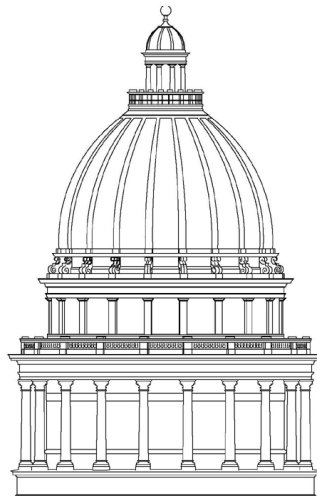


REPORT TO THE
UTAH LEGISLATURE

Number 2016-03



**A Performance Audit of
USOR's Case Management Controls**

May 2016

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee

President Wayne L. Niederhauser, Co-Chair • Speaker Gregory H. Hughes, Co-Chair
Senator Gene Davis • Senator Ralph Okerlund • Representative Brian S. King • Representative James A. Dunnigan

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

May 2016

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of USOR's Case Management Controls** (Report #2016-03). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff" with a stylized flourish at the end.

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of A Performance Audit of USOR's Case Management Controls

This is the second audit report on the Utah State Office of Rehabilitation (USOR) in the last six months. It deals with USOR's cost controls over the vocational rehabilitation (VR) services provided by the divisions of Rehabilitative Services (DRS) and Services for the Blind and Visually Impaired (DSBVI). This audit and the first¹ one resulted from concern about USOR's inability to manage its budget.

These budget issues were caused, in part, by a lack of budget processes and controls, resulting from poor oversight and an internal communication breakdown. Given the findings of the first audit, we believe that poor management and lack of controls over client services could also be an issue.

This audit focuses on the following objectives:

- Chapter II – Determine whether DRS policies appropriately control case management and counselor decisions.
- Chapter III – Determine whether documentation and policy are sufficient to prevent fraud, waste, and abuse.

Chapter II Case Controls Are Weak

Management Neglect Allowed Weak Internal Controls. Counselors' documentation of reviewed vocational rehabilitation (VR) cases has been weak. Seventy-seven percent of the 48 reviewed cases had documentation problems that resulted in a lack of information necessary for good decision making. This deficiency existed despite federal regulations and state policy requiring appropriate documentation. VR's inadequate documentation has contributed to cases remaining open for unnecessarily extended periods, resulting in increased costs. USOR reports that it is beginning to focus on these problems.

Weak Review System Provides Little Control. Currently, little quality control review occurs on VR cases. The current review practices are neither frequent nor robust enough to ensure control. Current reviews also lack independence. Other states use or have been recommended to use improved case reviews to keep cases on track. In Utah, the Department of Workforce Services (DWS) uses a robust review system to ensure case

¹ *A Performance Audit of USOR's Budget and Governance*, 2015-10

accuracy. We recommend that USOR employ such a review system to improve both system-wide control and independence of quality reviews.

Policies Are Insufficient to Provide Controls and Consistency. In the years prior to USOR mismanaging its budget, USOR eliminated some policy controls over budgets. Specifically, the previously required individual counselor budgets over client expenditures were eliminated. This policy, and others, when enforced, should provide consistency to operations and decisions. We recommend USOR ensure that policies are updated and followed to ensure that controls function and decisions are consistent.

Chapter III

Poor Documentation and Weak Policy Allow Misuse and Potential Waste

Poor Policy and Documentation of Pell Grant Awards Potentially Wastes Funds. Although USOR has policy in place, a lack of consistent adherence to the policy has led to ineffective use of USOR funds for post-secondary education costs, as shown in our review. Current documentation must be improved to ensure that policy is followed and funds are used prudently. Finally, USOR spends a larger percentage of total expenditures on higher education compared to other states. These concerns have led us to question the efficient use of funds used for higher education without controls and documentation.

Search for Comparable Benefits Should Be More Rigorous. Comparable benefits are services provided by other entities or agencies that offset the cost to VR. The intent of using comparable benefits and services is to reduce the cost of rehabilitation to VR and give the client as many resources as possible to increase a successful exit. While counselors generally documented an initial search for comparable benefits, we found it concerning that there was little to no documentation of a search for comparable benefits after the initial application search.

Financial Needs Assessment Process Should Be Improved. USOR incorrectly cites state code to prohibit the inclusion of parental income in Financial Needs Assessments (FNA) when clients are 18 years or older. In addition, USOR does not verify any financial information provided for FNA. While FNA are not required by federal law, Utah Code requires USOR to determine if the client is able to contribute financially to non-exempt services.

REPORT TO THE UTAH LEGISLATURE

Report No. 2016-03

A Performance Audit of USOR's Case Management Controls

May 2016

Audit Performed By:

Audit Manager	Tim Osterstock
Audit Supervisor	Leah Blevins
Audit Staff	Tyson Cabulagan

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Chapter I

Introduction

This is the second audit report on the Utah State Office of Rehabilitation (USOR) in the last six months. It deals with USOR's cost controls over the vocational rehabilitation (VR) services provided by the divisions of Rehabilitative Services (DRS) and Services for the Blind and Visually Impaired (DSBVI). This audit and its predecessor² resulted from concern about USOR's inability to manage its budget. The first audit found that USOR mismanaged its budget. This mismanagement resulted in:

- Running a \$4.9 million deficit in 2014
- Eliminating approximately \$17 million of federal spending reserves traditionally available in the second year of USOR's VR grant
- Needing a \$6.3 million state supplemental appropriation in 2015
- Anticipating a potential penalty from the federal government of \$5 to \$6 million.

These budget issues were caused, in part, by a lack of budget processes and controls, resulting from poor oversight and an internal communication breakdown. Given the findings of the first audit, we believe that poor management and lack of controls over client services could also be at issue.

USOR Provides Important Services

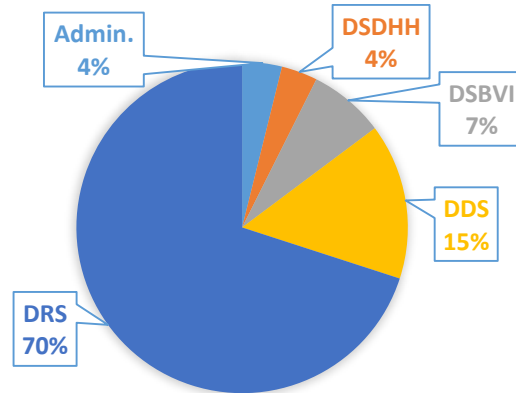
USOR is comprised of four divisions, DRS, DSBVI, the Division of Disability Determination Services (DDS), and the Division of Services for the Deaf and Hard of Hearing (DSDHH). In 2014, USOR's total budget was \$79,106,103,³ of which DRS was allocated \$55,382,759 or 70 percent. The following chart shows the distribution of the budget to each division.

DRS budget allocations are 70 percent of USOR's total budget.

² *A Performance Audit of USOR's Budget and Governance, 2015-10*

³ Total revenue comprised of \$58,995,160 from the Federal Government, \$19,383,086 from the State of Utah, and \$727,884 from other sources.

Figure 1.1 USOR Budget Allocation. DRS receives the largest portion of revenue.



The focus of this audit report is VR services provided by DRS and DSBVI because of their large budgets and the accompanying level of risk.

DRS oversees 10 VR districts, while DSBVI oversees all VR for individuals who are blind or visually impaired. DRS has three field service directors who oversee the ten district directors, who oversee individual districts. Each district has one to three counseling supervisors to oversee individual counselors. At DSBVI, a coordinator over VR services reports to the DSBVI director who in turn reports to the USOR executive director.

DRS' mission is to assist eligible individuals with disabilities to prepare for and obtain employment and increase their independence. The vocational rehabilitation program provides an array of services that includes counseling and guidance, medical services and treatment, assistive technology, training and education, job placement, and other services. The most frequent service provided is training (including education), which accounts for up to 40 percent of expenditures.⁴ In fiscal year 2014, USOR had about 440 FTEs, 136 of whom handle VR client caseloads. On average, each counselor serves 221 clients.

DRS' mission is to assist individuals with disabilities to prepare for and obtain employment.

⁴ University and Occupational/Vocational Training accounts for 80% of training expenditures.

USOR Has Made Technical and Program Improvements

USOR has begun taking steps to control its budget and spending. Current management has developed a process for monitoring VR spending and now meet monthly to review projections and compare their projections to actual spending. USOR management has also created a process to estimate total costs and number of clients they will be able to serve. This process estimates the cost per disability category group and allows management to better forecast future costs and create a budget. Management has used this tool to begin opening up categories within the waiting list to new clients.

USOR has also implemented new case management software intended to improve USOR's overall case management, case review process, and ability to track individual case spending. The previous system, IRIS, was outdated and severely lacked functionality. The new system, AWARE, appears to have increased functionality and oversight capabilities in case management.

We recommended in our first USOR audit report that the Legislature consider moving USOR under the oversight of the Division of Workforce Services (DWS). This move is now underway, and will be completed in October 2016, which could slow implementation of this audit's recommendations. Under DWS' strong culture of oversight, many concerns addressed in the last report and in this report could continue to be addressed and controls enhanced.

Audit Scope and Objectives

This audit reviews the controls over USOR's client services. We reviewed a total of 48 cases to examine whether counselors adhered to policy. Thirty-six of these cases were chosen randomly and twelve were specifically selected high-risk cases. In our selection of high-risk cases, we included the following:

- The four cases that had been open the longest
- The four cases on which the most had been spent
- Four randomly selected cases that had been open more than five years.

USOR has improved management of its budget, both overall and on a counselor level.

New case management software can help improve documentation.

In addition, we reviewed USOR's policies and compared them to those of surrounding states. The audit focused on the following objectives:

- Chapter II – Determine whether DRS policies appropriately control case management and counselor decisions.
- Chapter III – Determine whether documentation and policy are sufficient to prevent fraud, waste, and abuse.

Chapter II

Case Controls Are Weak

Oversight of case management in the Utah State Office of Rehabilitation's (USOR) Division of Rehabilitation Services (DRS) has been insufficient. Weak internal controls, as well as a lack of consistent and independent case reviews, has resulted in cases remaining open too long, which increases program costs. USOR's policies are also insufficient to provide consistent control and oversight of case decisions. USOR has started to focus on these issues and we encourage them to continue making case management control a priority.

Management Neglect Allowed Weak Internal Controls

Counselors' documentation of reviewed vocational rehabilitation (VR) cases has been weak. Seventy-seven percent of the 48 reviewed cases had documentation problems that resulted in a lack of information necessary for good decision making. This deficiency existed despite federal regulations and state policy requiring appropriate documentation. VR's inadequate documentation has contributed to cases remaining open for unnecessarily extended periods, resulting in increased costs. USOR reports that it is beginning to focus on these problems.

VR Failed to Follow Policies and Good Management Practices

In the cases we reviewed,⁵ management failed to follow established policies to guide good decision making. As a result, the lack of documentation of decisions and actions inhibited good case control and, ultimately, cost control. Figure 2.1 shows documentation concerns for both the random sample and the additional high risk selection used in this audit.

**77 percent of reviewed
VR cases had
documentation
problems.**

⁵ For a more detailed description of the cases reviewed, see Chapter I.

Figure 2.1 77 Percent of Cases Reviewed Had Deficient Documentation. 92 percent of reviewed high-risk cases had documentation problems.

Sample	Cases Reviewed	Cases with Documentation Problems	Percent of Total
High Risk	12	11	92%
Random	36	26	72%
Total	48	37	77%

Source: Auditor case review

Documentation problems ranged from lacking required Pell Grants, comparable benefits, and financial needs verification,⁶ to narrative gaps and missing annual reports that do not allow appropriate tracking of decisions. Federal regulation requires certain documentation, and allows the state to determine what type of documentation must be maintained to meet those requirements. VR policy has thus required that VR counselors monitor, among other things, whether

- Services are reaching the client
- The client is cooperating
- Schools and training facilities view client progress as satisfactory
- Outcomes justify closure of the case

Evidence of this monitoring is to be shown in client records that contain "...timely dictations, and correspondence, as well as all necessary forms." Our review found that documentation for many of these requirements was lacking. This documentation is vital to ensure that cases are run efficiently and effectively. In fact, VR policy states the following:

Maintaining client records and facilitating and documenting client progress through the VR process is critical. VR Counselors work to ensure that clients progress as quickly as appropriate and possible from

Documentation is vital to ensure that cases are run efficiently and effectively.

⁶ Chapter III discusses these areas in more depth.

applicant status to eligibility and [Individualized Plan for Employment] IPE.⁷

We would add that documentation is necessary not only to ensure the client moves “as quickly as appropriate” to their plan for employment, but also as quickly as appropriate to case closure.

Because documentation of records has historically been lacking, it cannot serve to assure that cases progress as quickly as appropriate toward employment and case closure. We note, however, that in recent years, communication between clients and counselors has become more frequent. Our review of high-risk cases found the following concerns, which appear to be inappropriate due to a lack of justifying documentation. These issues could have been controlled by better documentation and case reviews (to be discussed later).⁸

- Cases open longer than 10 years in which little progress toward any vocational objective can be noted
- Clients who now live out of state, including one who moved for school in 2004 and never returned
- Cases with no documented client contact for multiple extended periods
- The same or similar items purchased multiple times for a client
- DRS payment for goods and services the IPE states will be paid by the client
- Case files in which the vocational objective changed multiple times without explanation
- Clients given full tuition support for out-of-state college attendance, including one for law school

Case documentation concerns ranged from long periods of no contact to repeat purchases of similar items.

⁷ The IPE discusses, among other things, the specific employment outcome, the vocational rehabilitation services to be provided by VR, timelines for achieving the employment outcome, and client participation in services.

⁸ Some of the listed cases are repeats as there were multiple problems in a case.

Due to poor file documentation, there is no way of telling whether the actions were appropriate.

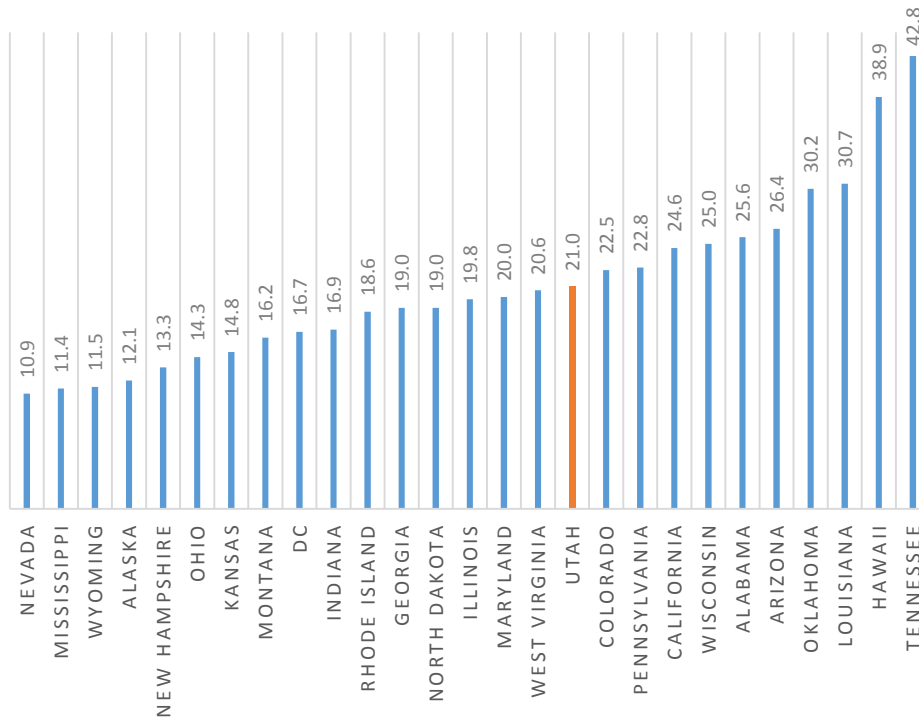
If appropriately documented, many actions taken may not be in question. Because the majority of these files were poorly documented, there is no way of telling whether the actions were appropriate.⁹ This poor documentation has contributed to cases that have been open for unnecessarily extended periods of time. Some of the most egregious examples of poor documentation and seemingly inappropriate decisions were cases in the selection handled by the Division of Services for the Blind and Visually Impaired (DSBVI).

Some Cases Have Remained Open for an Extended Time

Historically, Utah's VR cases remained open 21 months, equal to the average among states with similar organizational structure, and one month longer than the median among the same states. This review of closed cases' longevity, shown in Figure 2.2, indicates that Utah's system has kept clients in its system slightly longer than average to help clients accomplish their vocational objectives and close their cases.

⁹ It is worth noting that the one case without documentation issues is that of a USOR employee who also receives VR services.

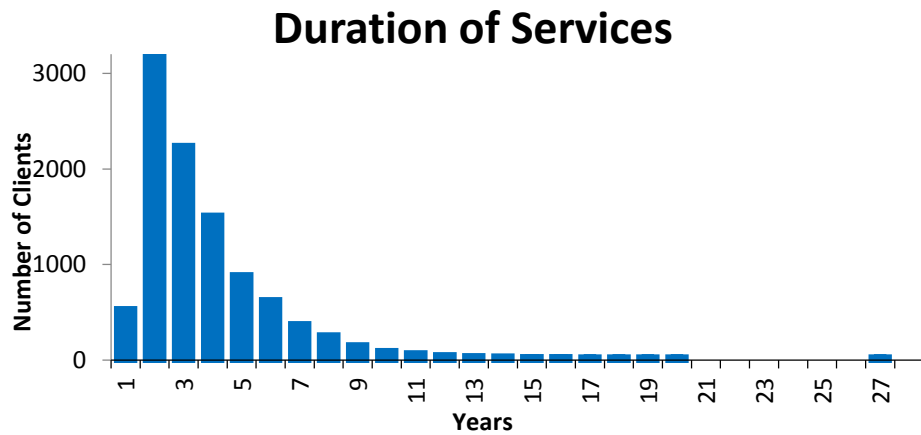
Figure 2.2 Utah Cases Were Open Longer Than 16 of 26 Similar Agencies. Numbers are in months and count only cases that had been closed as of federal fiscal year 2011.



Source: Federal RSA

Federal regulation allows that the state “may establish reasonable time periods for the provision of services...” as long as those limits do not preclude exceptions. As Figure 2.2 shows, in 2011 Utah took slightly longer than average to close cases. As Utah’s financial problems progressed, the information available demonstrates that case management was allowing cases to remain open longer than those in Figure 2.2. Figure 2.3 focuses on Utah’s open cases as of three years later in 2014, and shows the breakdown of how long current cases have been open.

Figure 2.3 Utah Cases Have Been Open an Average of 37 months as of State Fiscal Year 2014. The longest case open at the time the numbers were run had been open 26 years.



Source: USOR report, Fiscal Year 2014

As shown in Figure 2.3, most current cases have been open for two to five years (24 to 60 months), with the longest case open for 26 years.¹⁰ This is of greater concern than the length of closed cases shown in Figure 2.2. Clients with currently open cases who are receiving services have been in-plan an average of 3.12 years (37 months), approximately 16 months longer than the historical cases shown in Figure 2.2 took to closure. This can likely be attributed to current cases being open for extended periods (one for 26 years), which increases the average for open cases.

At least 16 other similar states shown in Figure 2.2 have successfully closed cases faster than Utah, and one state, Nevada, closes cases twice as fast as Utah. VR’s operations (currently open cases) over the last few years could change Utah’s placement in the figure. The trend of taking more time to reach case closure is important because the average amount spent per client, in total and by year, generally increases the longer a case is open, as seen in Figure 2.4.

¹⁰ This case was closed as of March 2016, after this audit reviewed the higher risk cases.

Of greater concern than closed case longevity is that open cases have been open an average of 37 months.

Nevada closes cases twice as quickly as does Utah.

Figure 2.4 On Average, the Longer a Case Is Open,¹¹ the Higher the Cost per Client. Cases open longer than five years cost, on average, at least \$8,000 more than those open less than five years.¹²

Case Length (Years)	Number of Clients	Percent of Clients	Average Cost per Client
Less than 5	8,236	84.23%	\$3,638
5-10	1,402	14.34	12,032
10-15	120	1.23	23,991
Greater than 15	20	0.20	28,733
Total	9,778	100%	\$5,143

**Source: USOR Current Client Data – Nov. 2015*

The average total cost expended per client shown in Figure 2.4 increases the longer a case has been open. In addition, the average yearly cost per client increases as case duration increases.¹³ The increasing cost of longer cases is further illustrated by the cases selected in our risk-based case sample. Figure 2.5 shows that, as would be expected, all the reviewed risk-based cases cost more than the average for cases closed in fewer than five years.

Total cost and average yearly cost increase the longer a case is open.

¹¹ For our purposes, an open case is defined as the time from when a client’s IPE is in place.

¹² We believe the average cost per client column is the most accurate estimate available, because of data concerns. Reports are run from USOR’s legacy case management system, which only kept aggregate numbers up to ten years. Because of this, anything over 10 years had to be reconstructed. USOR believes this problem will be solved by their new system, which has no time limit on data retention.

¹³ This holds for cases open less than 15 years. The average yearly case cost, for cases open longer than 15 years, remains above the average yearly cost, but is less than those open between five and fifteen years. Those cases open longer than 15 years become relatively inactive cases which skew the average.

Figure 2.5 Risk-Based Reviewed Cases Cost More per Client Than the Average Open Case. Each case costs significantly more than the \$3,638 average of cases open for less than 5 years.

Reason for Review	Time Open (Years)	Amount Spent	Difference from Less than 5 Year Average
Expense	8	\$173,723	\$170,085
Expense	12	150,327	146,689
Expense	5	139,383	135,744
Expense	10	109,537	105,899
Duration	19	101,301	97,663
Duration	19	24,288	20,650
Random over 5	5	16,976	13,338
Duration	19	11,787	8,149
Duration	26	11,711	8,073
Random over 5	5	6,009	2,370
Random over 5	5	5,330	1,692
Random over 5	6	4,191	552

In addition, all but three of these risk-based cases in Figure 2.5 cost more than the \$5,143 overall average cost per client, and on average cost over \$54,000 more.¹⁴

Other states are also concerned with the length of time cases are open and have taken steps to address their concerns. For example, Colorado recently experienced some of the same financial problems as Utah, and an audit was performed in 2013.¹⁵ This audit performed a similar risk sample and determined that “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 Colorado State Auditor determined that the problems occurred because the cases lacked:

- Thresholds on the amount of time a participant can receive services
- Procedures for ensuring service costs are reasonable and necessary
- Monitoring of participants’ duration in the program

¹⁴ This review did not review the significance of disabilities, which will likely also have an effect on the length and cost of a case.

¹⁵ Note that Figure 2.3 shows Colorado in essentially the same position as Utah as far as the time a case is open.

A Colorado audit confirms the same trend of increased costs with increased time.

We believe that, based on findings discussed above, USOR could also benefit from similar increased monitoring at a minimum.

Weak Review System Provides Little Control

Currently, little quality control review occurs on VR cases. The current review practices are neither frequent nor robust enough to ensure control. Current reviews also lack independence. Other states use or have been recommended to use improved case reviews to keep cases on track. In Utah, the Department of Workforce Services (DWS) uses a robust review system to ensure case accuracy. We recommend that USOR employ such a review system to improve both system-wide control and independence of quality reviews.

Current Case Reviews and Review Policies Are Insufficient

VR case reviews performed by USOR are neither independent nor frequent.¹⁶ The administrative offices randomly select one case per month per counselor for review. The counselor's supervisor reviews the case for documentation and approval issues, then informs the counselor of any problems that need to be remedied.¹⁷ In 2014, there were 136 counselors with an average caseload of 221.¹⁸ This means that, on average, a counselor would have 5 percent of their caseload reviewed every year. Given the previously discussed lack of documentation and oversight, the current level of review appears to be insufficient.

The insufficiency of the current review process is further demonstrated by looking at the high-risk case review. Figure 2.6 shows how many cases were reviewed for each high-risk case.

Case reviews are neither independent, nor frequent.

¹⁶ When we discuss case reviews in this report, we are referring to independent quality control reviews of cases in their entirety. USOR has an additional system of hierarchical reviews of case expenses and authorizations in which supervisors and district directors review specific expenses, or expenses over a certain spending limit. Counselors also review their own cases annually.

¹⁷ Because supervisors also carry a caseload, their monthly cases are reviewed by the district director.

¹⁸ This number includes supervisor caseloads, which lowers the average caseload size. Beginning in 2016, USOR is able to differentiate these two caseloads.

Figure 2.6 Most Cases Were Reviewed Once in Their History.
The longest open case was reviewed twice in 26 years.

Time Case Has Been Open (Years)	Number of Review Conducted
26	2
19	1
19	1
19	1
12	1
10	0
8	1
6	1
5	1
5	0
5	0
5	1

Source: Auditor case review

The longest open case in Figure 2.6 has only been reviewed twice in 26 years. Both reviews found that the case lacked annual reviews and IPE updates, and recognized major time gaps between documented communication with the client. The first review was performed in 1997 and the second in 2002, with no further review over the last 13 years. There also appears to have been little progress on this case.

In addition to lacking frequency, case reviews lack independence. The reviews are performed by direct supervisors, who are managing similar cases themselves and frequently approve purchases on their subordinates' cases. This type of system taxes supervisor independence as currently there is no one outside the individual offices or districts who reviews cases. With more frequent and independent reviews, we believe policy compliance can improve, addressing the concerns described in this chapter.

Other Entities Successfully Employ Reviews

Other case management entities, including other states' rehabilitation agencies, use or have been recommended to use quality reviews. DWS has long employed a Performance Review Team to maintain quality in its eligibility cases. DWS explains their role as performing the following:

- Conducting internal reviews
- Providing same-day case reviews

Reviews are performed by direct supervisors, who are performing similar work as counselors, with no separate independent review.

- Preventing benefits from going out incorrectly
- Providing a second pair of eyes on determinations
- Acting as a policy resource

DWS's team of 24 reviews 7 to 10 determinations per employee per month, and attempts to identify trends that need to be watched and corrected. This work has contributed to a 93 percent accuracy rate among cases as of May 2015. Because USOR is currently in the process of moving under DWS oversight, DWS will be able to lend its expertise in establishing a system of reviews.

As discussed earlier, Colorado recently experienced many of the same financial problems seen in Utah, leading to a similar audit there. When faced with many of the same findings, the Colorado State Auditor recommended the following:

[The Colorado State Auditor recommends] establishing and implementing an ongoing review process...to assess the appropriateness of continuing to serve participants who fail to meet employment outcomes and goals within the time frames and thresholds established.... This process should include implementing a methodology for reviewing and approving exceptions to the limitations...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.

Mississippi has also implemented an independent review process. In addition to regular reviews by internal auditors and the district managers, an outside department performs a quarterly case review.

While we are not specifying a timeframe for case closure reviews, we do see merit in increased scrutiny of cases that have been open for an extended period of time, and would encourage USOR to take these specific cases into account when designing a strengthened quality review system.

While an optimal system would include separate, independent case reviewers, we recognize that USOR has a limited budget. Because of this, we recommend that USOR implement increased quality reviews where possible and move toward an optimized system as its budget stabilizes.

DWS performs regular, independent reviews.

Colorado recommended establishing and implementing an ongoing review process.

USOR has begun to focus on increasing the number of case reviews.

USOR has started focusing on the process of increased quality assurance. Management is creating a Compliance and Quality Assurance Plan¹⁹ that will require four review components: pre-authorization of funds, file closure reviews, comprehensive monthly case reviews, and statewide annual case reviews. When implemented, the goal is for approximately 2,200 cases to be reviewed annually, which is approximately 10 percent of all open case files. We encourage USOR to refine and implement this system.

Policies Are Insufficient to Provide Controls and Consistency

In the years prior to USOR mismanaging its budget, USOR eliminated some policy controls over budgets. Specifically, the previously required individual counselor budgets over client expenditures were eliminated. This policy, and others, when enforced, should provide consistency to operations and decisions. We recommend USOR ensure that policies are updated and followed to ensure that controls function and decisions are consistent.

Some Controls Were Eliminated

VR counselors used to be required to keep detailed budgets on their own caseloads. These budgets were not to be strictly followed, as there was room for unexpected expenses and changes the population being served would need. Nevertheless, the budgets encouraged counselors to consider costs. In fact, current policy lists “managing client base budget” as one of the counselor’s responsibilities. Specifically, it requires the following:

Monitoring client base budgets to attain appropriate spending levels within levels within limits of appropriated budget. Budget projections may also be required for the coming year as well as clearing authorization and payment reports to zero balance at the end of the fiscal year.

This requirement, which remained in policy, was not enforced for a time. We have been told that the rationale for eliminating this

¹⁹ A copy of the Compliance and Quality Assurance Plan can be found as Appendix A.

Previously required counselor budgets were eliminated but, because of USOR’s financial difficulties, have now been reinstated.

requirement was that the only consideration for whether a client should receive a service is whether that service is necessary, appropriate, and reasonable.

We are encouraged to report that the requirement for counselor budgets was reinstated last year after the extent of the financial difficulties was made known. Counselors are required to project their costs for the year, and then monitor them to determine whether expenditures are appropriate and projections were accurate.

Policies Should Provide Consistency

Because our review shows instances in which policy was not followed, we are concerned with the consistency of decisions made for clients. A client should get the same services and results regardless of the counselor they are assigned to. Consistency is fostered by good policy and procedure that are followed and enforced.

In 2009, our office released a manual entitled *Best Practices for Good Management*. One of those best practices is implementing good policy and procedures. The manual advises agencies to “develop procedures to guide your staff in the implementation and day-to-day decision making relevant to your program’s goals and objectives.” The guidance continues by stating:

Perhaps the most important advice that comes out of our performance audit experience is that program policies:

- Need to be in writing
- Need to be distributed and readily available to all interested parties
- Need to be kept current through regular review and updating, and
- Above all, need to be adhered to.

USOR’s current policies are neither kept current, nor, as seen in this report, adhered to consistently. We believe our assessment concurs with guidance offered by the Committee of Sponsoring Organizations of the Treadway Commission, which was formed by private organizations to guide risk management, internal control, and fraud deterrence. Their guidance states that policy “...must be implemented thoughtfully, conscientiously and consistently. A procedure will not be

Policy must be in writing, readily available, current, and adhered to.

USOR recently hired both a compliance officer and a policy coordinator.

useful if performed mechanically without a sharp continuing focus on conditions to which the policy is directed.”

As part of its efforts to strengthen controls, USOR recently hired both a compliance officer and a policy coordinator. Some of the duties of these two positions are to oversee procedures that address some of the concerns expressed in this report, and include:

- Overseeing implementation of the newly created record review process
- Reviewing operations for effective controls and processes
- Maintaining a comprehensive compliance plan
- Developing and managing client service policies, procedures, and practices
- Providing training to staff on policies and procedures

Recommendations

1. We recommend that the Utah State Office of Rehabilitation improve documentation of case decisions and exceptions.
2. We recommend that the Utah State Office of Rehabilitation implement a more robust process of quality reviews, adding independence and frequency to the process.
3. We recommend that the Utah State Office of Rehabilitation maintain updated policy that counselors adhere to in order to ensure consistency of treatment.

Chapter III

Poor Documentation and Weak Policy Allow Misuse and Potential Waste

The Utah State Office of Rehabilitation (USOR) has lacked necessary documentation and management policy to prevent misuse and waste in the vocational rehabilitation (VR) program. Our review showed the lack of documentation, coupled with inconsistent enforcement Pell Grant policy, has resulted in ineffective use of VR post-secondary education costs. Additionally, USOR's documentation and identification of comparable benefits and financial need has been lacking. Finally, policy should be clarified and tightened as to clients who live out of state.

Poor Policy and Documentation of Pell Grant Awards Potentially Wastes Funds

Although USOR has policy in place, a lack of consistent adherence to the policy has led to ineffective use of USOR funds for post-secondary education costs, as shown in our review. Current documentation must be improved to ensure that policy is followed and funds are used prudently. Finally, USOR spends a larger percentage of total expenditures on higher education compared to other states. These concerns have led us to question the efficient use of funds used for higher education without controls and documentation.

VR Does Not Use Pell Grants to Reduce Cost of Attendance

Although USOR has a Pell Grant policy, it does not appear to be consistently followed by USOR counselors. Counselors poorly documented clients' initial applications, as well as the Pell Grant eligibility determination. In addition, we found that counselors rarely documented the amount the client would receive, the cost of tuition, the cost of books, and other education-related expenses. Finally, we found that, in many cases, USOR has paid for full tuition and books, regardless of Pell Grant decisions.

The following figure contains federal and USOR policies relating to Pell Grants.

USOR has not documented appropriately, nor followed its own policy.

Receipt and use of PELL Grants is poorly documented.

Figure 3.1 Federal and USOR Polices for Pell Grants. Federal and state policy both provide details about Pell Grants.

Source	Requirement
Code of Federal Regulations	“...No training or training services in an institution of higher education (universities, colleges, community or junior colleges, vocational schools, technical institutes, or hospital schools of nursing) may be paid for with funds under this part unless maximum efforts have been made by the State unit and the individual to secure grant assistance...from other sources...”
USOR Policy	“...[Clients] must apply for the Pell Grant prior to authorization of services...”
	“In all instances where USOR will be funding, in whole or in part, the cost of attendance, there must be third party verification of the individual applying for the Pell Grant...”
	“VR Counselors need to document the client’s actual expenses and expected use of the Pell, and then follow up to determine that funds were expended as expected.”
	“All Pell Grant monies shall be encumbered to offset the client’s cost of attendance before any vocational rehabilitation funding will be authorized for that purpose.”

Source: USOR Client Services Manual and CFR Section 361.48(f)

Our review of cases found two concerns: first, counselors rarely documented whether a client has applied for a Pell Grant prior to authorizing a payment and second, in many cases counselors paid full tuition regardless of Pell Grant decisions. In our selection of high-risk cases, 11 of 12 received assistance for their post-secondary education costs; in only 6 of those cases, the counselor documented the Pell Grant application prior to authorization.²⁰ In 7 of the 11 cases, VR paid full tuition despite clients receiving Pell Grant awards. In addition, the review of 36 randomly selected cases found that 10 clients had post-secondary schooling as part of their rehabilitation.²¹ Of these ten cases, VR paid tuition for eight clients and only four cases documented the client’s application for grant assistance.²²

²⁰ In three cases, documentation was provided after schooling was paid.

²¹ For a more detailed description of the cases reviewed, see Chapter I.

²² Two of ten clients had yet to enroll in school.

Despite evidence of a PELL grant, VR still paid full tuition.

Without documentation, USOR cannot ensure that the counselors and clients are making maximum efforts to secure grant assistance. In addition, we found there was a lack of documentation to ensure the client was taking the proper classes, making progress in school, checking grades, and, often, the counselor did not document the cost of books. This documentation is important to ensure the client is meeting the goals outlined in their Individualized Plan for Employment (IPE). It is also important to ensure that USOR is paying for appropriate, necessary items. Overall, poor documentation of grants and authorizations to post-secondary schooling gives little confidence in the process to ensure efficient use of VR funding for higher education.

It is interesting to note that Pell Grant documentation was stronger for risk-based cases which have, in general, been open longer. The Pell Grant documentation for the majority of those cases was obtained some time ago, which suggests that documentation requirements may have become more lax in recent years. This lax behavior has resulted in VR, at times, paying the full cost of tuition regardless of the amount of Pell Grant assistance.

In one case, we found the client received a partial Pell Grant totaling \$1,498. This award reduced the amount owed for tuition from \$2,992 to \$1,599. However, the counselor still paid the full \$2,992, allowing the client to receive the full grant amount from the university to use for other expenses. The counselor paid tuition in full the prior two semesters but there was no documentation of grant assistance or grant application. In total, USOR paid \$7,588 for books and tuition for just three semesters.

In another case, a client's IPE stated that USOR would pay for tuition and books, while the client would use the Pell Grant for tutoring services. Despite being awarded a Pell Grant, the VR counselor paid for a tutor the entire time the client was in school. A later counselor asked the client to show how the Pell Grant funds had been used. This information was never provided, but USOR continued to offer services.

Other surrounding states have more stringent policies pertaining to Pell Grant use. Arizona and Nevada require Pell Grant awards to go to education costs first. Arizona's policy states, "The client is expected to use Pell Grant monies to pay for tuition, books, supplies, etc. first."

Documentation practices seem to have become more lax in recent years.

Surrounding states have stricter Pell Grant use policies.

Nevada states that the financial award letter should be in the file for each academic year and that “Pell Grants must be applied directly to the cost of tuition, books or supplies.” Having a strong, clear policy will help ensure that VR funds are used efficiently for post-secondary education. USOR should have clearer policy on what VR will pay for when client receives a Pell Grant.

USOR Spends a Large Portion of Funding on Post-Secondary Education

Compared to surrounding states, Utah, on average, supports the highest percentage of both clients and expenditures in post-secondary institutions of higher education. Figure 3.2 compares percent of both state spending and clients enrolled in post-secondary education.

USOR spends a large portion of expenditures on post-secondary education.

Figure 3.2 Average Percentage of VR Spending and Client Participation at Post-Secondary Institutions (2009 to 2013).

Utah spends a significantly higher percentage of its VR funds on post-secondary education compared to surrounding States.

States	Percent Spent on Higher Ed.	Percent of Clients Enrolled in Higher Ed.	Percent Spent on Voc. Ed.	Percent of Clients Enrolled in Voc. Ed
Utah	30.3%	22.3%	10.5%	23.1%
Idaho	15.9%	14.9%	16.2%	18.9%
Arizona	14.2%	20.5%	6.4%	17.6%
Washington	11.6%	12.2%	4.0%	8.2%
Nevada	7.3%	8.5%	0.3%	13.9%
Colorado	7.1%	9.8%	2.0%	7.7%
Oregon	5.8%	11.7%	5.6%	18.2%
Average	13.6%	15.0%	5.6%	15.6%

Source: Rehabilitation Service Administration

This figure shows the stark differences in proportioned spending for higher education among surrounding states and emphasizes the importance of efficient use of USOR funds. Utah proportionally uses far more of its funds on higher education services. As a percentage of total expenditures, Utah spends nearly twice as much as the next closest state on higher education; however, only marginally more clients are enrolled in higher education, as a percentage of total clients.

From 2009 to 2013, USOR’s educational expenditures, on average, were eighth highest nationally as a percentage of total expenditures.²³ However, Utah supports the ninth most clients attending institutions of higher education as a percentage of total clients. In 2009, over a third of USOR’s spending was on post-secondary education, which has since continually decreased. We believe this data illustrates the previous culture of a lack of prudence with funds,²⁴ and the office’s new focus on controlled spending. The following table describes the VR expenditures for post-secondary institutions in 2014.

Figure 3.3 Paid Services for College and Vocational Training. Paid services for university/junior/community college training accounted for nearly 24 percent of expenditures in fiscal year 2014.

2014 Paid Services	Amount Authorized	Percent of Expenditures
University/ Junior/Community College Training	\$ 4,406,407	23.79%
Occupational or Vocational Training	\$ 2,188,274	11.81%
Total Expenditure	\$ 18,522,715	

*Source: USOR FY2014 Authorizations
Other High Cost Services: On-the-Job Supports – Short term 11.08% and Psychological Treatments 8.27%*

The largest two spending categories for VR are higher education and vocational education for which federal financial aid is available. It is not inherently a problem that USOR spends a large portion of its expenses on post-secondary education. However, it does lead to questions whether USOR uses federal grants available to offset the cost of attendance for clients. USOR should have better documentation and controls to ensure federal financial aid assistance is used to offset clients’ cost of attendance at higher or vocational education institutions.

USOR’s educational expenditures were the 8th highest nationally as a percent of total expenditures.

Better documentation and controls are necessary to ensure that federal financial aid offsets the cost to VR.

²³ Comparing states with similar structures.

²⁴ Detailed in previous audit report, 2015-10.

Search for Comparable Benefits Should Be More Rigorous

Comparable benefits are services provided by other funding entities or agencies that offset the cost to VR. Using comparable benefits and services reduces the cost of rehabilitation to VR and gives the client additional resources to increase the likelihood of a successful exit. Pell Grants (discussed above) are specific comparable benefits that have the potential for large impact. This section focuses on comparable benefits as a whole.

The *Federal Code of Regulations* (FCR) emphasizes that comparable services and benefits must be used to “...meet, in whole or part, the costs of the vocational rehabilitation services.” The VR client service manual states the objective of comparable benefits is “...for the state VR agency to give full consideration to alternative funding sources prior to spending VR funds to purchase specific client services.” The only consistent documentation of comparable benefits available to clients we found is in the initial comprehensive assessment. We found it concerning that there was little to no documentation of a search for comparable benefits after the initial application search.

We found only three cases where there was no documentation of a search for comparable benefits and services. However, in 29 of the 36 cases, we found that the IPE required the client to “search and use all comparable benefits available.” A representative from the Federal Rehabilitation Service Administration expressed concern that this system puts the onus on the client. He stated it is generally understood that the VR agency is supposed to search for comparable benefits.

USOR recently implemented new case management software that appears to be able to assist in documenting the search for comparable benefits. The counselor will be prompted with a checklist of common comparable benefits. Although an excellent first step, the list is not comprehensive and does not ensure that counselors have made a sufficient and ongoing effort to search for comparable benefits.

Colorado’s policy requires the counselor to “...document the search and availability of comparable benefits and services,” and goes on to say, “the case note in the client record shall contain evidence of the conduct and outcome of a comparable services and benefits search prior to the expenditure of DVR funds...” Colorado emphasizes that

The *Federal Code of Regulations* requires that comparable benefits be used to meet the cost of VR services.

USOR’s new case management system can improve the search for and documentation of comparable benefits.

the search is not a one-time event and should reoccur. Nevada emphasizes the need to use comparable benefits and services throughout its manual. We believe USOR should implement improved policy and processes to ensure counselors are considering all comparable benefits for clients specific to their rehabilitation goal.

With the recent decision to move USOR to the Department of Workforce Services (DWS), we believe USOR's ability to search for many comparable benefits and services will be enhanced. DWS oversees many of these comparable benefits and services, which would likely allow for an easier process for the counselor and client to find and apply for these services.

Financial Needs Assessment Process Should Be Improved

USOR incorrectly cites Utah statute as prohibiting the inclusion of parental income in the Financial Needs Assessment (FNA) when clients are 18 years or older. In addition, USOR does not verify any financial information provided in the FNA. While FNAs are not required by federal law, Utah statute requires USOR to determine if the client is able to contribute financially to nonexempt services.

State Statute Does Not Prohibit Use of Parents' Income

USOR policy states that once a client is 18 years or older, financial need shall be based on the client's income only. USOR attributes this policy to *Utah Code* 15-2-1, which defines the period of minority to end at the age of 18. However, this section of statute does not, in fact, prohibit USOR from including parental income in a financial needs test. When asked about this rule, the Office of Legislative Research and General Council stated the following:

The statute does not address how to apply or calculate parental income for a financial needs test, and thus does not require the Utah State Office of Rehabilitation to exclude parental income in such a test.²⁵

Utah Code does not prohibit the consideration of parental income when determining a client's financial need.

²⁵ A copy of this entire opinion can be found as Appendix B.

Some states can, in some circumstances, include parental income in financial need determinations.

A review of nearby states' policies found that Arizona, Colorado, and Washington require parental income if the clients have been claimed as a dependent on their parent's most recent federal tax return. Nevada will only consider parental income in cases where clients will be receiving support for post-secondary education. USOR should adopt a policy that is similar to surrounding states' policies pertaining to counting parental income in FNAs.

No Verification of Financial Information Required

Currently, USOR does not require verification of financial income. USOR information relies on clients' self-reported monthly income and expenses; USOR counselors then use this information to decide if the client is able to contribute financially. In addition to this verification concern, we found that only half of the applicable cases reviewed had updated the FNA annually. USOR policy requires that financial need be re-evaluated annually or whenever financial circumstances change.

Surrounding states require verification of reported financial need.

In a review of surrounding states' policies, we found that Arizona, Colorado, Idaho, Nevada, and Washington require documentation for their financial needs tests. Arizona and Nevada use adjusted gross income from federal tax returns. The federal tax return also provides the counselor with the number of dependents. Colorado and Washington use tax returns as sources of verification when available. Idaho's sources of verification are IRS tax filings, pay stubs, and other documentation of benefits. We believe that USOR should require verification of the financial information provided during clients' annual needs assessments. DWS has the ability to verify income through their databases, which we believe would improve USOR's process.

Recommendations

1. We recommend that the Utah State Office of Rehabilitation strengthen and enforce policy to ensure better documentation and controls over funds used for higher education.
2. We recommend that the Utah State Office of Rehabilitation ensure that financial aid applications have been submitted and decisions have been fully documented.

3. We recommend that policy and processes be put in place to ensure comparable benefits have been searched for and documented.
4. We recommend that USOR include parental income for applicable clients in annual financial needs assessments.
5. We recommend that the Utah State Office of Rehabilitation perform verification of income provided by client and ensure that the financial needs test is completed correctly and updated annually.

Appendices

Appendix A

Compliance and Quality Assurance Plan

The Quality Assurance Plan is developed by the USOR Compliance Officer and the Client Service Management Team under the direction of the DRS Director. The plan will assess key stages of a client record life cycle to ensure the following: proper authorization and administration of services; client services are conducted in accordance to RSA and WIOA requirements; review tools are effectively performed; identified errors will address the efficiency and effective of control processes, training, and review tools. The plan will consist of four components: 1) pre-authorization of funds, 2) file review at closure 3) comprehensive monthly client record reviews, and 4) annual statewide assessment of the comprehensive monthly client record reviews.

- 1. Pre-authorization of funds:** Once a VR Counselor identifies a need for a paid client service, Supervisors will review and approve the service. Authorizations will be reviewed for completion and signatures. The review will ensure that the service or good is part of the Individualized Plan for Employment (IPE) and that all applicable policy has been followed.
- 2. File Closure Review:** Supervisors will conduct file closure reviews to certify clients are “closed” in accordance to the Client Service Manual (CSM). They will identify closure patterns, trends, or issues for process improvement and training needs. Supervisors will verify that proper steps are taken by the VR Counselors when terminating services and will review both successful and unsuccessful closures.
- 3. Comprehensive Monthly Case Reviews:** The monthly reviews will consist of randomly selecting cases for review for the first two months and a targeted case review for the final month per quarter. The cases will include open cases with an established IPE and client records closed within the current federal fiscal year. The targeted case review will examine high risk areas, exceptions identified in the AWARE case management system, or concerns identified by DRS client service management team. At the end of the year, approximately 2200 cases will be reviewed, which represents approximately 10% of all case files. The Comprehensive Monthly Client Record Reviews will specifically examine proper administration of Pell Grants, comparable benefits, case documentation, high dollar transactions, IPE service provisions, successful/unsuccessful case closures, and appropriate authorization of goods and services.
- 4. Statewide Annual Case Review:** A sample of all cases reviewed throughout the year will be re-examined by a team of independent reviewers and the Compliance Officer. The reviewers will examine the conclusions and determinations made in the supervisory reviews throughout the year, substantiate the review process, and identify opportunities to improve client service management. When process improvement opportunities are identified, the VR Policy Coordinator will ensure policies are revised and employees are trained on all policy changes. The Compliance Officer will ensure the review process is complete, consistent, and reduces the overall risk exposure to the agency administration of vocational rehabilitation program.

Appendix B



Michael E. Christensen
Director

John L. Fellows
General Counsel

Memorandum

To: Leah Blevins

From: Rebekah Bradway, Associate General Counsel
John Fellows, General Counsel

Date: January 6, 2016

Re: Legal Opinion Responding to Your Request

This memo responds to your request for an opinion on the following question:

Question: Does Utah Code § 15-2-1 prohibit the Utah State Office of Rehabilitation from including the income of a client's parents in a financial needs test if the client is over 18 years old and lives with his or her parents?

Answer: No.

Utah Code section 15-2-1 states the following:

The period of minority extends in males and females to the age of 18 years; but all minors may obtain their majority by marriage. It is further provided that courts in divorce actions may order support to age 21.

The plain reading of the statute defines the period of minority for individuals. "Minority in this context is a legal status that limits the legal capacity of those within the status, minors. The limitations are intended to protect minors from themselves, based on the premise that minors are youthful, improvident, and subject to the influence of others."¹ While a parent generally may not be compelled to financially support a child who has reached majority,² Utah Code section 15-2-1 does not contemplate or limit the ability of a parent who chooses to do so. The statute does not address how to apply or calculate parental income for a financial needs test, and thus does not require the Utah State Office of Rehabilitation to exclude parental income in such a test.

¹ *State, ex rel. K.G.C.*, 987 P.2d 1272, 1275 (Utah Ct. App. 1999).

² *See id.* at 1276 (finding when a child reaches majority, her "parents have no legal responsibilities for her actions and are subject to no financial obligations which may be imposed on her by the court); *Carlson v. Carlson*, 584 P.2d 864, 865 (Utah 1978) ("[W]hen a child reaches the age of majority, the child becomes emancipated and the legal obligation of the parents to support the child and the reciprocal legal obligations of the child to the family, terminate.").

Agency Response



**UTAH STATE
OFFICE OF
REHABILITATION**

Darin Brush
Executive Director

250 East 500 South
P.O. Box 144200
Salt Lake City, UT
84114-4200

Voice/TTY (801) 538-7530
Toll-Free 1-800-473-7530
Fax (801) 363-0863

www.usor.utah.gov

15 April 2016

John Schaff, Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114

Dear Mr. Schaff,

We appreciate the review conducted by the Office of Legislative Auditor General, and the opportunity to respond. The issues identified in the audit report confirm some of our concerns with the Utah State Office of Rehabilitation (USOR) Vocational Rehabilitation program. We appreciate that the report acknowledges some of the efforts we have already made to align processes, implement controls, and enhance our review system to ensure effective and efficient administration of the program. We are confident that as we further focus on the issues, we will continue to strengthen the Vocational Rehabilitation program and provide even better management and oversight of the program funding.

Chapter 2 Recommendations

Recommendation 1: USOR agrees that case file documentation must be improved. Vocational Rehabilitation counselors have recently been trained on improving documentation of case actions and activities in the new case management system, AWARE. USOR is committed to ongoing counselor training and subsequent case monitoring and review to improve case file documentation.

Recommendation 2: USOR agrees that a more robust process for case file review is needed. USOR is implementing a new review process that will examine approximately 10% of all active cases every 12 months. The review process will be facilitated by the USOR Compliance Officer to ensure that reviews are adequate, representative, and that they address potential high risk vulnerabilities to the Vocational Rehabilitation program while increasing review objectivity and independence.

Recommendation 3: USOR agrees that policies must be updated to assure every client receives consistent treatment. USOR recently hired a Vocational Rehabilitation Policy Coordinator to review, update and improve existing policies as needed. The coordinator position is essential to ensure policies are updated to reflect new federal and state compliance requirements.

Chapter 3 Recommendations

Recommendation 1: USOR agrees that better documentation is needed to ensure that funds are expended appropriately for higher education costs. USOR will review policies and strengthen controls to ensure proper administration and improved documentation when Vocational Rehabilitation funds are used for higher education expenses. USOR will conduct ongoing case reviews to assure that policy is appropriately and consistently applied.

Utah State Board
of Education

Sydnee Dickson
Interim Chief
Executive Officer

Recommendation 2: USOR agrees that financial aid applications must be submitted by clients when appropriate, and that Vocational Rehabilitation counselor decisions must be fully documented. Current USOR policy requires counselors to verify that financial aid applications are submitted by clients when appropriate, and that counselors update third party verification of financial aid assistance determinations in AWARE. Counselors have received additional training on appropriately documenting financial aid decisions. These decisions will be reviewed regularly by Vocational Rehabilitation program management to ensure compliance with policies and procedures.

Recommendation 3: USOR agrees that its policy must require a search for comparable benefits, and that the search must be appropriately documented. USOR will review current policy to ensure compliance. USOR will also provide additional Vocational Rehabilitation counselor training on thorough documentation, as well as initial and ongoing comparable benefit searches and reviews. Vocational Rehabilitation program management will periodically review the effectiveness of this training.

Recommendation 4: USOR appreciates the clarification in the audit regarding options which may be available to USOR for the inclusion of parental income when assessing financial need. USOR will investigate options available within the Vocational Rehabilitation program by examining models used by other states, reviewing federal and state regulations, discussing options with the federal oversight agency, and soliciting public input (as is required by federal regulation).

Recommendation 5: USOR agrees that independent verification of client income would assist Vocational Rehabilitation counselors in completing financial needs tests accurately and updating financial information annually. USOR will work with the Utah Department of Workforce Services (DWS) to identify applicable wage data available from DWS, and attempt to develop a data system interface which will provide Vocational Rehabilitation counselors with wage data on shared clients automatically and routinely.

Again, thank you for the review of the Vocational Rehabilitation program. We look forward to implementing the recommendations and improving the program's efficacy.

Respectfully,



Darin Brush
Executive Director