apply a similar methodology, while also ensuring continued compliance with 34 C.F.R., pt. 361.54.

Fee and Bonus Payments to Vendors

One type of service that Program participants receive is job placement assistance, which is provided to help the participant obtain suitable employment that is consistent with the individual's abilities, capabilities, and interests. The Division contracts with outside vendors to provide job placement services to participants in the Program and pays those vendors for each participant served based on a fee schedule established by the Division. Job placement vendors provide services such as developing a written job placement plan for the participant, assisting the participant with completing employment applications, arranging for job interviews, recommending worksite job modifications with the new employer, and helping the participant adjust to the workplace. The Division pays these vendors for developing job placement plans and successfully placing participants in jobs. The Division also pays bonuses to the vendors for successful job placements if certain criteria are met. In Fiscal Year 2013, the Program paid vendors a total of about $511,000 for 1,533 participants to receive job placement assistance.

What audit work was performed and what was the purpose?

The purpose of our audit work was to evaluate the Division's policies and procedures regarding vendor payments. We obtained and reviewed data related to the Division's Fiscal Year 2013 payments to vendors, including those that provided job placement services, to determine whether the services that were provided appeared to comply with federal regulations and Division policy. We also reviewed the Division's fee schedule and interviewed Division staff and Program staff regarding vendor payment processes.

How were the results of the audit work measured?

We applied the following criteria when assessing the Division's payments to vendors:

Reasonable costs. Federal regulations [Written policies governing the provision of services for individuals with disabilities, 34 C.F.R., pt. 361.50(c)(2)] allow each state to "establish a fee schedule designed to ensure a reasonable cost to the program for each service." The federal Office of Management and Budget's *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments,* provides basic guidelines for a cost to be allowable under a federal award, including specification that costs should be necessary, reasonable, and adequately documented. In addition, State Fiscal Rule 2-1 states that all expenditures by state agencies shall be for official state business purposes only and reasonable and necessary under the circumstances. The State of Colorado Procurement Manual

also requires agencies to ensure the good or service that a vendor provides is necessary and reasonable. Finally, the Division's policy (Section 12.11) states that "all services and goods that have been determined to be necessary and appropriate must be procured at the least possible cost to the Division insofar as they are adequate to meet the needs of the individual." When the Division updated its policy, effective April 2013, it added a statement that the Division "is entrusted to be good stewards of public funds when providing necessary and appropriate rehabilitation services."

Payment requirements. State Fiscal Rule 2-2 generally prohibits advance payments, which are payments for goods and services prior to receipt. In addition, State Fiscal Rule 2-3 states that receiving reports or other sufficient documentation shall be prepared for all goods and services received, showing actual quantities, any unsatisfactory condition, and compliance with specifications, prior to processing a voucher for payment

What problems did the audit work identify?

Overall, the Division pays job placement vendors fee and bonus payments that do not appear to meet federal and state requirements regarding the allowability of costs. First, we found the Division consistently pays job placement vendors a "successful job placement" fee to successfully place a participant in employment as well as a bonus for this same purpose. When surveying and interviewing eight other states' vocational rehabilitation programs, we found that five of the states we interviewed pay a bonus to their job placement vendors; however, the states only allowed the bonus payments when a vendor either helped the participant obtain high-quality, full-time employment with full benefits or placed the participant in a job quickly, such as in fewer than 35 days, and the participant retained the job, allowing the state to successfully close the case. One of the eight states we interviewed said it uses job placement vendors but does not pay the vendors any bonuses.

The bonuses that the Division pays its job placement vendors do not appear to be a reasonable, necessary, or federally allowable cost because they are essentially duplicate payments to vendors for services for which the vendors have already been paid. In Fiscal Year 2013, the Division paid 82 vendors bonuses totaling about $171,000 for successful job placement. The bonuses were in addition to the $340,000 in regular fee payments that the Division made to the same vendors to provide these services. The bonuses that were paid ranged from $135 to $780 each. The following table shows the Division's vendor fee schedule, which includes fees and bonuses based on four different benchmarks.

Vocational Rehabilitation Program
Job Placement Vendor Fees and Bonus Payment Schedule by Category of Work[1]
As of September 2013

Category of Work	Description	Fee for Developing a Job Placement Plan	Fee for Successful Job Placement	Bonus Amount[2]	Additional Bonus Option[3]
Mobile Work Crew	A group of two or more persons with disabilities who provide temporary services, such as janitorial, at an employer site. The crew is supervised by a person who teaches the job tasks and appropriate work-related behavior.	$53	$260	$250	$105
Competitive	Work in the labor market performed at or above minimum wage.	$105	$520	$500	$210
Supported Employment	Competitive employment with additional support services for participants with the most significant disabilities.	$158	$780	$750	$315

Source: Office of the State Auditor's analysis of the Division of Vocational Rehabilitation's fee schedule.
[1] The Program pays each fee and bonus to a vendor on a per-participant basis.
[2] The Program pays a job placement vendor this bonus when the vendor places the participant into employment and the Division successfully closes the participant's case.
[3] The Program pays a job placement vendor this bonus if the participant is placed in a job that pays wages that are 25 percent or more above the federal Department of Labor's prevailing wage for comparable positions.

For the 82 vendors who received bonuses in Fiscal Year 2013, we found the following:

- 59 (72 percent) out of the 82 job placement vendors received more than one bonus payment during the year. For example, one vendor received 21 bonus payments totaling $5,750, or one bonus for each of the 21 participants the vendor served during the year. As another example, four vendors each received between 10 and 20 bonus payments, which totaled $19,500 for all four vendors.

- Three (4 percent) of the 82 job placement vendors received both types of bonuses, totaling $710 paid to each vendor for serving one participant each who obtained employment in the "competitive" category of work.

- One vendor bonus payment for supported employment was in excess of the fee schedule. The Division paid the vendor a bonus of $780 instead of the $750 bonus payment allowed in the Division's fee schedule.

We also found that, in some instances, the Division pays vendors up to $405 of the "successful job placement" fee before the participant is successfully placed in employment. For example, the Program pays some vendors a portion of the "successful job placement" fee each month that they are serving a participant rather than paying the fee after the participant has been placed in a job. In Fiscal Year 2013, the Division paid 59 vendors approximately $65,000 in "successful job placement" fees for 282 participants, before the vendors had found the participants a job. As of September 2013, we determined that 218 of those 282 participants still had not been placed in a job. Paying the "successful job placement" fee before the vendor has provided the service of placing the participant in a job can be considered an advance payment, which is generally prohibited by State Fiscal Rules, because it is made prior to the receipt of the service for which it was intended. In addition, the Division was unable to provide data regarding the amount of time that participants receive job placement services or actual vendor time frames for placing participants in successful employment.

Why did the problems occur?

Based on our interviews with Division management and Program staff, there are two reasons why the Division pays vendor bonuses and pays the "successful job placement" fee before participants have a job. First, Division and Program staff stated that the vendor bonuses are meant as incentives for providing services timely and to encourage job placement agencies to find employment for disabled participants who sometimes require additional effort to find jobs. Second, staff stated that the Division pays some vendors a portion of the "successful job placement" fee before participants obtain jobs because staff believe incremental payments are needed to compensate vendors for services, such as helping participants complete employment applications and arranging job interviews, that vendors provide before the participant gets a job. We found:

- **Insufficient methods for ensuring job placements are timely.** The Division has not established written policies or procedures for ensuring vendors provide timely services. For example, the Division has not developed reasonable time line expectations for vendors to successfully find employment for a participant based on the severity of the participant's disability and the type of work they are seeking. The Division does not execute vendor contracts unless the vendors receive $20,000 or more from the Program in a fiscal year, and this practice has been approved by the Office of the State Controller. We found that in Fiscal Year 2013, none of the job placement vendors received more than $20,000 in payments;

therefore, none had formal contracts with the Division. Instead, the Division required each job placement vendor to sign a Vendor Registration form and paid the vendors using a purchase order form. We found that the Division's forms do not include specific provisions for job placement bonuses, prescribe a time frame for the duration of each participant's job placement services or a time limit for finding job placement for participants, or refer to the fee schedule as the basis for payment of the bonus. Rather, the fee schedule instructs the job placement vendor to submit an invoice to the Division specifically requesting the bonus. In Chapter 4, Recommendation No. 16, we discuss other weaknesses in the Division's contract management practices and the agreements it has in place with vendors.

- **Insufficient methods for incentivizing vendor performance.** The Division has not established any other policies or procedures for incentivizing vendor performance, besides bonuses, such as by rewarding vendors who successfully place participants in jobs in a timely manner by continuing to do business with them or by requiring field offices to discontinue doing business with vendors who are not successful at placing participants in employment positions.

Why do these problems matter?

The problems we identified with paying vendor bonuses and paying for job placement before participants are placed in positions matter for the following reasons:

- **The Division is not being a good steward of public funds.** Paying vendor bonuses that represent additional payment for services for which the vendor was already compensated and paying the "successful job placement" fee before the vendor has placed a participant in a job conflict with the Division's mission to be good stewards of public funds and provide services to individuals at the least possible cost.

- **Vendor bonuses reduce funds available for other Program services.** As discussed in Chapter 2, Recommendation No. 9, on April 22, 2013, the Division implemented a wait list for vocational rehabilitation services because the Division determined it did not have sufficient funding to provide services to all eligible individuals. As a result of the Division's wait list, the Division has not served any eligible individuals who have applied for services since April 22, 2013. Discontinuing the payment of vendor bonuses would be a prudent cost-containment measure to preserve funds that could be used to provide services to individuals who are currently on the wait list. In Fiscal Year 2013, the Division paid an

average of $2,146 in services per participant in the Program. Based on the average cost of services per participant, we estimate that the $171,000 in bonuses that the Division paid job placement vendors in Fiscal Year 2013 could have been used to pay for services for approximately 80 new participants.

In addition, if the Division believes that the regular fees it pays job placement vendors are not adequate to compensate them for the services they provide, the Division should revise its fee schedule. For example, the Division could establish a fee for regular job placement assistance to compensate vendors on a reimbursement basis for work they perform to help participants find a job. The Division should only pay the "successful job placement" fee once a participant is successfully in a job.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 14:

The Department of Human Services (the Department) should improve methods for compensating Vocational Rehabilitation Program vendors by:

a. Discontinuing the practices of paying bonuses to vendors and paying the "successful job placement" fees prior to employment.

b. Evaluating the fee schedule payment amounts allowed for regular job placement services to determine if the fees are appropriately structured to pay for the reasonable cost of providing those services and adjusting the fee schedule payment amounts as appropriate. This evaluation should include considering the implementation of a fee to compensate vendors for job placement assistance services they provide prior to a participant's employment.

c. Implementing reasonable time lines for vendors to follow when providing job placement services and for successfully placing a participant in an employment position, incorporating the time lines into each job placement vendor's Registration form and/or purchase order, and monitoring the timeliness of vendor compliance with the time lines. The Department should discontinue doing business with job placement vendors who do not consistently place participants in successful employment positions in a timely manner.

Department of Human Services Response:

a. Agree. Implementation date: February 2014.

The Division discontinued the job placement bonus and the fee allowance in September 2013. The Division will form a procurement improvement team to analyze current practices and revise the job placement payment structure.

b. Agree. Implementation date: July 2014.

The Division will examine all fees and the timing of payments to placement vendors. The procurement improvement team mentioned in part "a" will review models for job placement service delivery reimbursement and review best practices from other states' vocational rehabilitation programs to revise the fee schedule.

c. Agree. Implementation date: July 2014.

The Division acknowledges the need to clearly communicate time frames for job placement service delivery. The Department will discontinue doing business with job placement vendors who do not consistently place participants in successful employment positions in a timely manner. The Division will implement a newly developed Job Placement Plan form, which includes a projection of the time frame needed for job placement services. The Division will establish new protocols for supervisory review of all participants in the job-ready status for an extended period of time.

Program Administration

Chapter 4

The Division of Vocational Rehabilitation (the Division) carries out a variety of activities, including providing services to disabled individuals to help them prepare for and obtain employment through the Vocational Rehabilitation Program (the Program). During Fiscal Year 2013, the Division reported about $21.9 million in administrative costs for staff salaries, travel, training expenses, and operating expenses, such as rent and utilities; the Division spent about $31.6 million on vocational rehabilitation services for participants. The Division executes contracts for some vendor services, pays for some purchases through purchase orders and event credit cards, and pays for some costs, such as office supplies for the Division's 29 field offices, through procurement credit cards. Agencies use event cards to pay for travel costs, such as for hotels, meals, and conference room rental, and use procurement cards to pay for small purchases of goods for the State. Additionally, the Division has developed a quality assurance review process to monitor key Program functions, such as eligibility determinations, assessments for setting participants' employment goals, and case management.

In this chapter, we discuss our findings related to several of the Division's administrative functions and practices. We reviewed and found problems related to the Division's administrative expenditures, contracts, use of procurement cards, quality assurance, complaint handling, and backup and recovery processes of the Accessible Web-Based Activity and Reporting Environment (AWARE) system.

Administrative Costs

Federal regulations allow the Program to pay for administrative costs, including costs associated with Program planning, development, monitoring, and performance evaluation. These four types of costs can include expenses associated with financial management, information systems, supplies, administrative salaries, and travel related to carrying out the Program. The Department of Human Services (the Department) pays for administrative costs using three methods: (1) reimbursements to staff, such as for business travel expenses, (2) direct payments to vendors, such as those providing information system maintenance, and (3) payments made through the Group Event System Cards (event cards) issued to the Department's divisions or units for expenses, such as lodging costs incurred due to business travel. According to Division staff,

individuals with knowledge of State Fiscal Rules and federal grant requirements are responsible for reviewing and approving expenditures.

What audit work was performed and what was the purpose?

The purpose of the audit work was to evaluate the Division's internal controls over Program administrative costs and compliance with federal regulations, the Program's federal grant award requirements for activities allowed and allowable costs, state statutes and rules, and Department travel and event card policies. We reviewed Department and Division documentation for a sample of 50 Program expenditure transactions totaling $196,000, including 10 travel expenditure transactions for trips that occurred during Fiscal Year 2013. We reviewed the documentation to determine if the associated payment was properly paid, supported, approved, and coded correctly within the Colorado Financial Reporting System (COFRS), the State's accounting system. We also assessed the Department's processes for ensuring that travel reimbursements are reasonable and that travel reimbursement request forms submitted by Division and Program staff are accurate and complete.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's administrative cost transactions:

Appropriate and reasonable payments. The federal Office of Management and Budget's (OMB) *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments,* provides basic guidelines for a cost to be allowable under a federal award. These guidelines state that the costs charged to a federal award must be necessary, reasonable, and adequately documented. OMB's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations,* requires that transactions using federal grant funds be executed in compliance with laws, regulations, and the provisions of the federal grant agreements. Statute [Section 24-17-102(1), C.R.S.] requires state agencies to have internal accounting and administrative control systems that include provisions for adequate authorization and recordkeeping, restrictions on use of state assets, and effective processes of internal review. These provisions are intended to protect state assets and ensure that expenditures are reasonable, appropriate, and solely for State business. Further, State Fiscal Rule 2-1 requires all state agency expenditures to meet the standards of propriety as being for official State business purposes only and reasonable and necessary under the circumstances.

Approval of information technology purchases. The Governor's Executive Order D 016 07 states that all state departments engaged in activities concerning information technology shall coordinate with the Office of Information

Technology (OIT) on those activities. Information technology spending is defined as spending on communication and information resources, communication and information resource technologies, and data processing.

Travel expense requirements. According to State Fiscal Rule 5-1, travel charged to the State shall be for the benefit of the State and completed using the most economical means available. Further, this State Fiscal Rule states that travel expenses that are reimbursable include lodging, meals, mileage, airfare and related fees, and incidental expenses. State Fiscal Rule 5-1 and the Department's travel policy require the following review and approval process: (1) the traveler must submit adequate documentation to the approving authority for the travel expenses, including a statement as to the purpose of the travel, within 60 days of completion of travel; (2) the approving authority must review the expenses claimed by a traveler and, if approved, endorse the travel reimbursement request manually or by electronic signature; and (3) Department accounting staff must review the travel expense reimbursement request before entering the transaction into COFRS and approving the payment voucher. Further, according to the Department's event card policy, the event card provides users with a means to make small dollar purchases (under $5,000) for official state business related to conference rooms, meetings, and lodging for occasional travelers.

What problems did the audit work identify?

We identified problems with seven (14 percent) of the 50 Division administrative cost expenditures we reviewed, including inadequate supporting documentation, lack of proper approvals, a payment error, and incorrect recording in COFRS. Specifically, we found:

- For four transactions totaling $1,174, there was no evidence of proper approvals. Specifically, three travel expense transactions that were paid using the Division's event card were not approved by the traveler's supervisor; instead, the staff who traveled and incurred the costs had approved his or her own travel expenses. The fourth transaction was for the purchase of software and was not approved by OIT.

- For one transaction totaling $45, the Division paid the wrong vendor based on the vendor listed on the invoice and the payment recorded.

- For one transaction totaling $103, the Division did not properly record the administrative expense to the correct organizational code in COFRS.

- For one transaction totaling about $3, the Division did not have adequate supporting documentation to substantiate whether the transaction amount

was reasonable and appropriate. Specifically, the Division could not provide a contract to support the amounts paid.

Why did the problems occur?

The problems we identified in our administrative costs testing resulted primarily from a lack of adequate controls, including a lack of supervisory reviews by staff who have oversight and approval responsibilities. First, Division and Program supervisors responsible for approving the transactions are not consistently ensuring that the transactions are adequately supported by documentation, paid to the correct vendor, recorded properly, and approved by OIT, if applicable. Additionally, the Department does not require that all expenditures made by a staff member on his or her own behalf, such as those charged on an event card, are reviewed and approved by the staff member's supervisor.

Why do these problems matter?

The administrative cost problems we identified indicate that public funds are not being used in a prudent and accountable manner. The Division spent a total of approximately $365,000 for staff travel expenses in Fiscal Year 2013; the lack of adequate supervisory review of travel transactions paid for using the event card increases the risk that state funds could be misused without detection. In addition, recording expenditures incorrectly in COFRS prevents the Department and the Division from monitoring administrative costs to ensure they are accurate and appropriate.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 15:

The Department of Human Services should strengthen controls over Division of Vocational Rehabilitation administrative costs by implementing controls that ensure all transactions are properly supported by documentation, recorded properly in the Colorado Financial Reporting System (COFRS), approved by a supervisor of the staff who incurred the expense, and approved by the Office of Information Technology, if applicable.

Department of Human Services Response:

Agree. Implementation date: April 2014.

As stated previously, the Division of Vocational Rehabilitation (the Division) will form a procurement improvement team to analyze current practices. The procurement improvement team will identify current process weaknesses and strengthen controls over administrative costs, such as travel reimbursements, use of procurement and travel cards, and the purchase of any information technology-related items. The Division will develop specific procedures as a result of these activities to ensure that all transactions have accurate supporting documentation and COFRS coding, as well as all required approvals to ensure full compliance with Departmental policies and State Fiscal Rules. The Division will ensure that all appropriate staff receive training in the application of the developed procedures and processes.

Contract Management

The Division works with various vendors to provide Program participants certain services and goods, such as psychological evaluations, hearing aids, academic training at institutions of higher education, job placement services, and vehicle modifications for persons who are disabled. The Division secures these goods and services through several types of contractual agreements, including written contracts, interagency agreements, and purchase orders. In Fiscal Year 2013, the Division paid 1,989 vendors a total of $20.9 million for services they provided to Program participants, which represented almost one-half of the Program's total expenditures that year.

Prior to doing business with a vendor, the Division requires that the vendor complete and sign a Vendor Registration Form with information such as the vendor's taxpayer identification number, mailing address, and contact information. The Vendor Registration Form also contains terms and conditions related to vendor performance and compensation. Once the Division is ready to purchase services from a vendor, for each transaction, the Division completes a two-page purchase order form that contains the Division's terms and conditions and the responsibilities of the Division and vendor. In addition, for vendors that the Division estimates will provide $20,000 or more in services each fiscal year, the Division executes a formal contract that includes the Division's terms and conditions and a provision that services and goods will be defined and ordered by the Division based on the terms and conditions in the purchase order form.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether the Division's vendor forms, agreements, and contracts comply with State Fiscal and Procurement Rules and to identify and ensure compliance with any waivers of the procurement rules that the Division has received from the Office of the State Controller (State Controller). We interviewed Division staff and reviewed Division expenditure and transaction data to identify all payments made to vendors in Fiscal Year 2013. We requested that the Division provide the contracts and supporting documentation, including the Vendor Registration Forms, it had executed with a judgmental sample of 12 vendors that were each paid $20,000 or more during Fiscal Year 2013.

How were the results of the audit work measured?

We evaluated the Division's contract management practices and its vendor agreements and contracts based on the following criteria:

State contract requirements. State Fiscal Rule 3-1 (Section 5.1) states that contracts must include a statement of work, payment terms including a maximum dollar amount, performance period, special provisions, and a statement that the contract shall not be valid until it has been approved by the State Controller or delegate. Since January 2009, State Fiscal Rules have required each state contract to include special provisions that include requirements for contract approvals, fund availability, vendor performance, and governmental immunity, among other requirements.

Duration of state contracts. State Procurement Rule 24-103-503 promulgated by the Department of Personnel & Administration states that contracts for periods in excess of 5 years shall not be executed without written permission from the State Purchasing Director.

Division authority to use purchase orders for vendors receiving less than $20,000 and contracts for vendors receiving $20,000 or more. In 2005, the Division received the State Controller's approval to use a purchase order form to streamline the process for purchases of less than $20,000. According to the State Controller's waiver documentation, the Division represented that "We have set up a system for monitoring our expenditures with our vendors, each month [the Provider Relations Unit] will receive a report…which will show the vendors with which we are doing $15,000 worth of business or more. When we have reached this level of business, the Provider Relations Unit within the Division of Vocational Rehabilitation will seek out the vendor and complete the [contract] so the vendor can continue to provide services up and above $20,000." (Revised Contract Waiver Number 115 for the Division of Vocational Rehabilitation).

Terms and conditions in the Division's vendor agreements. The Division's Vendor Registration Form specifies that "the vendor agrees to abide by all of the terms and conditions set forth in the purchase order form…" and the vendor may stop work at any time without liability. The Division's purchase order form specifies that the Division "shall have the right to inspect services provided [by the vendor] at all reasonable times and places," the Division may terminate the purchase order in whole or in part for cause, and the Division may withhold amounts due to the vendor, as the Division deems necessary to procure similar goods or services, such as when a vendor refuses or fails to properly perform any of its obligations.

What problems did the audit work identify?

We found problems with the contracts for eight (67 percent) of the 12 sampled vendors as well as with the Division's agreements with vendors, as described below.

No contracts with some high-paid vendors. The Division had not executed contracts with three of the 12 sampled vendors that received a total of about $434,500 in payments from the Division in Fiscal Year 2013, which was a violation of the Division's waiver from the State Controller requiring contracts with vendors receiving $20,000 or more each year. We found:

- One vendor who Division staff reported had provided psychological evaluations to 386 participants during Fiscal Year 2013 was paid about $208,600 by the Division. Division staff stated that the Division has a verbal agreement with the vendor and had negotiated a flat fee for evaluations provided by this vendor.

- The Division could not provide a copy of a contract for two other vendors—one vendor that was paid about $197,600 during Fiscal Year 2013 for vehicle modification services, such as installations of electronic wheelchair ramps in vehicles, and one other vendor that was paid about $28,300 to provide job placement services to Program participants.

Outdated contracts with some vendors. We found that five of the nine vendor contracts provided by the Division were outdated. Two of the sampled contracts had been executed by the Division in 1999, and the remaining three contracts were executed between 2002 and 2007. The Department and the Division could not provide evidence showing that the Division had obtained approval to enter into contracts exceeding 5 years, as required by State Procurement Rules. Further, we found that the Division's contracts executed in 2012 have a comprehensive 12-page format, whereas the contracts executed in 2007 and earlier have a short,

4-page format and do not include the special provisions required by State Fiscal Rules since 2009.

Division forms signed by vendors expose the State to legal risks. We found that the Division's Vendor Registration Form includes the following language that conflicts with the language in the Division's current purchase order form and places the State at risk:

- The Vendor Registration Form states "in no event may [the Division] oversee the actual work or instruct the vendor as to how the work will be performed and shall in no other way dictate the time of vendor's performance."

- The Vendor Registration Form specifies that vendors may stop work at any time without liability, but if work is stopped by the Division, the Division will be liable for work already done.

Why did the problems occur?

The Division does not have written policies or procedures for contract management, including a process for monitoring payments to vendors to ensure that contracts are in place for vendors that will equal or exceed $20,000 in services. In addition, the Division lacks a process to periodically review and update contracts and vendor forms and agreements to ensure they comply with State Fiscal Rules, include consistent provisions, and reflect current Division policies.

Why do these problems matter?

Effective contract management practices are fundamental to ensuring that the Division meets state contracting requirements and sufficiently oversees the Program funds it pays to vendors. When the Division fails to execute contracts and contracts are out of date, the Division has limited ability to hold vendors accountable for providing quality services. Without a rigorous, well-defined contract and contract management process, the Division is unable to demonstrate accountability for the many services provided by vendors and the federal and state funds spent for those services or to ensure that vendors provide services in accordance with applicable federal regulations and state statutes and rules. Because the Division requires each vendor to sign and abide by the terms and conditions stated in the Vendor Registration Form and that form contains language that differs from the Division's contract, the Division's terms and conditions governing vendor transactions are unclear and place the State at risk for liability should a dispute arise with a vendor.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Procurement, Suspension, and Debarment. Classification of Finding: Significant Deficiency.)

Recommendation No. 16:

The Department of Human Services should ensure that the Division of Vocational Rehabilitation's (the Division) contract management processes and contracts comply with State Fiscal Rules, State Procurement Rules, and the State Controller's waiver by:

a. Executing standard and consistent contracts with all vendors who the Division anticipates it will pay $20,000 or more a year.

b. Establishing and implementing a Division policy and process to periodically review and update vendor contracts and obtain appropriate approvals for each contract template from the Office of the State Controller. This should include updating all Division contracts that have been in place 5 years or more and were executed prior to 2009.

c. Revising the Division's Vendor Registration Form to ensure it complies with State Fiscal Rules and reflects the language contained in the Division's standard contract template.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Division will update, execute, and monitor standard and consistent contracts with all vendors who the Division anticipates it will pay above the thresholds determined by the State Procurement Rules on an annual basis.

b. Agree. Implementation date: April 2014.

The Division will establish policies and procedures to periodically review and update vendor contracts and obtain appropriate approvals for each contract template from the Office of the State Controller. Division staff will update all vendor contracts that have been in place 5 years or more and were executed prior to 2009.

c. Agree. Implementation date: January 2014.

The Division will revise its Vendor Registration Form to ensure it complies with State Fiscal Rules and reflects the language contained in the Division's standard contract template. Division staff will execute agreements using the revised form for all such vendors.

Procurement Card Transactions

Procurement cards are credit cards used by an agency to pay for small purchases of goods for the State. The goal of the Department's procurement card program is to make it easier for Department personnel to acquire goods and services while providing more timely payment to vendors and reducing the small-dollar payments processed by the Department. The Department issues the cards to selected employees and the charges are billed to the Department. Each card has multiple controls, such as spending limits and procedures for limiting the State's liability in cases such as disputed transactions and card misuse. Each cardholder has an assigned approving official who is responsible for approving transactions and monitoring how individual employees use the cards.

What audit work was performed and what was the purpose?

The purpose of the audit work was to evaluate the Division's internal controls and compliance with policies and procedures over expenditures made with procurement cards issued to Division staff. We reviewed a sample of 21 procurement card transactions made by the Division between July 1, 2012, and December 31, 2012, that we identified as potentially inappropriate based on State Fiscal Rules and the Department's Procurement Card Manual. We reviewed these transactions to determine the reasonableness and appropriateness of the purchases, timeliness of payments in accordance with State Fiscal Rules, whether the purchase complied with the Department's Procurement Card Manual and policy, and whether the purchase followed Department and Division processes for payments.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's procurement card transactions:

Reasonable and allowable expenditures. State Fiscal Rule 2-1 requires that all expenditures by state agencies meet the standards of propriety as being for official

state business purposes only and reasonable and necessary under the circumstances.

State requirements for procurement cards. State Fiscal Rule 2-10 indicates that state agencies participating in the procurement card program shall use the state procurement card for purchases at local vendors in lieu of open or other charge accounts. This State Fiscal Rule also requires agencies to have processes for reviewing and reconciling the transactions on the procurement card statements. Specifically, the State Fiscal Rule requires that agencies shall: (1) complete a preaudit when the disbursement is made to the bank or when distributions are made; (2) reconcile the disbursements made to the bank with the total of validated individual charges for the agency; and (3) use the dispute mechanism when charges from the bank are challenged. The Department's Procurement Card Manual states that the dispute mechanism is for the employee to file formal disputes with the bank upon discovery, but no later than 60 days after the transaction was posted. A signed copy of the dispute form must be provided to the bank to document the transaction being disputed. The Department then requires this transaction to be identified on the monthly procurement card statement.

Department requirements for procurement card transactions. The Department's Procurement Card Manual (the Manual) provides staff guidance for using procurement cards. Specifically, the Manual states that cardholders are to: (1) ensure the transaction is an appropriate purchase for the benefit of the Department's operations in accordance with State Procurement Rules, fiscal rules, and purchasing card policies and procedures; (2) obtain required prior approvals and a receipt for all purchases that includes the date of the transaction and attach to the receipt a description of items; and (3) ensure that only the cardholder uses the card. The Manual states that state sales tax is not permitted to be paid on any procurement card purchase and includes a listing of transactions that are unallowable, which includes airline tickets, purchases from auto and truck dealers, restaurants, medical drugs, and transportation charges. Further, each cardholder's assigned approving official must review and approve the cardholder's procurement card transactions and supporting documentation on a monthly basis.

Controls over public funds. According to State Fiscal Rule 1-9, the Department is responsible for the design and implementation of programs and controls to prevent, deter, and detect fraud, including theft of public property. Additionally, proper controls should include those over recording of transactions, authorization of transactions, and supervisory review of transactions.

Timely payment. State Fiscal Rule 2-2 requires transactions to be paid within 45 days of the receipt of products or services and the related receipt of an invoice or notice of payment due.

What problems did the audit work identify?

We identified problems with nine (43 percent) of the 21 procurement card transactions we reviewed. For some transactions, we identified more than one problem. These problems, which resulted in $9 in known questioned costs, are described as follows:

- **Purchases that were not allowed through procurement cards.** For three transactions totaling $5,270, the purchases did not appear to be allowable purchases using a procurement card in accordance with the Department's Procurement Card Manual. Specifically, all three purchases were made for bus passes for Program participants, yet transportation is not an allowable procurement card purchase per the Department's Procurement Card Manual.

- **Untimely payments.** For four transactions totaling $5,302, the payments were not made timely within 45 days of the invoice date, in accordance with State Fiscal Rules. For one transaction, Program staff used a procurement card to pay a vendor on August 2, 2012, for medical records that were billed to the Division in April 2012, almost 4 months earlier and in a different state fiscal year, which is not allowable per fiscal rules. For the other three transactions, staff used a procurement card to pay an invoice between 2 and 4 months after the invoice date, but within the same fiscal year.

- **Purchases that may have been made by someone other than the cardholder.** For two transactions totaling $1,481, the Division's supporting documentation did not indicate that the cardholder used the card to make the payment, which is required under the Department's Procurement Card Manual. For one of the transactions, the Division's documentation included a note stating that the payment was made via telephone and the note was signed by someone who was not the cardholder, indicating that someone else may have used the card for the payment.

- **Lack of support that purchases were reasonable and appropriate.** For two transactions totaling $1,131, for the purchase of an iPad to conduct participant demonstrations in a field office and the payment of a wireless cell phone bill for a phone used for participant demonstrations, we could not determine if these transactions were reasonable or appropriate. According to the Department, Program supervisors approved the purchases but the Department could not provide documentation of the approvals.

- **Unallowable tax charges.** For two transactions totaling $208, the payments included about $9 in state taxes, which are not allowable charges per the Department's Procurement Card Manual because the State is a tax-exempt entity.

Why did the problems occur?

We identified the following three key factors that have led to the problems we identified with procurement cards:

- **No Division processes to ensure staff compliance.** The Division has not established processes to ensure Program staff comply with state and Department requirements for using procurement cards. Approving officials do not consistently ensure that procurement card purchases and payments comply with the Department's Procurement Card Manual and State Fiscal Rules, including the payment of balances within 45 days of invoice receipt, disallowance of state taxes on procurement card purchases, and evidence within supporting documentation to indicate that the cardholder made the purchase.

- **No approved waiver for transportation charges on procurement cards**. Department staff could not provide a copy of the approved waiver allowing participants' transportation charges on the procurement cards. Division staff stated that procurement cards are used for purchasing bus passes for participants because the vendor will not accept the Division's standard Service Authorization forms. However, the Department's Procurement Card Manual specifically states that transportation charges are not allowed to be made using procurement cards, but allows for a waiver from these requirements if approved by the Department's procurement staff. Department staff stated that the Division was approved for a waiver from this requirement but could not provide a copy of the waiver.

- **No controls over purchases for participant demonstrations.** The Division does not have policies or procedures to address the appropriateness, reasonableness, and necessity of the purchase of goods for participant demonstration purposes. Division staff reported that they purchase demonstration equipment in order to show participants various types of assistive technology, such as cell phones, computers, and cell phone applications that participants can utilize to meet their vocational goals. Further, according to Division staff, although Program regional supervisors are required to approve all equipment purchases for participant demonstration purposes, this approval is not required to be documented.

Why do these problems matter?

When the Division does not comply with state and Department requirements for using procurement cards only for allowable purposes, accurately recording purchases in the correct fiscal year, and paying bills timely, it cannot ensure that federal and state funds are used efficiently and for the purposes intended. Further, without a clear policy or process for purchasing participant demonstration equipment, the Division cannot ensure that purchases are properly approved, the same equipment is not being purchased for multiple offices, and demonstration equipment is shared between offices, if necessary.

[1] Known questioned costs total $9. The total known questioned costs identified through the audit are discussed on pages 28 and 29.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 17:

The Department of Human Services (the Department) should ensure that all Division of Vocational Rehabilitation Services' purchases made with procurement cards comply with State Fiscal Rules and Department requirements for procurement cards, including obtaining a waiver from Department requirements when applicable. In addition, the Department should establish and implement policies and processes for authorizing and purchasing participant demonstration equipment, such as cell phones and computers, and document supervisory approvals of equipment purchases.

Department of Human Services Response:

Agree. Implementation date: July 2014.

The Division of Vocational Rehabilitation (the Division) will establish policies and procedures for documenting supervisory approvals for equipment purchases, and authorizing and purchasing participant demonstration equipment. The Division will establish regular reviews of procurement card purchases to ensure compliance with State Fiscal Rules and Departmental requirements for procurement cards, including a waiver, if applicable. The Division will ensure that all procurement cardholders and their approving authorities receive additional procurement card training on the new requirements by March 2014.

Quality Assurance Monitoring

The Division conducts monthly quality assurance (QA) reviews of the 29 Program field offices throughout the state. In December 2012, the Division completed its most recent annual QA review cycle in which it tested a sample of 615 case files statewide for participants who received services through the Program in Calendar Year 2012. The Division began a new QA review cycle in April 2013 due to changing its QA review cycle at that time to more closely align with the staff performance review cycle.

The purpose of the QA review is to ensure that field offices comply with federal regulations and Division policy. The QA reviews assess compliance and quality in several areas, including eligibility determinations, timely processing, required counselor and supervisor authorizations, acceptable case file documentation, proper determinations of participant's severity of disability, adequate comprehensive assessments of the participant's skills and needs, procedures for closing a case, adequate counseling and guidance given to the participant, and counselor and supervisor decision making. Participant records include hardcopy files and electronic files maintained in the Division's AWARE case management system.

As part of their review, the Division's QA staff select a random sample of five participant records per counselor using a computer-generated selection process. The sampled case files are in various stages of completion, such as in-service, eligible, closed-other than successful, closed-successful, and in-employment within the current year. The QA teams that review the case files are comprised of the Division's QA staff, Program regional supervisors, field office supervisors, and field office lead counselors. According to staff we interviewed, the Division has communicated that it expects each regional supervisor, field office supervisor, and field office lead counselor to participate in at least one QA review during the year. Regional supervisors are invited to all QA reviews in their region, and field office supervisors and lead counselors participate in reviews that are not of their home field office. The teams make site visits to each field office and review each sampled case record using checklists as tools to guide them through the process. Upon completion of the on-site review, the QA team provides the results, which include an overall score for the field office and individual scores for each counselor, to the field office supervisor. Scores are based on the percentage of total correct answers to total questions on the review tool, as well as a summary detailing the strengths and concerns noted by the reviewer. The review team encourages supervisors to go through each sampled case file and the QA review results with the counselors to discuss the strengths and concerns identified by the review. The review team also provides a formal written report with the QA review results, including the problems identified and the scores of the field offices and

counselors, to the counselor, field office supervisor, regional supervisor, and Program Deputy Director of Field Services within 2 weeks of the review.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether: (1) the QA reviews are conducted consistently in each of the 29 field offices on an annual basis, (2) the QA process assesses Program compliance with key federal and Division requirements related to eligibility determinations and case file documentation, and (3) the Division has sufficient corrective action processes to ensure field offices correct the deficiencies identified through the QA reviews.

As part of our audit, we reviewed the Program's QA review checklist tools, schedule of site visits for both review cycles, and documentation of results from the QA review performed in the month of April 2013 for two field offices judgmentally selected from 13 field offices included in our case file review. We interviewed Division staff regarding their impression of the overall effectiveness of QA reviews. We also compared the results of the Division's QA review with the results of our single audit testwork of eligibility determinations in order to determine whether the QA review teams were identifying the same deficiencies.

How were the results of the audit work measured?

The federal Rehabilitation Services Administration (RSA) Monitoring and Technical Assistance Guide for Federal Fiscal Year 2013 outlines the federal review process in place for monitoring state rehabilitation programs, which includes a requirement for states to prepare corrective action plans to address any findings identified through the monitoring process. The purpose of QA reviews and enforcement of corrective action plans in federal programs is to mitigate deficiencies over time. Based on the federal review process, a comprehensive state QA review should include a process for ensuring that the deficiencies identified as a result of the review are addressed and corrected. Other Department programs that perform QA reviews, including the Low-Income Energy Assistance Program (LEAP) and Temporary Assistance for Needy Families (TANF), customarily require management of each field office location to submit a corrective action plan to respond to QA findings. These programs' QA teams review and assess the corrective action plans to determine appropriateness of the plans and review the same locations in the next QA cycle to determine if the programs have improved their performance. These programs also incorporate the areas of deficiencies identified in the QA reviews into their annual statewide staff trainings.

What problems did the audit work identify?

Based on our review of the Program's QA process, we found that after the QA team submits its findings to each field office, neither Division staff nor the QA team conducts follow-up procedures to determine whether the field offices have addressed and corrected the issues identified in the QA reviews. We found that the Division conducted QA reviews of 28 of its 29 field offices during Fiscal Years 2012 and 2013 to assess Program compliance with federal and Division requirements. The Division did not conduct a QA review of one field office, in Limon, because it was not staffed during the review period. According to Division staff, in some cases the QA results are included in the counselor performance reviews. However, field offices are not required to prepare and submit corrective action plans for the identified deficiencies.

The Division's QA reviews in Fiscal Year 2013 for the two field offices in our sample identified several types of deficiencies. For example:

- Insufficient case file documentation
- Lack of verification of presumptive eligibility for participants receiving Social Security benefits
- Incomplete assessments to determine participants' employment outcomes and service needs
- Failure to perform financial needs analyses
- Inadequate case monitoring

The deficiencies identified by the Division's QA review of these two field offices were consistent with the deficiencies we identified statewide in our case file review, as discussed in Chapters 2 and 3, Recommendations 3, 4, 5, 8, and 13.

We also determined that, after completing each QA review, the Division does not have a process to compile the data results from the review to analyze trends in deficiencies statewide. Implementing such a process would allow the Division to identify overall areas for improvement and address these areas by developing and implementing additional guidance and staff training.

Why did the problems occur?

The Division's QA staff does not have a mechanism in place to hold the field offices accountable for addressing and correcting deficiencies. Specifically, although Division management stated that the QA review team encourages Division management, regional supervisors, and field office supervisors to review the QA results with the field office counselors, and the field office supervisors we interviewed stated that they review the QA results, the Division has not established a written policy requiring management and staff to participate in QA

reviews, field offices to develop corrective action plans, QA staff to follow-up to ensure the deficiencies are addressed, or supervisors to include QA problems identified in counselor performance reviews. Division management also has not established a policy or procedure requiring QA staff to compile and analyze trends in deficiencies statewide or annually report the results of the QA process to Department and Division management.

Why do these problems matter?

Quality assurance reviews are a critical tool for identifying problems with federal and state compliance and quality of Program services. The Division's current process has identified deficiencies in case file documentation and participant monitoring; however, without a means for holding the field offices accountable for correcting deficiencies identified in the QA reviews, deficiencies have continued to occur, and the overall quality of the Program could suffer as a result. In addition, by not compiling the results of the QA reviews, Department and Division management do not have a mechanism for identifying statewide trends and areas for training and policy clarification and revisions.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principle, Eligibility. Classification of Finding: Significant Deficiency.)

Recommendation No. 18:

The Department of Human Services (the Department) should improve the Vocational Rehabilitation Program's (the Program) annual quality assurance (QA) review process by:

a. Creating and implementing a policy requiring Division of Vocational Rehabilitation (the Division) management and Program regional supervisors, field office supervisors, and field office counselors to review the deficiencies identified by the QA staff after each annual review is completed.

b. Creating and implementing policies and procedures that require corrective action plans for cited deficiencies, a follow-up process for QA staff to ensure implementation of corrective action plans, and a process for including problems cited during the QA reviews in counselor performance reviews, as appropriate.

c. Requiring QA staff to annually report the results of the corrective action plan process to Department and Division management.

d. Implementing a process for the QA staff to verify that problems identified in QA reviews are addressed by annually following up on prior year deficiencies.

e. Implementing a Division process to analyze trends in deficiencies statewide, at least annually, to identify overall areas for improvement, such as areas for additional staff training and guidance.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Department will work with the Division to improve its quality assurance monitoring processes to ensure compliance with regulations, rules, and policies. The Division will create a QA Procedure Manual that will describe the case file review process and will include a requirement that Program supervisors and vocational rehabilitation counselors review identified deficiencies after every QA review and, additionally, that Division management will review identified deficiencies after each annual review. The Division will continue to work with the Department's Office of Performance and Strategic Outcomes (OPSO) and C-Stat analyst to improve its quality assurance monitoring procedures and processes.

b. Agree. Implementation date: October 2014.

The Department will work with the Division to incorporate policies and procedures into the QA Procedure Manual that will provide instructions for Division staff to complete actions required on cited deficiencies found during case file reviews, along with a follow-up process so that Division QA staff review and determine that errors have been corrected and the case files are in compliance with regulations, rules, and policies. The Division will craft measurable language to be used in counselor performance reviews regarding the results of the QA reviews. In addition, the Division will contact QA staff in other states' vocational rehabilitation programs for input and feedback regarding their policies and procedures for corrective action plans.

c. Agree. Implementation date: January 2015.

The Division will annually report the results of the corrective action plans to Department and Division management. Once the QA Procedure Manual is created and implemented, the Division will

gather this information and provide the first report after 1 year of case file reviews to begin this annual reporting cycle of corrective action plans.

d. Agree. Implementation date: January 2015.

The Department will work with the Division to provide language in the QA Procedure Manual about the process to follow up on the prior year's identified deficiencies on an annual basis. The Division will outreach to regional partners for input and feedback about effective processes to complete this follow up process. The Division will contact QA staff in other states' vocational rehabilitation programs for input and feedback regarding their policies, procedures, and practices to follow up on previously identified case file review deficiencies.

e. Agree. Implementation date: January 2015.

The Department will work with the Division to implement a process to be incorporated into the QA Procedure Manual to analyze deficiency trends statewide on an annual basis. These trends will be used to determine areas noted as needing improvement, along with staff performance corrective actions, and used as part of the yearly training needs assessment.

Complaint Management

Federal regulations for the Program specify that applicants or participants who are dissatisfied with a determination made by the State that affects the provision of services may appeal the determination through a hearing process or mediation. During our review, we found that Program staff provide each applicant for vocational rehabilitation services with a document outlining his or her rights to appeal and the appeals process. The Division reported that it received one request for an appeal in Fiscal Year 2013 and had one appeal request and one mediation in Fiscal Year 2012.

Federal regulations also allow states to develop an informal process for accepting and resolving complaints that are not filed as a formal appeal. Division staff reported that the Division has an informal process for handling complaints; the process involves resolving issues at the lowest possible level, such as at the field office staff level, because staff typically have more information than management about participant cases. Division staff stated that a participant who is unhappy with some aspect of Program services may contact his or her counselor to discuss

the matter; contact the office supervisor, regional supervisor, Division management, or Department management to discuss the concern; or choose to begin the appeal process. According to Program counselors and supervisors we interviewed, complaints are typically first investigated and resolved by the applicant's or participant's counselor or the counselor's supervisor. Division staff reported that when they are contacted by a participant or staff regarding a complaint, they contact the appropriate regional supervisor and request that they follow-up to resolve the complaint.

The Governor's Office also has an Office of Constituent Services that receives complaints from the public about state services and programs and forwards the complaints to the appropriate state agency for follow-up. Division staff reported to us that when the Governor's Office receives complaints regarding the Division or the Program, the complaints are forwarded to the Division. Division staff members log these complaints into a spreadsheet. In Fiscal Years 2012 and 2013, the Governor's Office forwarded a total of 37 complaints from applicants, participants, and participants' family members to the Division. The Division's complaint tracking spreadsheet includes fields to document the date it received the complaint, the complainant's name, the nature of the complaint, the complainant's counselor and the counselor's supervisor, the person the complaint was referred to for follow-up, and how the complaint was resolved. Complaints logged in the Division's spreadsheet included concerns such as allegations of insufficient communication by Program staff, untimely services, and dissatisfaction with the counselors or services provided.

What audit work was performed and what was the purpose?

The purpose of the audit work was to evaluate the Division's practices for investigating, resolving, tracking, and analyzing complaints from Program applicants, participants, and others. We reviewed each of the 37 complaints that the Division received from the Governor's Office during Fiscal Years 2012 and 2013. We interviewed Division staff to understand the types of complaints they receive and their procedures for resolving and documenting complaints. We also analyzed Division documentation of training it provided its staff in Fiscal Year 2013 to determine how the Division trained staff on the complaint management processes.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Division's complaint management process:

Complaint reporting. Federal regulations [Review of determinations made by designated state unit personnel, 34 C.F.R., pt. 361.57(c)] allow states to develop

an informal process for accepting and resolving complaints. Complaint management systems are meant to protect Program applicants' and participants' rights and to help ensure eligibility determinations are accurate and services are effective. Overall, as a best practice, Program applicants and participants should have an avenue to report problems to ensure the quality of the services they receive is not compromised.

Complaint tracking, investigating, and resolution. Other Department programs and facilities have found that centralized tracking and analysis of complaints helps identify potential problems with service provision and improve the overall quality of their programs. For example, the state Mental Health Institutes within the Department of Human Services have implemented a centralized complaint tracking system, including time lines for resolving complaints such that urgent complaints involving injury or patient rights must be investigated and resolved within 48 hours. Less severe complaints, such as a complaint about the Department's no smoking policy or concerns that do not involve injury or patient rights, must be resolved within 30 days.

In general, effective complaint systems include the following components: (1) procedures for staff and complainants to report all complaints to a centralized location; (2) a written record or log of the complaint, including the date of the complaint, which is typically entered into an electronic complaint database; (3) categorization of the complaint according to its urgency, importance, or topic; (4) investigation and resolution of the complaint within established time frames to ensure prompt action is taken; (5) follow-up to ensure that the complaint resolution was implemented and the complainant was notified of the outcome; and (6) ongoing analysis of complaint data to identify underlying patterns or trends that need to be addressed or corrected.

What problems did the audit work identify?

We found that, while the Division tracks complaints received through the Governor's Office, the Division does not have a process for tracking complaints received directly through the field offices or the Division. Further, some field office staff we interviewed stated that when they receive complaints, they typically investigate and resolve complaints themselves and do not report them to the Division.

In addition, for 32 (86 percent) of the 37 complaints the Division received from the Governor's Office during Fiscal Years 2012 and 2013, we identified one or more problems with the Division's log of and related processes for investigating and resolving the complaints. Specifically, we identified the following:

- **Documentation did not always include the nature or date of the complaint.** For nine complaints, Division staff either did not document the nature of the complaint or provided very limited documentation so the nature of the complaint was unclear. For example, for one complaint the only information that Division staff documented to explain the nature of the complaint was, "Received letter from [participant] in regards to the services he has been receiving;" in another example, the staff documented "[complainant] wishes to lodge a complaint against the Division. [Participant] requested a face to face meeting to voice complaint;" in a third example, staff documented "Dissatisfied with [Program] services. Requested a new counselor." In addition, for three complaints, there was no documentation of the date of the complaint so we could not determine when the complaint was reported to the Division.

- **No prioritization or categorization of complaints.** The Division did not document the significance or urgency of any of the complaints, nor did it categorize or organize the complaints, other than by the date they were received. As a result, we were unable to determine the importance of the complaints or whether any should have been prioritized. Further, there was no method, other than through a manual, labor-intensive process, to determine the main topics of the complaints or trends and patterns in problems reported.

- **Lack of evidence of an investigation or follow-up.** For six complaints, there was no documentation that staff in the field office or Division investigated the complaints; the section of the spreadsheet for staff to document the investigation or follow-up was blank.

- **Lack of documentation of the resolution or outcome.** For six complaints, the Division's spreadsheet contained no documentation as to how the complaint was resolved; specifically, the "resolution" field was blank. For an additional 22 complaints, there was no documentation that the resolution that had been identified by staff had occurred, and there was no documentation of the final outcome. For example, for 10 complaints where a participant complained about Program services or the Program staff, the only information recorded in the "resolution" section of the spreadsheet was "Referred to [another person]," and there was no documentation of whether the individual who received the referral followed up with the complainant or whether the complaint was resolved.

- **Lack of evidence that the participant was informed of resolution.** For 28 complaints, there was no evidence in the Division's spreadsheet that the complainant was notified of the resolution.

- **No evidence of analysis of complaint information to identify trends.** The Division staff reported that it currently has no process for analyzing trends or patterns in the types of complaints it receives, such as to identify problems within particular offices, with specific staff, or to identify systemic problems in the Program.

Why did the problems occur?

The Division does not have a written complaint management policy or process. For example, we found the Division has not established policies or procedures that address any of the following:

- Field offices or Division staff reporting complaints to the Division or a central database
- Documenting complaints
- Prioritizing or ranking complaints to ensure the more urgent complaints are prioritized or a method for categorizing complaints by nature or topic
- Investigating complaints or required timeframes to ensure staff follow up on complaints in a timely manner
- Resolving complaints or a method for providing complaint resolutions to the applicant or participant in writing
- When a complaint is considered resolved, such as when a supervisor finds that staff have taken reasonable and sufficient action to address and document the complainant's concern and that the Division has sent written notification of the resolution to the complainant
- Analyzing complaints so Division management can determine patterns or trends in problems by office or statewide

In addition, the Division training documentation we reviewed contained no evidence of training for staff on how to investigate, resolve, and document complaints.

Why do these problems matter?

Investigation of complaints by numerous staff in field offices with no formal complaint management processes or requirements to report complaints to the Division, and insufficient complaint documentation, increase the risk of inconsistencies in complaint handling and the risk that complaints may not be sufficiently addressed. By not fully documenting the nature of complaints and the follow-up and investigation, or ensuring that resolutions are implemented, the Division cannot ensure that applicants' and participants' complaints are addressed. Additionally, by not analyzing complaints, the Division may not identify systemic issues, cannot use complaint information to assess deficient practices, and cannot evaluate the timeliness of the complaint handling process.

Complaint analysis is needed to identify staff training needs or areas where policies should be clarified to address the problems and improve the quality and efficiency of services.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Eligibility. Classification of Finding: Significant Deficiency.)

Recommendation No. 19:

The Department of Human Services should ensure the Division of Vocational Rehabilitation (the Division) strengthens its management of complaints by:

a. Establishing and implementing policies and procedures to ensure that all complaints are investigated and resolved in a timely manner. This should include developing a written description of the process; a prioritization method with time lines for investigating and resolving complaints, such as a method based on the severity of the allegations; and a time line for sending the complainant written notification of the resolution.

b. Establishing and implementing policies and procedures for documenting complaints in a centralized Division database and requiring that Division data sufficiently detail the nature, timing, investigation, and final resolution of each complaint in a consistent manner.

c. Establishing and implementing policies and procedures for categorizing complaints, such as by topic, to facilitate meaningful analysis and analyzing the complaints logged in a centralized database at least annually to identify trends and taking appropriate action, such as through training or policy clarification, to address the problems.

Department of Human Services Response:

a. Agree. Implementation date: July 2014.

The Division will convene a workgroup comprised of Division staff and regional partners, to understand industry best practices to address the processes for receiving, investigating, and resolving complaints by participants, vendors, and other community partners. This workgroup will define policies and procedures to assess and prioritize complaints, including a time line for investigation, resolution, and notification to the complainant.

b. Agree. Implementation date: July 2014.

The Division will expand upon the already established complaint tracking spreadsheet to develop a centralized tracking tool that sufficiently documents relevant details regarding complaints made by participants, vendors, and other community partners. Procedures will be implemented for the proper handling of all Division-related complaint communications, including the nature, timing, investigation, and final resolution of each complaint.

c. Agree. Implementation date: October 2014.

The Division will establish procedures for reviewing and categorizing, on a periodic but at least annual basis, the nature of complaints documented in the established centralized tracking tool for purposes of analyzing trends that may indicate systemic opportunities for improvement. This periodic analysis will result in the potential implementation of policy, process, communication or performance improvements, and/or staff training to address identified deficiencies in customer service or other service delivery processes.

Application Backups

Division staff utilize AWARE to track participants' eligibility, maintain participants' individualized plans for employment, record authorized services, and perform other case management-related activities. The AWARE system is a configurable off-the-shelf (COTS) system and is managed and hosted by Alliance Enterprises (Alliance) under contract with the Division. Program and Division staff access the system via a secure Web portal and can only do so from properly configured Division computers. Program information is stored on servers and databases managed by Alliance. Alliance developed the AWARE system specifically to meet federal requirements for Vocational Rehabilitation Program services and AWARE is used by 28 states, including Colorado. In Fiscal Year 2013, the Division's AWARE system processed about $20.9 million in service payments for the Division.

What audit work was performed and what was the purpose?

Our audit work was designed to determine if the information technology (IT) control activities related to AWARE, individually or in combination with others, were properly designed and functioning. We reviewed and tested the relevant general computer controls related to AWARE. General computer controls include

controls related to user access management, system and data backups, logical security, interface management, and contract management of the vendor. Our test procedures included interviewing relevant staff at the Division and OIT, reviewing the Division's and OIT's policies and procedures for AWARE, and reviewing the Division's contract with Alliance. In addition, we tested system-generated reports and documentation samples pertaining to user access management, computer operations, such as backups and disaster recovery, and interface management.

How were the results of the audit work measured?

We compared the Division's backup processes and recovery plans with requirements specified in State Information Security Policy P-CISP-004, federal regulations (Administrative Safeguards, 45 C.F.R., pt. 164.308) concerning data protected under the Health Insurance Portability and Accountability Act (HIPAA) as well as with industry standards and IT control frameworks, such as ISACA's Control Objectives for Information and Related Technology (COBIT), standard DS4.9. Specifically, P-CISP-004 requires that system backups are sent off-site, so that a system can be recovered in the event of a data center disaster. Additionally, P-CISP-004 requires that disaster recovery plans be tested on a regular basis. In terms of HIPAA compliance, federal regulations require organizations to implement policies and procedures to "prevent, detect, contain, and correct security violations." Industry standards, such as those promoted by ISACA, strongly encourage organizations to send backups of business-critical applications to offsite storage. Industry standards, such as COBIT's DS4.9, encourage organizations to test their system recovery plans on a regular basis, usually annually. Finally, P-CISP-011 requires that backups be encrypted when those system backups are managed by vendors performing services for an agency.

What problems did the audit work identify?

We compared the Division's AWARE system with the standards outlined in the aforementioned areas and found places where the Division could improve its backup and disaster recovery processes. We identified three issues with backups and disaster recovery processes of the AWARE system. First, the AWARE backups are not sent off-site. Instead, the backups are created and stored in the same physical data center as the production system. Although the AWARE backups are stored on a separate physical machine from that of the production system, if a disaster were to occur within the data center, the AWARE production system and its backups could be destroyed and rendered non-recoverable. Second, the AWARE backups are not encrypted. Under HIPAA regulations, if HIPAA data are lost, misplaced, stolen, or otherwise compromised, an organization is required to notify all persons affected by the breach. However, if the lost or stolen data are encrypted, organizations do not have to notify affected persons.

Therefore, it is beneficial to encrypt backup data, because data are often transported either electronically or via physical backup tapes from secure data centers to secure storage facilities. Third, we found that, although the Division has an approved system recovery plan, the plan has not been tested on a regular basis. The last time the plan was tested and approved was in September 2011.

Why did the problems occur?

While the Division and OIT included provisions for backup and recovery procedures within the contract with Alliance, the two agencies did not consider all aspects of a successful and industry-compliant backup plan or the specific security requirements outlined in applicable State Information Security Policies.

Why do these problems matter?

Following industry best practices and State Information Security Policies helps to ensure that critical systems, such as AWARE, are recoverable in the event of a disaster and provides an additional layer of security in the event that AWARE data are accessed or taken by unauthorized individuals. While the likelihood of a data center disaster or the theft of AWARE data is unlikely, the chance still exists. If data were stolen, the required notifications to individuals affected by the stolen data would be costly and embarrassing for the Department. Further, if a disaster were to occur, it would prevent the Division from effectively managing the Program, which includes serving more than 19,000 individuals, tracking payments to vendors, and performing other related program activities. Additionally, the Division and its contractor report that data backups could be securely stored off-site for approximately $10,800 a year. When weighing the criticality of the system with the total funding the Division received for the Program, which was about $53.5 million in Fiscal Year 2013, the value of protecting the data and improving disaster recovery capabilities seems to outweigh the additional cost to the Division. Finally, the regular testing of the system recovery plan helps to ensure that the system can be quickly and correctly reconstituted in the event of a disaster. Testing the plan on a regular basis, such as annually, helps both the Division and the Division's vendor (Alliance) identify areas where the recovery plan can be updated to meet current system configurations and also develop unaddressed areas.

(CFDA No. 84.126; Rehabilitation Services Vocational Rehabilitation Grants to States; Activities Allowed or Unallowed, Allowable Costs/Cost Principle, Eligibility. Classification of Finding: Significant Deficiency.)

Recommendation No. 20:

The Department of Human Services should improve backup and recovery processes for the Accessible Web-Based Activity and Reporting Environment (AWARE) system by:

a. Working with the vendor to encrypt backup files and send them to a secure off-site location that is not in the same physical location as the production system.

b. Testing the system recovery plan on an annual basis and making updates to the plan as necessary.

Department of Human Services Response:

Agree. Implementation date: October 2014.

a. The Division of Vocational Rehabilitation (the Division) will work with the vendor for the AWARE case management system to develop and implement a plan outlining the fiscal and human resources required to encrypt backup files and send them to a secure off-site location that is not in the same physical location as the production system.

b. The Division will work with the vendor for the AWARE system to complete testing on the system recovery plan on an annual basis, and to make updates to the recovery plan as necessary.

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Please refer to the Report Control Number below when requesting this report.

Report Control Number 1338P

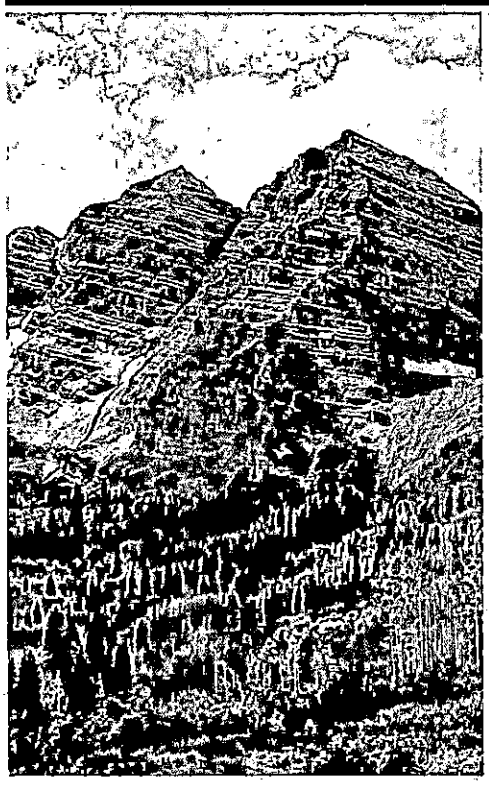
Report Control Number 1338P

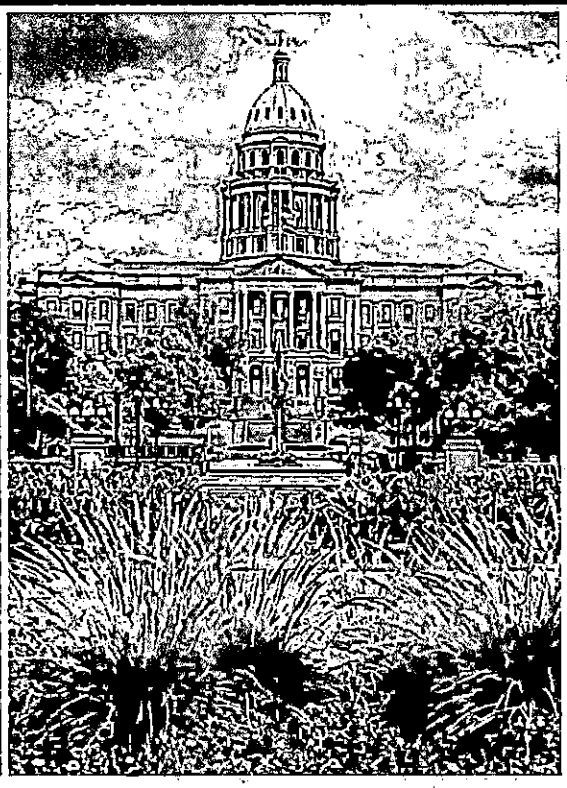
Attachment B

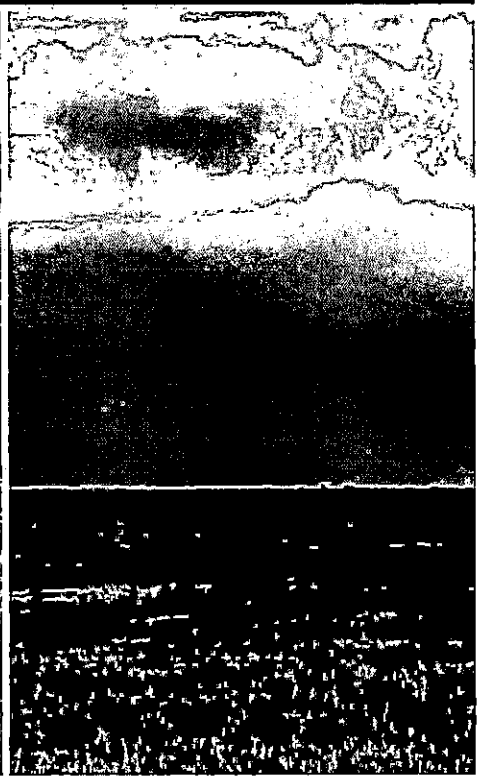
COLORADO OFFICE OF THE STATE AUDITOR

STATE OF COLORADO

STATEWIDE SINGLE AUDIT FISCAL YEAR ENDED JUNE 30, 2014







FEBRUARY 2015

FINANCIAL AUDIT

THE MISSION OF THE OFFICE OF THE STATE AUDITOR
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FOR THE PEOPLE OF COLORADO

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PLEASE REFER TO REPORT NUMBER 1401F WHEN REQUESTING THIS REPORT

2013-50	Improve its oversight of the Division of Vocational Rehabilitation (Division) and management and administration of the Vocational Rehabilitation Program (Program) by (a) establishing and implementing a plan for conducting ongoing monitoring of the Division's performance to ensure the Division accomplishes its duties and responsibilities to administer the Program, and is accountable to the Department. The plan should include following up on the Division's progress in implementing external audit recommendations from the Office of the State Auditor to ensure implementation is timely and effective; (b) ensuring Division compliance with applicable federal regulations, state statutes and rules, and Department and Division policies. This should include reviewing federal regulations, state statutes and rules, and Department policies to identify inconsistencies and areas for statutory and policy clarification; working with the General Assembly, as needed, to clearly specify the role and responsibilities of the Division and help ensure it accomplishes the purposes intended by federal regulations and state laws; and revising Division policies, procedures, and staff training to provide clear guidance on the purpose and scope of the Program; and (c) determining the record keeping and reporting capabilities needed in the Accessible Web-Based Activity and Reporting Environment (AWARE) system and developing and implementing a system project plan to provide to either the Office of Information Technology or the AWARE vendor to implement any necessary system changes. This review and plan should include a method for extracting historical Program data.	A IMPLEMENTED AND ONGOING. THE DEPARTMENT HAS SUBSTANTIALLY IMPLEMENTED THIS PART OF THE RECOMMENDATION BY CREATING AND IMPLEMENTING A PLAN FOR CONDUCTING ONGOING MONITORING OF THE DIVISION'S PERFORMANCE TO ENSURE PROGRAM ADMINISTRATION AND ACCOUNTABILITY. THIS PLAN INCLUDES REVIEW OF THE DIVISION'S CORRECTIVE ACTION PLAN TO ENSURE THE DEPARTMENT WILL TIMELY AND EFFECTIVELY IMPLEMENT THE RECOMMENDATIONS. B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. C DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS:

2013-51	Improve controls to ensure participants in the Vocational Rehabilitation Program (Program) reach their employment goals within reasonable time periods and federal and state funds are used prudently and efficiently by (a) establishing and implementing policies regarding reasonable time frames, such as 2 years for participants not seeking a degree and 5 years for degree-seeking participants, for participants to receive Program services, as allowed by federal regulations; (b) establishing and implementing methods to control Program costs. These methods should include setting reasonable thresholds for the costs of different types of Program services; instituting controls over authorizations and payments for academic training and tuition that limit the Program costs to in-state tuition or the equivalent; and recovering Program costs or discontinuing services for any participant who withdraws or is expelled from college or otherwise fails to reasonably meet the requirements in his or her Individualized Plan for Employment; (c) establishing and implementing an ongoing review process, such as at the Division of Vocational Rehabilitation level or by a special team of Department management and staff, to assess the appropriateness of continuing to serve participants who fail to meet employment outcomes and goals within the time frames and thresholds established in PARTS A and B above. This process should include implementing a methodology for reviewing and approving exceptions to the limitations, when reasonable, and noting participants who remain in the Program for extended periods without sufficiently progressing toward their goal of a reasonable time frame to meet their goal before Program services will end; and (d) establishing and implementing procedures to close cases, as appropriate, when participants fail to meet the reasonable time frame for meeting employment outcomes and goals, set in PART C above, after they have been notified of such case closure.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS.

2013-52	Improve controls over service authorizations and payments for the Vocational Rehabilitation Program (Program) by (a) establishing and implementing policies and procedures requiring that the Program only authorize services that are needed to address participants' barriers to employment based on their documented disabilities and impairments; (b) establishing and implementing procedures that ensure staff authorize services before they are provided, obtain and document appropriate supervisory approvals, pay only the amounts that have been authorized, and maintain Service Authorization forms in the case files; (c) developing and implementing comprehensive written policies and procedures over the Program's payment process that includes requirements for maintaining documentation that supports the payment amount and purpose, ensuring service authorizations match the payments made, and approving and verifying the receipt of services and goods. In addition, the policies and procedures should define the lowest available usual and customary rates, specify clear restrictions and parameters for purchases, and include written guidance for staff to follow when reviewing and approving payments; (d) using the federal or state mileage reimbursement rate as specified by State Fiscal Rules when calculating a participant's mileage reimbursement; (e) adequately segregating staff duties within the payment process. Specifically, the Department should ensure that individuals who authorize and approve services and goods are segregated from the processing of payments and do not directly receive vendor or participant receipts or invoices. The Department should also ensure direct reports are not approving payments for their supervisors; (f) establishing and implementing processes to monitor service authorizations and associated payments to ensure that services are authorized before the participant receives the services and that payments for services do not exceed the amounts authorized. This should include a post-payment review procedure that reviews a sample of payments at least annually and mechanisms for revising policies and procedures as necessary based on patterns of errors identified during the annual review; and (g) training Program staff on accounting controls and payment policies and procedures.	A DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. B IMPLEMENTED AND ONGOING. THE DEPARTMENT HAS SUBSTANTIALLY IMPLEMENTED THIS PART OF THE RECOMMENDATION BY UTILIZING NEW BILL PAYMENT CONTROLS INCLUDING A NEWLY DEVELOPED BILL PAYMENT REVIEW FORM; AND ENSURING STAFF ARE FOLLOWING AUTHORIZATION, PROCUREMENT, AND PAYMENT POLICIES; AND KEEPING THE AUTHORIZATION AND ALL SUPPORTING DOCUMENTS IN THE SERVICE RECORD. C DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. D IMPLEMENTED. E IMPLEMENTED. F DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. G DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS.
2013-53	Strengthen controls over Vocational Rehabilitation Program (Program) eligibility determinations and documentation by (a) establishing and implementing a written policy and procedure requiring counselors to obtain documentation of the applicant's disability from an appropriate medical professional and maintain documentation of the disability in the case file, (b) establishing and implementing a written policy and procedure requiring ongoing supervisory reviews to ensure that Program staff comply with eligibility and documentation requirements; and (c) providing Program staff training, as determined appropriate, that assists in ensuring that staff are aware of and comply with federal and state eligibility and documentation requirements.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS.

2013-54	Improve Vocational Rehabilitation Program (Program) processes for conducting assessments to determine participant employment goals and completing the participant Individualized Plan for Employment (Plan) by (a) establishing and implementing written policies and standardized processes for completing and documenting the comprehensive assessment, (b) providing training to Program field office staff on policies and processes for completing the comprehensive assessment and employment Plan, and (c) implementing a supervisory review process over counselors' comprehensive assessments and the creation of participant employment Plans to ensure that all factors required to determine participant employment goals are fully documented and that Plans are signed and completed in compliance with Division of Vocational Rehabilitation policies.	A & B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THESE PARTS OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. C IMPLEMENTED AND ONGOING. THE DIVISION HAS IMPLEMENTED A SUPERVISORY REVIEW PROCESS OVER COUNSELORS' COMPREHENSIVE ASSESSMENTS AND THE CREATION OF PARTICIPANT EMPLOYMENT PLANS. MATERIAL WEAKNESS.
2013-55	Improve Vocational Rehabilitation Program (Program) controls and processes for using comparable services and benefits to cover, in whole or part, the costs of Program services, as required by federal regulations by (a) implementing written policies and procedures for identifying and maintaining updated information on available comparable services and benefits for the range of services that the Program provides and ensuring the information is accessible to all applicable field office staff; (b) establishing a target time frame in written policy for field office staff's search for comparable services and benefits and staff's assistance to participants with the application for services through other programs; (c) clarifying policies to indicate that when a participant refuses to use comparable services and benefits, the participant shall be responsible for the costs of the services. The policy should address Program staff's related documentation requirements; and (d) providing training to field office staff on federal and Division of Vocational Rehabilitation requirements and processes for identifying and documenting comparable services and benefits. This training should include working with staff within other agencies with similar program services to obtain information on the comparable services and benefits that may be available to Program participants and processes for assisting participants in the application process for comparable services and benefits.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS.
2013-56	Improve the process for determining participants' severity of disability for the Vocational Rehabilitation Program (Program) by establishing a consistent and accurate method for assessing the severity of disabilities for Program applicants, modifying policies to provide clear guidance and tools for determining the severity of disability level, requiring notification of disability severity level to participants in all cases, and incorporating a supervisory review of this assessment. This process should include evaluating the benefits of implementing a scoring or weighted system for determining severity of disability and ensuring that staff are adequately trained on the new policies and procedures.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.

2013-57	Ensure compliance with federal and state case management requirements for the Vocational Rehabilitation Program (Program) by (a) implementing written policies specifying minimum requirements for communicating with unemployed participants, such as requiring counselors to contact these participants at least once every 30 days, and requirements for supervisory review of field office staff's case management activities and timely case closure when cases meet the closure criteria in policy and (b) providing training to Program field office staff on required documentation of case management activities, requirements for ongoing supervisory reviews of case management, and case closure procedures, including best practices for case management and documentation.	A DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE OCTOBER 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.
2013-58	Ensure the Division of Vocational Rehabilitation develops and implements a written policy and strategy for managing the wait list for the Vocational Rehabilitation Program (Program) that include estimated time frame targets for serving wait-listed participants in each of the three disability categories, a supervisory review process to ensure staff follow wait list policies, and comprehensive methods for projecting Program expenditures and estimating available funding needed to begin serving individuals on the wait list.	IMPLEMENTED AND ONGOING. THE DEPARTMENT HAS SUBSTANTIALLY IMPLEMENTED THIS RECOMMENDATION BY DEVELOPING AND IMPLEMENTING PROCEDURES TO MONITOR THE PROGRAM'S EXPENDITURES AND MANAGE THE PROGRAM'S WAITLIST. IN ADDITION, THE DEPARTMENT RELEASED OVER 2,000 INDIVIDUALS FROM THE WAITLIST AS OF JUNE 30, 2014.

2013-59 Improve the fiscal management of the Division of Vocational Rehabilitation (Division) and the Vocational Rehabilitation Program (Program) by (a) establishing and implementing a comprehensive budgeting process that includes procedures for estimating service costs for each participant in each fiscal year, and using the estimates to more accurately forecast Program expenditures in the current and future fiscal years; (b) ensuring that Division staff responsible for developing the Program budget and monitoring expenditures and revenues have expertise and training in state and federal budgeting processes and proper accounting and fiscal procedures; (c) implementing a process for Departmental review and approval of the Division's annual budget and routine Division reporting to Department management on the Program's estimated costs for participants, service authorizations, budget-to-actual costs, and expenditures-to-spending authority; and (d) implementing a regular Departmental review of Division expenditures until the Division can demonstrate full implementation of proper accounting controls. Once the Division demonstrates adequate controls, the Department should follow up and periodically review a sample of Division transactions to ensure ongoing compliance.

A IMPLEMENTED AND ONGOING.
THE DEPARTMENT AND THE DIVISION ESTABLISHED AND IMPLEMENTED A COMPREHENSIVE BUDGETING PROCESS DURING FISCAL YEAR 2014 THAT INCLUDES TOOLS FOR THE DIVISION TO ESTIMATE ANNUAL SERVICE COST PROJECTIONS BY USING HISTORICAL SPENDING DATA AND COST ESTIMATE DATA. THE DEPARTMENT USED THESE COST PROJECTIONS TO FORECAST PROGRAM EXPENDITURES DURING THE CURRENT FISCAL YEAR AND PLANS TO CONTINUE TO IMPROVE THIS PROCESS TO FORECAST EXPENDITURES IN FUTURE FISCAL YEARS.

B PARTIALLYIMPLEMENTED. THE DEPARTMENT PROVIDED TRAINING ON FISCAL MANAGEMENT TO FISCAL STAFF DURING FISCAL YEAR 2014. IN ADDITION, THE DIVISION BEGAN THE HIRING PROCESS FOR A NEW DEPUTY DIRECTOR OF OPERATIONS BUT HAD NOT FILLED THIS POSITION BY THE END OF JUNE 2014. THE DIVISION INTENDS TO HIRE A NEW DIRECTOR WITH THE SKILLS TO SUFFICIENTLY OVERSEE THE DIVISION'S BUDGET AND FINANCES. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY JULY 2014.

C IMPLEMENTED AND ONGOING.
THE DEPARTMENT HAS REVISED ITS ANNUAL BUDGET PROCESS AND THE DEPARTMENT'S MANAGEMENT IS MONITORING THE BUDGET AND EXPENSES ON A MONTHLY BASIS VIA MONTHLY FISCAL MEETINGS.

D IMPLEMENTED AND ONGOING.
THE DEPARTMENT IMPLEMENTED A MONTHLY REVIEW OF DIVISION EXPENDITURES THROUGH IN-PERSON MEETINGS WITH REPRESENTATIVES FROM THE DEPARTMENT'S DIVISIONS OF FINANCIAL SERVICES, BUDGET & POLICY, AND AUDIT, AS WELL AS THE DIVISION DIRECTOR AND OTHER KEY STAFF FROM THE OFFICE OF COMMUNITY ACCESS AND INDEPENDENCE. BEGINNING IN FISCAL YEAR 2015 WITH THE IMPLEMENTATION OF THE STATE'S NEW ACCOUNTING SYSTEM, CORE, DEPARTMENT ACCOUNTING STAFF WILL REVIEW SUPPORTING DOCUMENTATION FOR ALL ACCOUNTING TRANSACTIONS PRIOR TO FINAL APPROVAL IN CORE.

DEFICIENCY IN INTERNAL CONTROL.

2013-60	Improve controls over the Division of Vocational Rehabilitation's (Division) corporate accounts by (a) ensuring that the Division obtains an exception for the open charge accounts from the Department's procurement card administrator and the Department's controller or chief fiscal officer or discontinues the use of the corporate accounts; (b) establishing and implementing a process to monitor, reconcile, and resolve disputes in regards to charges on the corporate accounts. This process should include assigning responsibility for performing a monthly reconciliation of each account, obtaining copies of all account statements, ensuring that all charges on the account are appropriate and supported with receipts and invoices, and working with vendors to resolve charges noted on the statements that do not include authorization information; (c) ensuring that payments for the corporate accounts are made timely and by the payment due dates; and (d) limiting the number of employees at each field office who are approved to make purchases on the corporate accounts.	A IMPLEMENTED. B IMPLEMENTED AND ONGOING. THE DEPARTMENT ESTABLISHED AND IMPLEMENTED A REVIEW, RECONCILIATION, AND MONITORING PROCESS FOR ALL ACTIVE CORPORATE ACCOUNTS, WHICH INCLUDES THE ASSIGNMENT OF RESPONSIBILITY FOR RECONCILING THE ACCOUNTS, OBTAINING COPIES OF THE ACCOUNT STATEMENTS, ENSURING THE CHARGES ON THE STATEMENTS ARE APPROPRIATE AND SUPPORTED, AND WORKING WITH VENDORS TO RESOLVE ANY QUESTIONS OR DISPUTES. C IMPLEMENTED AND ONGOING. THE DIVISION STRENGTHENED PROCEDURES FOR MANAGING CORPORATE ACCOUNTS AND DEVELOPED A CHARGE ACCOUNT PROTOCOL DURING FISCAL YEAR 2014. DURING OUR AUDIT WE FOUND THAT THE CORPORATE ACCOUNT VENDORS IN OUR SAMPLE WERE PAID TIMELY. D PARTIALLY IMPLEMENTED. THE DEPARTMENT HAS PARTIALLY IMPLEMENTED THIS RECOMMENDATION BY BEGINNING TO LIMIT STAFF ACCESS TO THE CORPORATE ACCOUNTS AND BEGINNING TO CLOSE THE CORPORATE ACCOUNTS, WITH SEVEN ACCOUNTS CONTINUING TO BE USED BY THE PROGRAM STAFF AS OF JUNE 30, 2014. THE DIVISION PLANS TO CLOSE ALL CORPORATE ACCOUNTS AND UTILIZE THE STATE'S PURCHASING CARDS AS OF SEPTEMBER 30, 2014. THE DEPARTMENT PLANS TO FULLY IMPLEMENT THIS PART OF THE RECOMMENDATION BY OCTOBER 1, 2014. DEFICIENCY IN INTERNAL CONTROL.

2013-61 Improve controls over the use of federal and state funds and processes for reporting and addressing instances of suspected misuse of funds or property in the Vocational Rehabilitation Program (Program) by (a) developing and implementing policies and procedures for reporting instances of suspected misuse of funds or property. These policies and procedures should comply with federal regulations, State Fiscal Rules, and Department policy and include a policy specifying that, in circumstances of fraud, field office staff should stop services, thoroughly document the incident in the case file, and close the participant's case; (b) monitoring through supervisory review to ensure that instances of suspected misuse of funds or property are appropriately communicated to the Department's Audit Division and Department management in accordance with Department policy; (c) evaluating the necessity and appropriateness of providing direct payments to participants to purchase goods and services. If the Department determines that the practice of making direct payments should continue, it should strengthen controls, such as by limiting the dollar amount of the purchase(s), requiring supervisory approval of direct payments, and revising written policies and procedures accordingly; (d) providing direct access for the Accessible Web-Based Activity and Reporting Environment (AWARE) application to the Department's internal audit staff; (e) developing and implementing procedures for tracking the issuance, return, and reissuance of equipment purchased for participants. These procedures should include creating and maintaining a statewide tracking database of equipment purchased for participants and a requirement for attaching State-issued identification tags to the equipment; and (f) developing and implementing procedures to turn over recovery efforts to the Office of the Attorney General in a timely manner once Program staff have been unsuccessful at recovering State-owned equipment from participants.

A DEFERRED.
THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE.

B IMPLEMENTED AND ONGOING.
THE DEPARTMENT HAS SUBSTANTIALLY IMPLEMENTED THIS PART OF THE RECOMMENDATION BY INCLUDING WITHIN THE DIVISION'S SUPERVISORY REVIEW PROCESS A COMPONENT TO ENSURE THAT CASEWORKERS ARE REPORTING INSTANCES OF SUSPECTED MISUSE OF FUNDS OR PROPERTY TO THE DEPARTMENT'S AUDIT DIVISION AND DEPARTMENT MANAGEMENT IN ACCORDANCE WITH THE DEPARTMENT'S POLICY.

C DEFERRED.
THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE.

D IMPLEMENTED.

E DEFERRED.
THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE DECEMBER 2014 IMPLEMENTATION DATE.

F DEFERRED.
THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE.

MATERIAL WEAKNESS.

2013-62	Improve its processes for assessing participants' contributions in the cost of vocational rehabilitation services by (a) implementing changes to the Division of Vocational Rehabilitation's (Division) policy manual to provide clear guidelines for calculating and documenting participant contributions. This should include procedures for documenting changes to participants' financial situations that occur between application and staff completion of the financial need analysis; (b) reviewing the Division's current methodology for calculating participants' financial need, including the cost-of-living allowance calculation, for appropriateness and making changes as deemed necessary; (c) instituting a supervisory review process to ensure that financial need analysis forms are completed correctly as required by Division policy, information used to complete the analysis form and calculating the participant's required contribution is properly documented, the participant's required contribution is documented in the Individualized Plan for Employment, and participants' required contributions are paid; and (c) reviewing the Division's policy and practice of using after-tax income for calculating participant contributions and determining whether gross income should be used for this calculation for consistency with other federal programs at the Department. If after-tax income continues to be used, then the Department should establish a documented methodology for calculating after-tax income.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. MATERIAL WEAKNESS.
2013-63	Improve methods for compensating Vocational Rehabilitation Program vendors by (a) discontinuing the practices of paying bonuses to vendors and paying the "successful job placement" fees prior to employment; (b) evaluating the fee schedule payment amounts allowed for regular job placement services to determine if the fees are appropriately structured to pay for the reasonable cost of providing those services and adjusting the fee schedule payment amounts as appropriate. This evaluation should include considering the implementation of a fee to compensate vendors for job placement assistance services they provide prior to a participant's employment; and (c) implementing reasonable time lines for vendors to follow when providing job placement services and for successfully placing a participant in an employment position, incorporating the time lines into each job placement vendor's Registration form and/or purchase order, and monitoring the timeliness of vendor compliance with the time lines. The Department should discontinue doing business with job placement vendors who do not consistently place participants in successful employment positions in a timely manner.	A IMPLEMENTED. B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. C DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.

2013-64	Strengthen controls over Division of Vocational Rehabilitation administrative costs by implementing controls that ensure all transactions are properly supported by documentation, recorded properly in the Colorado Financial Reporting System (COFRS), approved by a supervisor of the staff who incurred the expense, and approved by the Office of Information Technology, if applicable.	IMPLEMENTED.
2013-65	Ensure that the Division of Vocational Rehabilitation's (Division) contract management processes and contracts comply with State Fiscal Rules, State Procurement Rules, and the State Controller's waiver by (a) executing standard and consistent contracts with all vendors who the Division anticipates it will pay $20,000 or more a year; (b) establishing and implementing a Division policy and process to periodically review and update vendor contracts and obtain appropriate approvals for each contract template from the Office of the State Controller. This should include updating all Division contracts that have been in place 5 years or more and were executed prior to 2009; and (c) revising the Division's Vendor Registration Form to ensure it complies with State Fiscal Rules and reflects the language contained in the Division's standard contract template.	A DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. B IMPLEMENTED. C IMPLEMENTED. DEFICIENCY IN INTERNAL CONTROL.
2013-66	Ensure that all Division of Vocational Rehabilitation Services' purchases made with procurement cards comply with State Fiscal Rules and Department requirements for procurement cards, including obtaining a waiver from Department requirements when applicable. In addition, the Department should establish and implement policies and processes for authorizing and purchasing participant demonstration equipment, such as cell phones and computers, and document supervisory approvals of equipment purchases.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.
2013-67	Improve the Vocational Rehabilitation Program's (Program) annual quality assurance (QA) review process by (a) creating and implementing a policy requiring Division of Vocational Rehabilitation (Division) management and Program regional supervisors, field office supervisors, and field office counselors to review the deficiencies identified by the QA staff after each annual review is completed; (b) creating and implementing policies and procedures that require corrective action plans for cited deficiencies, a follow-up process for QA staff to ensure implementation of corrective action plans, and a process for including problems cited during the QA reviews in counselor performance reviews, as appropriate; (c) requiring QA staff to annually report the results of the corrective action plan process to Department and Division management; (d) implementing a process for the QA staff to verify that problems identified in QA reviews are addressed by annually following up on prior year deficiencies; and (e) implementing a Division process to analyze trends in deficiencies statewide, at least annually, to identify overall areas for improvement, such as areas for additional staff training and guidance.	A DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE OCTOBER 2014 IMPLEMENTATION DATE. C–E DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THESE PARTS OF THE RECOMMENDATION BY THE JANUARY 2015 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.

2013-68	Ensure the Division of Vocational Rehabilitation (Division) strengthens its management of complaints by (a) establishing and implementing policies and procedures to ensure that all complaints are investigated and resolved in a timely manner. This should include developing a written description of the process; a prioritization method with time lines for investigating and resolving complaints, such as a method based on the severity of the allegations; and a time line for sending the complainant written notification of the resolution; (b) establishing and implementing policies and procedures for documenting complaints in a centralized Division database and requiring that Division data sufficiently detail the nature, timing, investigation, and final resolution of each complaint in a consistent manner; and (c) establishing and implementing policies and procedures for categorizing complaints, such as by topic, to facilitate meaningful analysis and analyzing the complaints logged in a centralized database at least annually to identify trends and taking appropriate action, such as through training or policy clarification, to address the problems.	A DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. B DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. C DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS PART OF THE RECOMMENDATION BY THE OCTOBER 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.
2013-69	Improve backup and recovery processes for the Accessible Web-Based Activity and Reporting Environment (AWARE) system by (a) working with the vendor to encrypt backup files and send them to a secure off-site location that is not in the same physical location as the production system and (b) testing the system recovery plan on an annual basis and making updates to the plan as necessary.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE OCTOBER 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.
2013-70	Ensure that each regional center facility that is licensed as an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID) is fully reimbursed by Medicaid for actual costs by (a) using the most current information available to make cost projections for the regional centers and calculating revised prospective Medicaid reimbursement rates for the ICF/IID-licensed facilities; (b) requesting retrospective adjustments to prior-year reimbursements using rates that are based on the regional centers' actual costs from the prior year as reflected in Medicaid cost reports; and (c) implementing a mechanism for staff other than those who perform the rate calculations to conduct comprehensive reviews of the methods and calculations for all proposed Medicaid reimbursement rate requests.	A IMPLEMENTED AND ONGOING. DHS WORKED WITH THE DEPARTMENT OF HEALTH CARE POLICY & FINANCING (HCPF) TO IMPLEMENT A METHOD TO USE CURRENT INFORMATION TO DETERMINE REGIONAL CENTER COSTS AND FOLLOWED THIS METHOD IN FISCAL YEAR 2014 TO CALCULATE MEDICAID REIMBURSEMENT RATES FOR THE ICF/IID-LICENSED FACILITIES. DHS AND HCPF WILL NEED TO FOLLOW THIS NEW RATE SETTING METHOD TO SET RATES ON AN ANNUAL BASIS. B IMPLEMENTED AND ONGOING. DHS IMPLEMENTED A NEW PROCESS TO REQUEST ADJUSTMENTS TO PRIOR-YEAR REIMBURSEMENTS BASED ON ACTUAL COSTS AND THEN REQUESTED RETROSPECTIVE RATES FOR FISCAL YEARS 2012 AND 2013 THAT WERE BASED ON ACTUAL COSTS AS REFLECTED IN MEDICAID COST REPORTS. THE DEPARTMENT WILL NEED TO FOLLOW THIS NEW PROCESS ANNUALLY TO REQUEST RETROSPECTIVE ADJUSTMENTS. C IMPLEMENTED.
2013-71	Ensure that the regional centers' Medicaid cost reports accurately report the number of resident days by updating its policies on managing census information to clarify which days should be reported on the cost reports and updating its procedures accordingly.	DEFERRED. THE DEPARTMENT PLANS TO IMPLEMENT THIS RECOMMENDATION BY THE JULY 2014 IMPLEMENTATION DATE. SIGNIFICANT DEFICIENCY.

Attachment C

NATIONAL FEDERATION OF THE BLIND
COLORADO

Live the life you want.

MEMORANDUM

To: Members of Vocational Rehabilitation Services for the Blind Interim Study Committee

From: Scott C. LaBarre, President, NFB of Colorado

Date: September 16, 2015

Re: Thoughts and Recommendations on Next Steps for the Interim Committee
Chair Danielson and Members:

First, the members of the National Federation of the Blind of Colorado (NFBCO) would like to extend our heart-felt thanks for your willingness to consider the significant issues facing services for the blind in our state. We believe the undertaking of this process will lead to better services for our community and allow Colorado to establish itself as a leader in this field.

We have essentially three areas of recommendation. First, NFB Colorado strongly believes that a separate agency for the blind under Title I of the federal Rehabilitation Act is the ideal structure through which optimum services can be delivered. Therefore, a bill to accomplish exactly that should be on the table for discussion. At the very least, a bill or strong recommendation from this Committee should encourage and direct the Colorado Department of Labor and Employment (CDLE) through the Division of Vocational Rehabilitation (DVR) to establish a separate unit of blindness services within the CDLE/DVR structure.

Second, we highly recommend that this Committee propose legislation that would encourage and fund grants targeting innovation in the areas of employment, youth/transition services, senior services, assistive technology, and health and wellness.

Third, much has been reported on DVR's inability to capture all federal rehabilitation dollars available to it. This Committee should recommend and encourage DVR to work with JBC and CDLE to find all possible ways to maximize the capture of federal dollars both in this fiscal year and those to come.

SEPARATE AGENCY FOR THE BLIND

NFBCO believes that vocational rehabilitation services for the blind delivered through a separate designated state unit for the blind under Title I of the Rehabilitation Act is the ideal structure through which to deliver services. This is so because specification and focus combined with expertise in blindness lead to better results. It is also true that the medical and rehabilitation system treat blindness differently than most other

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disabilities. As Dr. Edward Bell testified before you, those with other types of disabilities often receive a great deal of compensatory services through the medical and insurance systems. Thus they come to DVR in a position of greater readiness for placement into employment. With respect to blindness, it has been the vocational rehabilitation (VR) system that has been largely responsible for providing the compensatory skills in the area of adjustment to blindness services.

Long term data demonstrates that separate agencies for the blind outperform general and combined agencies by a significant amount. Previously, we have provided the Mississippi State study to you which examined the most recent data available through 2010. For example, in 2008, separate agencies for the blind placed 82.8 percent of legally blind consumers into competitive employment at time of closure as compared to a 57.4 percent placement rate for general/combined agencies. See Figure 7 at P. 22 of the Mississippi State Study. Granted, it appears that 2008 was a particularly successful year for separate agencies but the rest of the data from other years clearly demonstrate that separate agencies perform markedly better. Attached to the end of this memo is a summary from the Mississippi State Study regarding all categories of employment outcomes, contained at p. 25 of that study.

A general assumption is that providing service to the blind through a separate agency results in higher cost. This does not turn out to be true, however. In 2008, for example, the median cost of services to those served in separate agencies was $3,527 as compared to $3,600 for general/combined agencies. See Table 5 of the Mississippi State Study at P. 19.

Additionally, separate agencies serve their clients over a shorter time period which leads to savings of staff resources expended. For example, in 2008, the median number of days from development of the individual plan for employment (IPE) to closure for separate agencies was 511 as compared to 605 days for general/combined agencies. See again Table 5 of the Mississippi State Study at P. 19.

Dr. Bell reported to this Committee that the most recent numbers available for Colorado indicate that closures in 2010 (most recent data available) for blind consumers into competitive employment hover around twenty percent. It is true that Dr. Bell was looking at all cases opened and not just those with an IPE. With respect to legally blind consumers who developed an IPE, placement into competitive employment ends up at forty to fifty percent, far below the average maintained by separate agencies for the blind or even other general agencies nationwide. Dr. Bell also testified that in 2010, approximately fifty percent of the legally blind consumers in Colorado were closed as homemakers. Although this may be an appropriate placement for some, it is hard to imagine that fifty percent of the legally blind seeking services from DVR truly wanted to remain at home as opposed to finding competitive employment.

NFB Colorado understands that some might think we are using this data in an argumentative fashion. However, this data comes from the federal government and can be accessed by all. Each year, every VR agency, whether separate or general/combined, must report to the Rehabilitation Services Administration regarding its cases on something called Form 911. We are using the data from those reports and nothing else.

We also wish to address comments regarding the small number of blind consumers currently with DVR. Presently, the number of consumers of all disability types for DVR is drastically down. This is due to the

two years plus where a giant wait list existed and applicants were being turned away. In the past, there have been in excess of one-thousand consumers who were blind and receiving services from DVR. We expect that these numbers will be achieved again once DVR does the appropriate level of marketing and it is widely known that there is no longer any wait list.

In our view, there is no doubt that services for the blind must improve dramatically in our state. We believe that a separate agency for the blind is the structure which allows for the best possible performance. This agency could be housed in CDLE and therefore share certain services with VR such as accounting, IT, outside vendors, and human resources. This would minimize any duplication. The separate agency would have its own director and therefore be much more accountable to the blind community and other stakeholders.

It is our understanding that CDLE officials may believe that separate services for the blind are warranted but perhaps offered through DVR. In our view, if this were to occur, two very important things must happen. First, the separate unit must have its own identifiable leader who reports to the Executive Director of CDLE. This unit must also have its own, identifiable budget. These reporting and budgetary requirements are essential to insure the highest level of accountability. As the DVR audit demonstrated, accountability has been a critical problem in recent times.

We strongly recommend that this Committee request a bill draft that would establish a separate agency for the blind under Section 102 of the Rehabilitation Act housed in CDLE. This would allow a full discussion of what the best approach for vocational rehabilitation services for the blind in Colorado would be. This does not mean that we are opposed to other approaches. However, we must feel comfortable that identifiable leadership at the senior level and an identifiable budget are present. Through starting with a bill draft establishing a separate agency for the blind, we can ultimately reach the solution best for Colorado.

INNOVATION GRANTS

Our second major area of recommendation is that the Committee, through legislation or otherwise, find funding to fund grants to identify innovative new programs and approaches in the areas of employment, youth transition services, senior services, assistive technology, and health and wellness. We have all heard the reports regarding the fact that it is likely that DVR will be returning millions of federal dollars. Perhaps, we can find ways to match these funds with a small amount of state funds to secure funding for these grants.

This Committee has heard the staggering and completely unacceptable employment numbers. At best, legally blind adults are employed at a rate of thirty-seven percent. This Committee heard about some new approaches like those being offered by the Blind Institute of Technology. There was discussion of finding ways to incentivize large, national corporations to work with the State to place qualified blind individuals in franchises. This kind of creativity could be encouraged and rewarded with relatively small grant programs.

This Committee heard about how critical it is to start providing transition services to blind youth so that they are ready to enter the workforce at the appropriate time. The most recent amendment to the Rehabilitation Act calls upon state VR agencies to dedicate fifteen percent of their funding to transition services. Now is the best time to encourage new and innovate approaches allowing blind youth to be much more job ready and life ready.

The senior blind are the fastest growing segment of the blindness population. As our society lives longer and longer, the number of folks encountering age related blindness steadily increases. Current programs serving the senior blind are effective but cannot meet the demand. There must be a way to identify and secure funding for this important population.

No one can deny the effect of technology on our society. If one is not technically literate to some degree, it is almost impossible to participate in the mainstream of daily life. Blind individuals face significant barriers to participating in the technological revolution. First, there is not sufficient funding to provide access to assistive technology or to have the ability to learn about the technology available. New grants in this area would be extremely helpful.

Second, other than the federal government, state governments are the next largest purchasers of information technology. Colorado already has a law requiring the State to procure information technology which is compatible with the assistive technology used by the blind. However, compliance with this law is spotty. Perhaps, this Committee should call for an audit or study of how well the State is performing in the area of purchasing accessible, information technology. Recommendations could then be made to bring the state in compliance with its own law.

Finally, although the topic of health and wellness was not directly brought up during the Committee's first four meetings, it is becoming a very important issue within our community. The blind face much higher obesity rates and confront other health challenges at higher levels. Little emphasis has been put on the health and wellness of the blind because general low expectations bring with them low expectations about the wellness of the blindness population. Perhaps, there is a way we can find some grant funding to identify the parameters of the problem here in Colorado and then suggest solutions to tackle it.

CAPTURING ALL FEDERAL FUNDING

This Committee has heard a great deal regarding the staggering level of federal funding that is being returned due to DVR's inability to use it. The Committee should know that when states like Colorado return funding, that money is then reallocated to other states. Those states have the ability to apply for additional funding based on how much is returned. We must find a way to position Colorado so that in the future instead of returning millions each year, we apply for additional funding for new programs.

We think this Committee should find a way to issue directives or recommendations to DVR to make all efforts possible to retain its federal dollars. We should invest in new programs that are eligible for federal matching dollars. This Committee should request DVR's plan for the next fiscal year and how it will capture all available federal funds. It is our understanding that even though DVR is not yet housed in CDLE, CDLE is already working with DVR to identify ways in which to capture more federal dollars and not return those already granted. Those efforts should be strongly encouraged and assisted by the General Assembly.

CONCLUSION

Again, we thank the Committee for its efforts and willingness to address the issues raised. We are confident by working together on all levels, we will find a way to bring Colorado from the back of the pack to a state out front leading all the others.

Consumer Outcomes

<u>Employment Status at Closure</u>

- Separate agencies close a higher percentage of legally blind consumers in employment without supports in integrated settings.
  - FY 2007: 65.3% vs. 52.3%
  - FY 2008: 70.7% vs. 51.0%

- Separate agencies close higher percentages of legally blind consumers in self-employment.
  - FY 2007: 8.4% vs. 3.5%
  - FY 2008: 7.5% vs. 3.6%

- Separate agencies close a lower percentage as homemakers.
  - FY 2007: 20.1% vs. 39.0%
  - FY 2008: 15.9% vs. 40.8%

Patterns/trends. Current findings are consistent with analyses of RSA-911 databases from the 1980s and 1990s indicating that Separate agencies, compared with General/Combined agencies, close a higher percentage of consumers in employment in integrated settings and in self-employment (Cavenaugh & Pierce, 1998; Cavenaugh et al., 2000; NAC, 1997). Earlier analyses of databases from the 1970s showed an opposite trend (Kirchner & Peterson, 1982; JWK, 1981).

<u>Competitive Employment</u>

- Separate agencies close a larger percent of legally blind consumers in competitive employment.
  - FY 2007: 77.5% vs. 60.2%
  - FY 2008: 82.8% vs. 57.4%

- Although differences are small, Separate agencies close a larger percent of VI consumers in competitive employment.
  - FY 2007: 89.1% vs. 87.6%
  - FY 2008: 90.6% vs. 85.1%

Patterns/trends. Current findings are consistent with previous investigations indicating that Separate agencies, compared with General/Combined agencies, close a higher percentage of consumers in competitive employment (Cavenaugh & Pierce, 1998; Cavenaugh et al., 2000; NAC, 1997). Note that the Competitive Employment variable is somewhat different from competitive variables used in previous investigations in that with the current variable, individuals must be compensated at or above the minimum wage.