

Utah State Board of Education – Audit Brief 15-05

2015

Utah State Board's Office of Rehabilitation VR Targeted Case Review

Objective and Scope: Internal Audit (IA) reviewed the Utah State Office of Rehabilitation's (USOR) client files to verify compliance with relevant rules, regulations, policies and procedures and consider allegations of potential fraud, waste, and abuse within the Vocational Rehabilitation (VR) program. In addition to gaining an understanding of USOR's processes, 21 clients' files and 138 related authorizations (i.e., provisions for goods or services) were reviewed in detail within the areas of eligibility, micro-enterprise (i.e., self-employment), and allowable costs and activities. Because this audit was based on allegations we did not project the results to the larger client file population.

Concerns with Vocational Rehabilitation

In each of the 21 clients' files reviewed Internal Audit identified non-compliance, lack of internal controls, or other concerns. Areas of non-compliance, lack of internal controls, and other concerns include:

- Maximum effort to secure grant assistance to pay for post-secondary education
- Consideration of comparable benefits
- Third party verification of receipt of PELL grant
- Documentation on use of PELL grant funds
- Financial needs test reasonableness
- Documentation and application of client financial participation
- Annual review of financial need
- Elements of the financial need forms
- Allowable costs per federal regulations
- Compliance with Utah State procurement code
- Application of maintenance criteria when determining services
- Compliance with payment for services according to the approved fee schedule
- Consideration of unaccounted for funds when continuing payment for services
- Required levels of approval
- Collection of receipts for direct authorization
- Retroactive authorizations
- Reclamation of unused equipment
- Proper approval for payment of repeat classes/training
- Timely development of the IPE
- Annual review of the IPE
- Inclusion of service on the IPE
- Accountability for client evaluation criteria in the Individualized Plan for Employment (IPE)
- VR Counselor signature on the IPE
- Removal/Documentation of services included in IPE that were not provided
- Inclusion of the actual service provider on the IPE

- Vocational goal on the IPE according to the client's informed choice
- Separation of duties
- Policies and procedures
- Cash management requirements
- Compliance with written policy and procedures for payments
- Justification for a direct client authorization
- Eligibility letters sent within 60 days
- Eligibility determination within extension timeframe
- Business plan documentation
- Documentation of monitoring and follow-up of self-employment plans
- Contact of VR agency in the state of the out-of-state training
- Documentation of client identification
- Required forms for Receipt of Equipment/Prosthetic Appliance

The report also includes several observations related to the VR program that may be considered by the management team.

Internal Audit Recommendations:

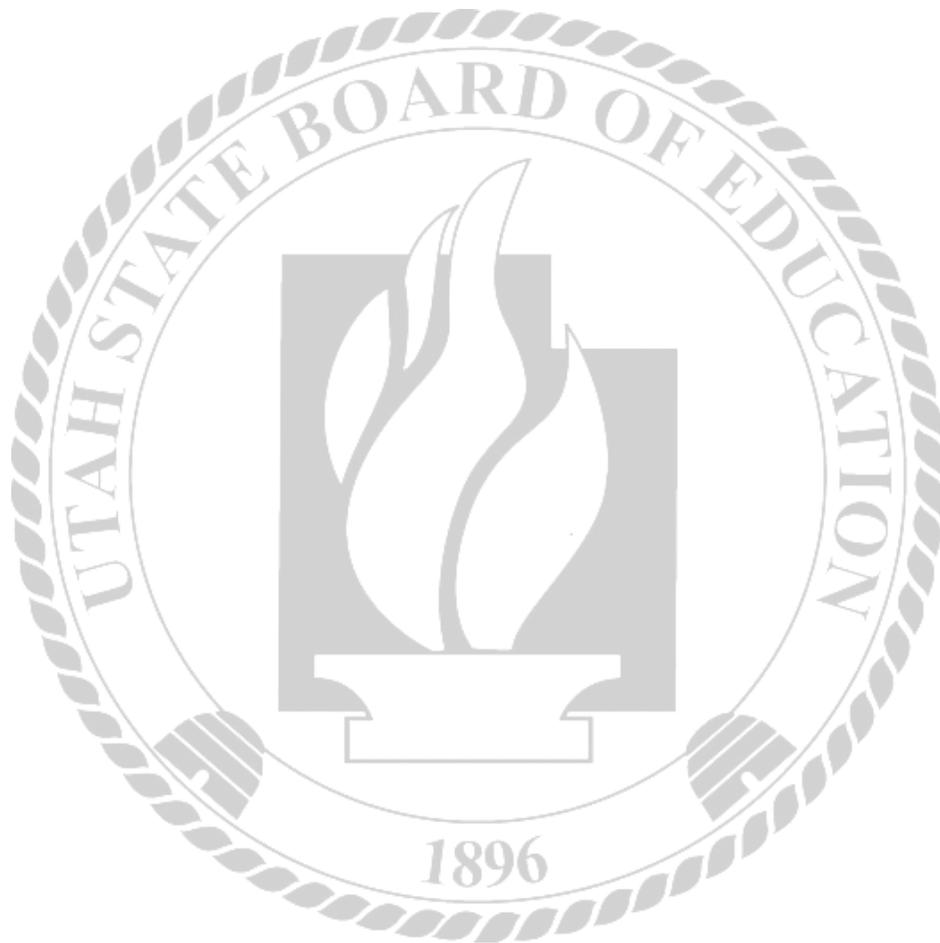
- Ensure documentation is adequate to support decisions
- Follow established USOR policies found within the client service manual
- Develop and implement new policies as outlined
- Train staff on existing USOR policies and any new policies to ensure they are effectively implemented
- Ensure internal controls are operating effectively, including appropriate separation of duties among DSBVI staff

Utah State Board of Education

Report No.

2015-05

VOCATIONAL REHABILITATION TARGETED CASE REVIEW



USB E Internal Audit Department

Report 2015-05

February 14, 2016

Darin Brush, Executive Director
Utah State Office of Rehabilitation
250 East 500 South
Salt Lake City, Utah 84114

Dear Executive Director Brush:

The Utah State Board of Education (the Board) Administrative Rule 277-116-3 authorizes the Board's Internal Audit Department (IA) to perform audits as outlined in the audit plan approved by the Board. IA performed a targeted audit of the Utah State Office of Rehabilitation's (USOR) Vocational Rehabilitation (VR) case files following numerous hotline allegations of misconduct within the VR program. IA obtained relevant documentation from the Division of Rehabilitation Services (DRS), the Division of Services for the Blind and Visually Impaired (DSBVI), the Division of Administrative Services (DAS), and the Utah State Office of Education (USOE) and performed the following procedures:

- Reviewed allegations regarding the Vocational Rehabilitation (VR) program
- Analyzed allegations to identify alleged areas of concern within the VR program
- Gained an understanding of the federal and state regulations and USOR policies and procedures governing the areas of concern within the VR program
- Received access to and training on applicable electronic applications and paper files
- Reviewed client files in the areas of eligibility, micro-enterprise (i.e., self-employment), and allowable costs and activities

We have identified the above procedures performed by IA, the findings and recommendations resulting from those procedures are included in this report. These procedures were restricted to targeted VR case files and are more limited than would be necessary to express an audit opinion on overall compliance or the effectiveness of internal control or any part thereof. Accordingly, we do not express such opinions.

Audits are conducted in accordance with current *International Standards for the Professional Practice of Internal Auditing*. IA is in process of implementing the peer review quality assurance requirements by those standards.

We appreciate the courtesy and assistance extended to us by the personnel at the USOR throughout the course of this audit. USOR's response to the audit is included on page 28.

By its nature this report focuses on exceptions, weaknesses, and problems; these emphases should not be construed to mean there are not also various strengths and accomplishments within the USOR program.

This report is intended solely for the information and use of USOR and the Board and is not intended to be, and should not be, used by anyone other than these specified parties.

If you have any questions, please contact me at (801) 538-7639.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Davis". The signature is written in black ink on a light-colored background.

Deborah Davis, CPA
Internal Audit Director, Utah State Board of Education

Cc. Dr. Sydnee Dickson, Interim State Superintendent of Public Instruction

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BACKGROUND, OBJECTIVE, SCOPE, FINDINGS, AND RECOMMENDATIONS

I. BACKGROUND

Utah State Office of Rehabilitation

The Utah State Office of Rehabilitation's (USOR) mission is to assist eligible individuals with disabilities in obtaining employment. One of the ways USOR accomplishes this mission is by offering vocational rehabilitation (VR) services through the Division of Rehabilitation Services (DRS) and the Division of Services for the Blind and Visually Impaired (DSBVI). VR is governed by federal, state, and agency regulations and there are many policy decisions to be made to most effectively serve individuals within the scope of the mission of the program.

II. OBJECTIVE AND SCOPE

Internal Audit (IA) reviewed USOR client files to verify compliance with relevant rules, regulations, policies and procedures and consider allegations of potential fraud, waste, and abuse within the VR program. In addition to gaining an understanding of USOR's processes, 21 clients' files and 138 related authorizations (i.e., provisions for goods or services) were reviewed in detail within the areas of eligibility, micro-enterprise (i.e., self-employment), and allowable costs and activities.

III. FINDINGS AND RECOMMENDATIONS

In each of the 21 clients' files (i.e., hardcopy, electronic) reviewed (100%), IA identified non-compliance, lack of internal controls, or other concerns; below are IA's identified findings and recommendations.

A. Comparable Benefits

- i. Maximum effort was not made to secure grant assistance to pay for post-secondary education

Criteria: 34 CFR §361.48 Scope of vocational rehabilitation services for individuals with disabilities states:

(f) Vocational and other training services, including personal and vocational adjustment training, books, tools, and other training materials, except that 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 in whole or in part from other sources to pay for that training.

RSA-PAC-88-05 Program Assistance Circular states:

It is clear from these provisions that Congress intended that VR clients avail themselves of the numerous grants and student assistance programs which are available to pay for higher education before VR program funds are used to pay these costs. The language “maximum efforts,” although not defined in the Act, indicates that a VR client should make every attempt to secure assistance for post-secondary education from these other sources, and that the use of limited VR funds to pay these costs should be a last resort.

Condition: In five of the six client files that received PELL grant assistance (83%), VR did not make maximum effort to secure grant assistance to pay for post-secondary education.

Cause: VR Counselors may help clients secure grant assistance; however, VR Counselors are not ensuring that said assistance is used to pay for post-secondary education.

Effect: PELL grant funds are first sent to the institution of higher education (IHE), the entity then applies the funds to outstanding obligations on the student’s account; if there are excess funds they are then distributed to the student. USOR paying the same costs that PELL covers may have the effect of making the IHE a pass through conduit of public funds directly to the client. Additionally, if the IHE has applied grant/scholarship funds to student obligations before USOR would pay for those services, and USOR still pays for those services, then USOR could be paying for unallowable services. Post-secondary education expenses that should be covered by secured grant assistance (i.e., PELL Grant) are actually being paid with limited VR funds. Thus making VR non-compliant resulting in potentially unallowable costs.

Recommendation: IA recommends USOR discontinue the practice of paying for tuition, fees, books, and supplies for clients who have received PELL grants until the PELL grant has been applied to said costs. Once the client and/or institution of higher education has encumbered the PELL grant in total, if there is a remaining balance, USOR could then apply limited VR funds to help cover any VR related costs, thereby ensuring USOR has made maximum effort to secure grant assistance to pay for higher education costs and is the payer of last resort.

ii. Comparable benefits were not considered

Criteria: 34 CFR §361.53 Comparable services and benefits states:

The State plan must assure that prior to providing any vocational rehabilitation services, (c) Provision of services. (1) If comparable services or benefits exist under any other program and are available to the individual at the time needed to ensure the progress of the individual toward achieving the employment outcome in the individual's IPE, the designated

State unit must use those comparable services or benefits to meet, in whole or part, the costs of the vocational rehabilitation services.

CSM 9.2 Before USOR provides any paid VR services to an eligible individual...USOR must determine whether they are available under any other program and whether they are available to the individual. If comparable services or benefits exist...USOR shall use those comparable services and benefits to meet in whole or in part, the cost of vocational rehabilitation services.

Condition: In three out of 21 client files reviewed for allowability (14%), comparable benefits were not considered, which resulted in \$32,813.33 of questionable and/or potentially unallowable costs. In all three cases, clients had disclosed the fact that they had medical insurance, but in all three cases the medical insurance was not consulted to see what costs could be covered by insurance.

Cause: VR Counselors failed to comply with internal policy and procedures regarding the consideration of comparable benefits.

Effect: Increased risk of non-compliance and waste of federal and state resources may occur, which in turn limits the number of clients USOR can serve.

Recommendation: IA recommends USOR adequately train staff with regard to comparable benefits. USOR may also consider including prompts within the new AWARE case management system to ensure counselors consider comparable benefits before proceeding with authorizations.

iii. Lack of third party verification of PELL grant

Criteria: CSM 9.8 (2005-2006) CSM 9.5 (2011) CSM 9.6 (2012) PELL Grant states:

1. In all instances where VR 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 or other comparable services or benefit. Verification must be in the form of one of the following: a. Computer verification obtained through website of Financial Aid Office or other written confirmation from Financial Aid Office. b. Verification of PELL application, including client's index eligibility number obtained by mail or from website of federal financial aid agency. c. Copy of award letter to client.

Condition: In three out of 11 client files that applied for PELL grant funds (27%), the VR Counselor failed to obtain third party verification of PELL grant awards.

Cause: VR Counselor did not verify client's statement through third party verification.

Effect: USOR could inappropriately fund training at institutions of higher education resulting in questionable or potentially unallowable costs. Furthermore, USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR implement appropriate internal controls in AWARE which ensure verification of comparable benefits prior to the authorization of applicable services.

iv. Lack of documentation on use of PELL grant

Criteria: CSM 9.6 (B)(4)(c) (2012) Comparable Benefits-Documentation states:

The VR Counselor must document the extent comparable services and benefits were used in each section of the Individualized Plan for Employment (IPE) in IRIS. If additional space is needed, refer to an R-II entry. 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.

CSM 9.6 (4) (2012) states:

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.

Condition: Five of the six client files reviewed for PELL grant assistance (83%) did not document the actual use of awarded PELL money.

Cause: VR Counselors did not abide by established policies and procedures with regard to PELL grant documentation.

Effect: USOR is the payer of last resort with respect to training at institutions of higher education. Without proper documentation of PELL monies, there is no way to verify if USOR was indeed the payer of last resort, which could ultimately result in unallowable costs and non-compliance with federal regulations.

Recommendation: IA recommends USOR design and implement procedures on how to document the use of comparable benefits (e.g., PELL grants) in order to ensure compliance with policy.

B. Financial Needs

i. Unreasonable financial needs test

Criteria: UC 53A-24-106 Public funding of vocational rehabilitation and independent living rehabilitation services states:

Public funding of vocational rehabilitation and independent living rehabilitation services may only be provided to eligible individuals who are found to require financial assistance with respect to those services.

34 CFR §361.54 Participation of individuals in cost of services based on financial need states:

(2) If the State unit chooses to consider financial need—

(i) It must maintain written policies—

(A) Explaining the method for determining the financial need of an eligible individual; and

- (B) Specifying the types of vocational rehabilitation services for which the unit has established a financial needs test;
- (ii) The policies must be applied uniformly to all individuals in similar circumstances;
- (iii) The policies may require different levels of need for different geographic regions in the State, but must be applied uniformly to all individuals within each geographic region; and
- (iv) The policies must ensure that the level of an individual's participation in the cost of vocational rehabilitation services is—
 - (A) Reasonable;
 - (B) Based on the individual's financial need, including consideration of any disability-related expenses paid by the individual; and
 - (C) Not so high as to effectively deny the individual a necessary service.

Condition: Since 2011, USOR has implemented an unreasonable financial needs test to identify individuals who require financial assistance within the VR program.

Cause: In 2011, to determine financial need for an individual in Utah, USOR implemented the Department of Labor's Lower Living Standard Income Level for Honolulu Hawaii, which averaged 20% higher than LLSIL for the West.

Effect: USOR's financial need policy decision lowered the threshold to qualify for financial assistance, thereby lowering client's financial participation to the costs of their VR program and potentially increasing the need for public funds to cover client costs.

Recommendation: Upon identifying this concern and discussing it with USOR, USOR immediately took steps to revise the LLSIL used in the financial need calculation and is now currently using the West LLSIL. Further policy considerations regarding USOR's financial needs test could include: geographical regions, 70% vs. 100% LLSIL, and allowable disability-related only expenses. Finally, IA recommends USOR explain and document why they have chosen their figures and methods, how often their test will be reviewed, etc. as required by Federal regulations.

- ii. Clients' financial participation was not clearly defined, documented, and applied

Criteria: 34 CFR §361.46 Content of the individualized plan for employment states:

- (a) Mandatory components... (ii) The responsibilities of the eligible individual... (B) If applicable, the extent of the individual's participation in paying for the cost of services;

Memorandum from former USOR Executive Director Don Uchida dated 10/6/2000 –states:

The key point to remember is that the amount identified as available is the amount available for the full year. The client is expected to contribute that amount towards his/her VR Program. The amount identified as available to contribute like you would an insurance deductible, i.e. the client has to pay the first \$XXX before VR money kicks in.

Condition: Three of the 21 clients reviewed (14%) were identified as individuals who were required to participate in paying for the cost of services. In all three cases, there was little to no documentation to certify that the clients had fulfilled their financial obligation.

Cause: There appears to be no policy requiring the client to provide documentation that they actually contributed to their VR costs at the determined level.

Effect: Without source documentation or follow-up, USOR could potentially be paying more than their share of the services provided leaving less money available to assist clients that have a greater financial need.

Recommendation: IA recommends USOR implement policies and controls to ensure client financial participation is fully defined, documented, and applied.

iii. Financial need was not reviewed

Criteria: CSM 8.8 Reconsideration of Financial Need states:

A. Financial need will be re-evaluated annually; or B. Whenever financial or other circumstances regarding the client change significantly; whichever occurs sooner.

Condition: Ten of the 19 client files reviewed that were open longer than one year (53%), did not have the financial need re-evaluated annually or whenever the circumstances regarding the client changed significantly.

Cause: VR Counselors did not follow policy and procedures with regard to financial needs reviews. Furthermore, VR Counselors did not contact the clients far enough in advance of the annual review date to ensure the annual review appointment could be accomplished within the time frame allotted.

Effect: USOR risks paying for services that would otherwise be the client's responsibility, or the client could be required to pay for services for which VR should be responsible. Current practice could result in non-compliance with federal and state regulations pertaining to the review of financial needs.

Recommendation: IA recommends that the VR counselor initiate the financial annual review process far enough in advance to ensure the required annual review can be accomplished per the VR policy. This may require the VR Counselor to initiate the process much earlier based on the availability of the VR Counselor and client.

iv. Errors on financial need forms

Criteria: CSM Policy 8.2 states:

USOR requires clients to complete the USOR Form 4a... the VR counselor then completes the USOR Form 48 to determine appropriate client/family contribution toward non-exempt paid services.

CSM 8.6 (A)(7) (2011) states:

Signature block - signature of client, or parent/guardian when client is a minor, is required.

Condition: Six out of all 21 client files reviewed (29%) contained errors with the financial need forms. Two of the six files contained errors with USOR Form 4a, three of the six files had errors with USOR Form 48, and one file had errors with both USOR Form 4a and USOR Form 48.

Cause: Counselors did not take the necessary time to ensure clients filled out USOR Form 4a correctly, transfer the corresponding information correctly to USOR Form 48, or complete USOR Form 48 correctly.

Effect: There is an increased risk VR clients could be inappropriately found ineligible or eligible for financial assistance, risking non-compliance with federal and state regulations regarding the determination of financial needs.

Recommendation: IA commends USOR for implementing AWARE, a new software system to ensure client's financial need is calculated appropriately; however, IA notes that calculations are only as accurate as the data entered into the system and recommends that VR emphasize the importance of taking the time to help clients accurately fill out the appropriate client forms, then accurately transfer the data into the AWARE system for further computation.

C. Potentially Unallowable Costs

i. Potentially unallowable cost per federal regulation OMB Circular A-87

Criteria: U.S. Office of Budget Management Circular A-87 Attachment A states:

General Principles for determining allowable cost. Basic Guidelines - For a cost to be allowable it must be necessary and reasonable for proper and efficient performance and administration of the program. It defines reasonable cost as, if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Whether the cost is generally recognized as ordinary and necessary.

CSM 12.4B (2006-2012) Authorizing Goods and Services states:

B. An exception may be given to 12.2 C if, in accordance with informed choice standards, a client requests an upgrade, improvement or similar alternative in a good or service exceeding that which has been determined to be adequate and necessary to meet the specific VR need, and the client agrees to make up the difference in cost.

CSM 12.4 (2012) Authorizing Goods and Services states:

This fiduciary authority is accompanied by the responsibility to conduct due diligence to ensure that prices paid are reasonable fair market prices for comparable goods. Due diligence is defined as obtaining and documenting the required number of bids, quotes, or offers to sell that demonstrate costs are reasonable fair market prices for comparable goods.

A. Contract Items. If a VR Counselor decides that a state contract will not meet the need of the client due to delivery timelines, local ongoing service needs, level of quality of items needed, this decision must be documented and the purchasing procedures described.

C. Note: The low bid should be chosen unless the VR Counselor clearly details justifiable reasons for choosing a higher bid (such as timeliness of provision, specifications, participation in the costs by other entities that decreases USOR costs, etc.).

F.6. VR Counselor is notified of bids and asked if lowest bid is acceptable. If low bid is not acceptable, justification for higher bid is agreed to and included in the client record.

CSM 12.10 (2006-2012) Purchasing Dental Services states:

Procedures for cosmetic reasons only are not allowed under the Rehabilitation Act.

CSM 10.2 (2012) states:

USOR policy also states that all services must be included in the IPE or amendments prior to the provision of those services, and USOR does not provide funding, reimbursement, or retroactive payment for any activity or service that the client has obtained or engaged in prior to the development of the IPE.

34 CFR §361.42 (a)(4) Assessment for determining eligibility and priority for services states:

(a) Eligibility requirements— (4) Achievement of an employment outcome. Any eligible individual, - must intend to achieve an employment outcome.

CSM 10.2 (2015) states:

All services provided in an IPE must be connected to the client's employment goal as necessary and appropriate for reaching that goal.

Condition: Forty out of 138 total authorizations tested (29%) were identified as unnecessary, unreasonable, or inappropriate resulting in a total of \$110,010 of potentially unallowable costs. This finding incorporates all potentially unallowable costs identified in other findings with identified potentially unallowable costs.

Cause: When authorizing services, VR Counselors did not appropriately follow or apply 1) the federal guidelines for necessary, appropriate, and reasonable; 2) Utah State procurement code; 3) the definition of maintenance; 4) the approved fee schedule. See additional detail in the findings below.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: We recommend that USOR follow policy and procedures and federal regulations. IA also recommends that USOR work with the federal grant program to resolve potentially unallowable costs.

ii. Utah State procurement code was not followed

Criteria: CSM 12.8 (2006) and CSM 12.13 (2014) states:

The State of Utah has established a preference for in-state purchases [“Buy Utah” UCA 63-56-20.5] provided that the preference does not effectively deny an individual a necessary service. If the individual chooses an out-of-state purchase at a higher cost than an in-state

purchase and if either purchase would meet the individual's rehabilitation needs, USOR is not responsible for those costs in excess of the cost of the in-state purchase.

34 CFR §361.50(b)(1). (b) Out-of-State services states:

(1) The State unit may establish a preference for in-State services, provided that the preference does not effectively deny an individual a necessary service. If the individual chooses an out-of-State service at a higher cost than an in-State service, if either service would meet the individual's rehabilitation needs, the designated State unit is not responsible for those costs in excess of the cost of the in-State service.

R33-4-104 states:

Small purchases shall be conducted in accordance with the requirements set forth in Section 63G-6a-408. This administrative rule provides additional requirements and procedures and must be used in conjunction with the Procurement Code.

R33-4-107 states:

Quotes for Small Purchases from \$1,001 to \$50,000.

(1) For procurement item(s) where the cost is greater than \$1,000 but up to a maximum of \$5,000, an entity subject to these rules shall obtain a minimum of two competitive quotes that include minimum specifications and shall purchase the procurement item from the responsible vendor offering the lowest quote that meets the specifications.

(2) For procurement item(s) where the cost is greater than \$5,000 up to a maximum of \$50,000, a procurement unit with independent procurement authority that is subject to these rules or the Division of Purchasing and General Services on behalf of an executive branch procurement unit without independent procurement authority, as applicable, shall obtain a minimum of two competitive quotes that include minimum specifications and shall purchase the procurement item from the responsible vendor offering the lowest quote that meets the specifications.

(3) For procurement item(s) costing over \$50,000, a procurement unit with independent procurement authority that is subject to these rules or the Division of Purchasing and General Services on behalf of an executive branch procurement unit without independent procurement authority, as applicable, shall conduct an invitation for bids or other procurement process outlined in the Utah Procurement Code.

CSM 13.2 c (2014) states:

Both public and private resources are available and client, through informed choice, chooses private institutions with the understanding USOR will pay only up to the cost of public institution/program.

U.C.A 63G-6a-1002 Reciprocal preference for providers of state products states:

(a) An issuing procurement unit shall, for all procurements, give a reciprocal preference to those bidders offering procurement items that are produced, manufactured, mined, grown, or performed in Utah over those bidders offering procurement items that are produced,

manufactured, mined, grown, or performed in any state that gives or requires a preference to procurement items that are produced, manufactured, mined, grown, or performed in that state.

Condition: In 13 of the 138 authorizations reviewed (9%), USOR policy and state procurement code was not followed, which resulted in approximately \$71,714.72 of potentially unallowable costs. Potentially unallowable costs are included in the total in finding (C)(i) Potentially unallowable cost per federal regulation OMB Circular A-87.

Cause: VR Counselors did not follow established policies and procedures based on rules and regulations regarding out-of-state training, number of bids, and state vs. privately offered services as noted in the criterion above.

Effect: Potentially unallowable costs, which may need to be paid back to the federal grant program, resulting in fewer dollars available to help VR clients.

Recommendation: IA recommends USOR ensure applicable purchases are in compliance with the State of Utah's procurement code. IA also recommends that USOR work with the federal grant program to resolve potentially unallowable costs.

iii. Service did not meet the criteria for maintenance

Criteria: 34 CFR §361.5(b)(35) states:

Maintenance means monetary support provided to an individual for expenses, such as food, shelter, and clothing, that are in excess of the normal expenses of the individual and that are necessitated by the individual's participation in an assessment for determining eligibility and vocational rehabilitation needs or the individual's receipt of vocational rehabilitation services under an individualized plan for employment.

U.S. Office of Budget Management Circular A-87 - Basic Guidelines state:

1. To be Allowable under Federal awards, costs must meet the following criteria: (j) be adequately documented.

Condition: In 19 of the 30 authorizations for maintenance reviewed (63%), USOR authorized the purchase of food, clothing, and/or shelter that did not meet the federal definition of maintenance, totaling \$6,499.52 of potentially unallowable expenses. Potentially unallowable costs are included in the total in finding (C)(i) Potentially unallowable cost per federal regulation OMB Circular A-87.

Cause: USOR is inadequately documenting and improperly applying the definition of maintenance, which clearly states that the cost must be in excess of the normal expenses of the individual and a product of participating in the VR program.

Effect: Fewer dollars are available for clients and an increased risk in waste and abuse.

Recommendation: Due to the high rate of error, IA recommends USOR train staff on the established policies and procedures within the client service manual, implementing necessary controls to ensure purchases of food, clothing, and shelter meet the definition of

maintenance. IA also recommends that USOR work with the federal grant program to resolve potentially unallowable costs.

Note that two of the nineteen identified authorizations, one in 2013 and one in 2014, were reimbursements to the Peterson Fund, which resulted in an audit finding in 2015 (15-04A DSBVI Trust Funds).

iv. Service authorized at rate higher than approved fee schedule

Criteria: 34 CFR §361.50(c) Payment for services states:

The State unit must establish and maintain written policies to govern the rates of payment for all purchased vocational rehabilitation services.

CSM 12 Appendix 12-B (2012) Approved Client Service Fee Schedule Utah State Office of Rehabilitation states:

Reader for the Blind - Routine \$6 per hour.

Condition: IA reviewed 50 authorizations encompassed by the fee scheduled, one (2%) was paid at a rate above the approved fee schedule. USOR paid \$10.00 per hour for 12 hours, the allowable rate per the fee schedule is \$6.00 per hour, resulting in a potentially unallowable cost of \$48. Potentially unallowable costs are included in the total in finding (C)(i) Potentially unallowable cost per federal regulation OMB Circular A-87.

Cause: VR Counselor did not follow written policy regarding fee schedules.

Effect: USOR risks non-compliance with federal regulations, unallowable costs, and an increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR implement appropriate control activities to ensure fee schedules are both understood and adequately implemented to prevent paying for services above approved fee schedules. IA also recommends that USOR work with the federal grant program to resolve potentially unallowable costs.

D. Questionable Costs

i. VR continued to pay for services even though there were funds unaccounted for

Criteria: CSM 12.8 (2014) states:

All VR services may be terminated or delayed until the funds are accounted for through receipts showing the funds were used for the intended purpose.

Condition: IA tested 138 total authorizations, 13 (9%) were authorized after the client had received a direct authorization where the funds were not properly accounted for through the collection of receipts. The 13 authorizations resulted in a total of \$22,292.93 of questionable costs.

Cause: USOR established a policy that states that services may be terminated or delayed; however, there doesn't appear to be clarification on how the VR Counselor should implement said policy.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse if funds are not completely accounted for.

Recommendation: IA recommends USOR strengthen the policy that services will be delayed or terminated if funds cannot be accounted for through receipt verification. Internal controls should be capable of identifying counselors who are not following the outlined policies and procedures.

ii. Required levels of authorization (i.e., approval) were not obtained

Criteria: CSM 12.7 (2012) states:

(B) Out of state training will require a client service recommendation to the Field Service Director level in accordance with Appendix 12-A.

CSM 12.5 (2012) E.1(a) states:

Items costing between \$5,001 and \$30,000. 1. The VR Counselor will: a. Using a price estimate complete a service recommendation to the appropriate level in Appendix 12-A to obtain approval.

Condition: IA tested a total of 138 authorizations, five (4%) did not have the required level of authorization, resulting in \$18,754.03 of questionable costs. Three were for an out-of-state conference and two were for assistive technology that were greater than the counselor's service recommendation authority.

Cause: VR Counselor did not obtain the required level of authorizations prior to approving the service recommendation.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: IA's understanding is that the AWARE case management system may contain the necessary internal controls to prevent authorizations from being processed without the required level of approval. Therefore, IA recommends USOR verify proper controls are in place within the AWARE system to ensure proper levels of approval are obtained.

iii. Direct authorization receipts were not collected

Criteria: CSM 12.6 (4) (2012) Authorizing Direct Payment to Clients states:

The VR Counselor must obtain receipts showing that the funds were used for the specified purposes in the amount that was authorized.

Condition: In ten out of 24 direct authorizations tested (42%), VR counselors didn't obtain and document a receipt showing how the funds were used, resulting in \$5,364 of questionable costs.

Cause: VR Counselors did not follow outlined policy and procedures.

Effect: Increased risk in the areas of fraud, waste, and abuse. When receipts are required to verify how funds were expended, the practice of not obtaining and documenting receipts jeopardizes the legitimacy of the cost, resulting in questionable and perhaps even unallowable costs.

Recommendation: IA recommends USOR implement effective training on established internal controls and policies to ensure direct authorizations to clients have documentation to support VR Counselors efforts and final decisions.

iv. Unapproved retroactive authorizations

Criteria: CSM 12.12 (2012) Retroactive Authorizations states:

If bill is in the current fiscal year, submit memo or R-11 of explanation for approval to District Director, and submit authorization, bill and explanation initialed by District Director to Client Service Program Director through Field Service Director. Also place copy of authorization and explanation in the IRIS client record.

Condition: One out of two retroactive authorizations tested (50%) did not have District Director approval, resulting in \$625 of questionable costs.

Cause: VR Counselor did not follow applicable policy and procedures regarding retroactive authorizations.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR establish control activities to ensure VR Counselors are following established policies and procedures.

v. Unused equipment was not reclaimed

Criteria: Form USOR-53 states:

I, the undersigned, acknowledge that on this date I received from the Utah State Office of Rehabilitation (USOR) the tools, equipment, or supplies listed below and that said items are in good condition. The listed tools, equipment, or supplies are property of the State of Utah and are being provided for the sole purpose of my vocational training and/or my employment.

I understand and agree to the following terms and conditions:

I agree to return this equipment to USOR if:

- a. I no longer use the equipment in connection with my training and/or my employment.
- b. the equipment is no longer of significant benefit to my training and/or my employment.

c. or upon request by my Vocational Rehabilitation Counselor.

Condition: IA identified two authorizations where the equipment was apparently no longer being used in connection with the client's training or employment, and in both cases there was no documentation suggesting that the equipment was returned. In the case of one client, the equipment had a beginning value of \$7,620. In the case of the other client, the invoice does not itemize the value of the unreturned equipment.

Cause: USOR Form 53 and the Client Service Manual do not provide adequate guidance to ensure staff and client compliance with the regulations governing this area.

Effect: Non-compliance with federal and state regulation in the areas of financial reporting and asset management, and increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR develop policy and procedures with respect to purchased equipment, specifically in the areas of reporting, reclaiming, reissuing, and surplus. In the areas previously mentioned, USOR should make a cognizant effort to ensure they are compliant with all applicable laws, rules, and regulations with respect to purchased equipment with federal and state dollars. Finally, USOR should monitor said policies and procedures to ensure staff compliance.

vi. Repeat classes or training funded without proper approval

Criteria: CSM 12.2(2006-2011) or CSM 12.2(2012) (5) states:

USOR will not pay for repeat classes or training which has been failed. Exceptions are approved by the supervisory staff/District Director.

Condition: In one out of 21 clients reviewed for allowability (5%), VR paid for a client to retake University credits without receiving proper approval.

Cause: VR Counselor failed to comply with existing internal policies and procedures regarding repeat and failed classes.

Effect: Potential waste of state and federal resources due to clients retaking repeat or failed courses.

Recommendation: IA recommends USOR ensure staff are trained on policy and procedures with regard to repeat or failed classes. IA also noted limited policy and procedures regarding withdrawn classes. If a class is withdrawn after USOR has paid for it, it would result in a similar outcome to a failed or repeat class, USOR having paid for a class and the client not obtaining needed university credits. Therefore, IA recommends USOR develop additional policies with regards to failed, repeat, or withdrawn classes.

E. Individualized Plan for Employment (IPE)

i. IPE was not developed within a timely manner

Criteria: 34 CFR §361.45 Development of the individualized plan for employment states:

The state plan must assure that (1) An individualized plan for employment (IPE) meeting the requirements of this section is developed and implemented in a timely manner for each individual. 2(b) Purpose: (1) The designated State unit must conduct an assessment for determining vocational rehabilitation needs. The purpose of this assessment is to determine the employment outcome, and the nature and scope of vocational rehabilitation services to be included in the IPE.

CSM 10.1 (2002) states:

Federal regulations mandate that as soon as a determination has been made that an individual is eligible for VR services the Agency shall complete an assessment for determining vocational rehabilitation needs, if such an assessment is necessary, shall provide the individual or representative...options for developing an IPE.

Condition: In three out of the 21 client files reviewed (14%), the initial IPE was not developed in a timely manner.

Cause: USOR had not provided clarifying language on the definition of timely manner in the policies relevant at the time the IPEs were developed.

Effect: Although Federal regulations allow for flexibility, they still require an IPE be developed in a timely manner. When evidence suggests, as in these cases, that the timeline was not timely, USOR is susceptible to federal findings of non-compliance with respect to IPE development.

Recommendation: IA acknowledges that in October 2015 USOR included clarifying language in their client service manual, which now requires: (the) IPE be completed as soon as possible, but no later than 90 days after the determination of eligibility or activation from the Order of Selection waiting list (CSM 10.2). IA recommends USOR train their staff on the implementation of the 90 day policy, ensuring all IPEs are developed and implemented in a timely manner.

ii. IPE was not reviewed annually

Criteria: 34 CFR §361.45(d)(5) states:

The IPE is reviewed at least annually by a qualified vocational rehabilitation counselor and the eligible individual or, as appropriate, the individual's representative to assess the eligible individual's progress in achieving the identified employment outcome.

Condition: Eleven of 21 client files reviewed for allowability (52%) contained IPEs that were not reviewed annually.

Cause: VR Counselor did not follow established policies and procedures to ensure compliance with federal regulations.

Effect: Delayed client progression and increased risk of waste and abuse of program funds.

Recommendation: IA recommends USOR develop and implement proper controls to ensure IPEs are being reviewed in accordance with federal regulations.

iii. Services provided were not listed on an IPE

Criteria: 34 CFR §361.46 states:

Content of the individualized plan for employment. (a) Mandatory components. Regardless of the approach in §361.45(c)(1) that an eligible individual selects for purposes of developing the IPE, each IPE must include— (2) A description of the specific rehabilitation services under §361.48 that are—(i) Needed to achieve the employment outcome, (4) A description of the entity or entities chosen by the eligible individual or, as appropriate, the individual's representative that will provide the vocational rehabilitation services and the methods used to procure those services.

10.12 A CSM (2008) states:

All VR services provided must be written on the IPE.

10.8 F CSM (2008) states:

A description of the service providers and methods used to procure services.

Condition: IA reviewed 136 authorizations that should have been included on an IPE, eight (6%) were not included on a signed IPE, resulting in \$6,470.81 of questionable costs.

Cause: VR Counselors did not follow written policy and procedures.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR train staff in IPE development, specifically in the area of mandatory components of an IPE.

iv. Services provided even though evaluation criteria was not met

Criteria: 34 CFR §361.46 Content of the individualized plan for employment mandates: Regardless of the approach in §361.45(c) (1) that an eligible individual selects for purposes of developing the IPE, each IPE must include—(5) A description of the criteria that will be used to evaluate progress toward achievement of the employment outcome.

CSM 10.13 C (2015) IPE Implementation states:

All services provided in the IPE are dependent upon the client meeting the evaluation criteria for participation and progress agreed upon in the IPE.

Condition: In two out of 21 client files reviewed for allowability (10%), the client did not meet the established evaluation criteria in the IPE; however, VR continued to provide services that were contingent upon the client meeting the established criteria.

Cause: VR Counselor did not hold client to the responsibilities agreed to in the IPE.

Effect: If evaluation criteria is established to ensure completion of the vocational objective, the lack of meeting the evaluation criteria would suggest a higher likelihood of having unsuccessful closures, which would result in fewer VR clients progressing toward employment and a perception of wasted public funds.

Recommendation: IA recommends USOR provide training on how to develop appropriate evaluation criteria and how to address clients who are not meeting their responsibilities in relation to achieving the employment outcome.

- v. IPE was not signed by a VR counselor

Criteria: 34 CFR §361.45 (d) (3) states:

The IPE is (ii) Approved and signed by a qualified vocational rehabilitation counselor employed by the designated State unit.

Condition: One of the 21 total client files reviewed (5%), contained IPEs that were not signed by a VR Counselor.

Cause: VR Counselor failed to comply with the federal regulations.

Effect: All purchased services provided within the IPE could be considered questionable costs and it calls into question USOR's obligation to provide identified services.

Recommendation: IA recommends USOR ensure VR Counselors are mindful of their responsibility to sign the IPE in order to comply with federal regulations.

- vi. Services included in the IPE were not provided and were not subsequently removed and documented

Criteria: CSM 10.12 (B) (2008-2014) or 10.13 (D) (2015) states:

If for any reason a service on the IPE cannot or was not provided, amend the plan to delete the service and document the reason with case narrative (R-11).

Condition: Two of the 21 total client files reviewed (10%), contained IPEs with services that were not provided and no case narrative (R-11) to document and explain why.

Cause: VR Counselor did not follow outlined policy and procedures.

Effect: Per federal guidance, IPEs never expire; therefore, when a service is promised on an IPE that is no longer applicable, it is imperative that the plan is amended to remove the service and USOR's obligation for payment. A case narrative is included to explain why the service is no longer required. Furthermore, the amended IPE requires the signature of the client to assure all third parties that the client is in agreement that the service is no longer needed. Failure to comply with policy could create misunderstanding, disagreement, and potentially time wasted dealing with legal repercussions.

Recommendation: IA recommends USOR ensure their staff are adequately trained regarding policy and procedures concerning the documentation and removal of services from the IPE.

- vii. Actual service provider was not listed on the IPE

Criteria: 34 CFR §361.46 Content of the individualized plan for employment mandates:

A description of the entity or entities chosen by the eligible individual or, as appropriate, the individual's representative that will provide the vocational rehabilitation services and the methods used to procure those services.

Condition: IA identified 128 authorizations that were included in an Individualized Plan for Employment (IPE), seven (5%) did not include a description of the entity that ultimately provided the VR service in the IPE. Three of the seven authorizations did not include any service provider in the IPE, the other four authorizations identified an incorrect service provider in the IPE.

Cause: VR Counselor did not adhere to established policies and procedures regarding IPE development.

Effect: Non-compliance with federal regulations with regards to IPE requirements, which could ultimately lead to a federal audit finding or federal grant penalties.

Recommendation: IA recommends USOR ensure VR Counselors are properly trained in IPE development.

viii. IPE contained vocational goal contrary to client's informed choice

Criteria: 34 CFR §361.46 Content of the individualized plan for employment mandates: Regardless of the approach in §361.45(c)(1) that an eligible individual selects for purposes of developing the IPE, each IPE must include—(1) A description of the specific employment outcome, as defined in §361.5(b)(16), that is chosen by the eligible individual and is consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, career interests, and informed choice.

Condition: Out of the 21 total client files reviewed, one client file (5%) included a vocational goal in the IPE contrary to the client's chosen employment outcome.

Cause: In an effort to comply with federal regulations, USOR established a policy which requires that all VR services provided must be written on the IPE (CSM 10.12 - 1/8/08). In an effort to remain compliant with said policy, the VR Counselor misrepresented the client's informed choice on employment outcome in order to begin providing services.

Effect: Conflicting policies create confusion and can ultimately lead to the unintended consequences of the misrepresentation of facts and non-compliance with federal regulations.

Recommendation: USOR clarified in policy on 10/14/2014, that a VR counselor may authorize the provision of restoration services to stabilize an eligible individual in support of the development of a meaningful IPE. Said clarification has been made under section 12.11 of chapter 12, Authorization of Goods and Services. However, Chapter 10 Individualized Plan for Employment (IPE) still states that, USOR policy also requires that all services must be included in the IPE or amendments prior to the provision of those services without noting or referring to any exception, including the one made in Chapter 12. IA

recommends, USOR eliminate conflicting statements within their policies and procedures manual.

F. Miscellaneous

i. Lack of segregation of duties

Criteria: FIACCT 20-00.00 (B) Internal Control Program states:

Agencies must establish and maintain proper segregation of duties.

Condition: Within the current structure of DSBVI, all levels of authorization (approval) can be carried out by a single individual. Said individual is capable of making and approving authorizations without additional review.

Cause: DSBVI provides VR services within their program. DSBVI utilizes DRS's client service manual policies and procedures to help govern their program services; however, DSBVI is not staffed at the same level as VR within DRS. Therefore, DSBVI has devised ways to reach outcomes by bypassing instituted controls within the Client Service Manual's policies and procedures.

Effect: An increased risk of fraud, waste, or abuse of taxpayer dollars or other assets, and of non-compliance with state and federal laws, policies, and procedures.

Recommendation: We recommend DSBVI implement sound internal controls to ensure the segregation of duties within the DSBVI authorization (approval) structure, which may require adjustments within the organizational structure of DSBVI or require DSBVI to utilize the already existing authorization structure within DRS.

ii. Lack of policies and procedures within DSBVI

Criteria: FIACCT 20-00.00 (3) Internal Control Program states:

Control Activities - Control activities are the policies and procedures that help ensure management directives are carried out. They help to ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

Condition: DSBVI provides VR services within their program. DSBVI utilizes the DRS client service manual policies and procedures to help govern the VR program services they provide. However, DSBVI is not organizationally identical in nature and lacks DSBVI specific policies and procedures.

Cause: DSBVI and DRS are trying to operate a VR program with a single policy and procedure manual for two different organizational structures.

Effect: When organizational structure does not align with operational procedures, an environment of confusion, inefficiency, and ineffectiveness is created. Confusion, inefficiency, and ineffectiveness increases the risk of fraud, waste, abuse, and potential embarrassment and repercussions from related events.

Recommendation: We recommend DSBVI develop policies and procedures specific to their organizational structure or align their organizational structure to the current policies and procedures found with DRS, which ever would provide the most efficient and effective future outcome for the combined VR program.

iii. Non-compliance with cash management requirements

Criteria: FIACCT 05-02.00D states:

Proper Review and Approval of FINET Payments, Verify that the goods or services were actually received. Appropriate agency staff should indicate in writing or electronically that the goods or services were received and the bill is ready for payment.

A-133 Part 3 C. Cash Management states:

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: IA reviewed all 138 authorizations processed for payment, one (less than 1%) was processed prior to the purchased service being completely rendered.

Cause: USOR lacks policy regarding advance payments. The VR Counselor was likely unaware of the Division of Administrative Services policy on proper review and approval of payments.

Effect: Paying for services before they are received without a contractual agreement could result in a lost services, clients not receiving purchased services, and legal repercussions. USOR also risks non-compliance with federal grant requirements and federal funds drawn in advance could result in an interest liability.

Recommendation: IA recommends USOR ensure that all services are received prior to submitting the invoice for payment.

iv. Written policy and procedures for payments were not followed

Criteria: CSM 12.17 states:

Processing for Payment - There are two ways to pay a bill:

A) Bills are paid by an invoice received from the vendor. 1. Submit one copy of the invoice. 2. Submit one legible copy of authorization signed by the VR Counselor. 3. Date(s) of Service must be included on invoice. 4. VR Counselor initials amount to be paid.

B) Bills submitted using Authorization Form, USOR-23. 1. Vendor must complete bottom section of authorization and sign. 2. VR Counselor initials amount to be paid.

CSM 12.7 Authorizing Direct Payment to Clients states:

A. Prepare authorization, USOR 23, for a time frame of no more than one month. B. Client signs the authorization. C. Copies are sent to fiscal for payment one month at a time.

Condition: IA reviewed 138 authorizations for processing of payments, 81 were submitted for payment by invoice, and 57 were submitted for payment using form USOR-23.

- In two out of 81 authorizations reviewed (2%) the VR Counselor didn't initial the invoice.
- In one out of 81 authorizations reviewed (1%) VR didn't collect an invoice from the vendor.
- In one out of 57 authorizations reviewed (2%) the VR Counselor didn't initial form USOR-23.
- In one out of 57 authorizations reviewed (2%) the vendor didn't complete and sign USOR-23.

Twenty-four of the 138 authorizations were reviewed for client signatures on direct authorizations.

- In one out of 24 direct authorization reviewed (4%) the client did not sign USOR-23.

Twenty of the 138 were reviewed for contract number listed for purchases on state contract.

- In two out of 20 authorizations reviewed (10%) the contract number was not listed on the USOR-23.

Cause: VR Counselors did not follow written policy and procedures with regard to processing payments.

Effect: Increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR establish the proper controls to ensure the necessary components are included in the application and processing of payments.

- v. Authorized directly to a client without making an effort to authorize to the service provider

Criteria: CSM 12.6 (2012), 12.8 (2014) states:

Whenever possible, VR Counselors will authorize directly to service providers and/or vendors. Only after exhausting efforts to authorize directly to service providers and/or vendors will the VR Counselor consider authorizing direct payment to clients.

Condition: In three out of 24 direct authorizations tested (13%), the VR Counselor authorized a direct payment to the client without making an effort to authorize to the service provider.

Cause: VR Counselors did not follow written policies and procedures with regard to direct authorizations.

Effect: USOR risks non-compliance with federal regulations and an increased risk of fraud, waste, and abuse.

Recommendation: IA recommends USOR ensure staff are trained regarding direct authorization policies, specifically the necessity to exhaust all efforts to pay directly to the service providers prior to issuing a direct authorization to the client. IA also recommends USOR develop and implement policy directing staff to document all efforts made to authorize directly to the service provider.

vi. Eligibility letter was not completed within 60 days

Criteria: 34 CFR 361.41(b) Application (1) states:

Once an individual has submitted an application for vocational rehabilitation services, an eligibility determination must be made within 60 days.

CSM 5.10 states:

Upon completion of the assessment for determining eligibility, the counselor must document the findings on whether the individual does or does not meet the eligibility criteria. The Eligibility or Ineligibility Certificate (letter) must be completed, signed and dated by the VR counselor. This date represents the official eligibility date and must correspond with the date the letter was actually completed.

Condition: In one of the 26 client files tested (4%), the Certificate of Eligibility was not completed until 92 days after application, though the client was verbally told within 8 days they were eligible.

Cause: VR Counselor did not follow established policies and procedures regarding the completion of the Certificate of Eligibility.

Effect: Non-compliance with federal regulations and client services will not begin in a timely manner.

Recommendation: IA recommends that USOR follow the policies and procedures for completing Certificates of Eligibility.

vii. Eligibility was not determined prior to the expiration of the first extension

Criteria: 34 CFR 361.41(b), CSM 5.7 states:

An eligibility determination must be made within 60 days, unless, (i) Exceptional and unforeseen circumstances beyond the control of the designated state unit preclude making eligibility determination within 60 days and designated state unit and individual sign an agreement to a specific extension time or an exploration of the individual's abilities, capabilities, and capacity or an extended evaluation.

Condition: In one of the 26 client files tested (4%), the client was not determined eligible prior to the expiration of the agreed upon extension.

Cause: VR Counselor did not manage the case to ensure extensions to eligibility determination were timely and in compliance with regulations.

Effect: Non-compliance with federal regulations regarding determination of eligibility.

Recommendation: IA recommends that VR counselors follow the policies and procedures in place for determining eligibility or ineligibility within 60 days or the timeframe of an extension in unforeseen or exceptional circumstances. We also recommend that USOR consider guidance on application of extension timelines to ensure consistency (i.e., does the extension begin when signed or when the initial 60 days ends).

viii. Business plan was not completed

Criteria: Case Service Memo: 2006-01 Effective 10/13/2005 states:

Need for questionnaire, business plan and additional training: Completion of a Self-Employment Questionnaire for Clients (Step A – Discussion), and a business outline (Step B – Exploration), is required for all VR funded self-employment plans regardless of total cost. Step C – Proposal Development requires development of a formal proposal; the Self Employment questionnaire is the starting point for the client’s business plan.

Condition: In one of the three client files tested for self-employment (33%), the client did not complete a business plan.

Cause: VR Counselor did not follow established policy requiring a business plan for self-employment; instead, the VR Counselor accepted the self-employment questionnaire as a business plan.

Effect: Increased risk of supporting self-employment objectives that may not be considered sustainable or obtainable, which could lead to fraud, waste, or abuse of public funds.

Recommendation: IA recommends that VR counselors follow the policies and procedures in place in requiring a complete business plan be submitted.

ix. Monthly monitoring and follow-up was not completed

Criteria: CSM Chapter 27 Step 7 states:

The VR Counselor must work with the eligible individual to obtain at least monthly progress reports which should include a profit and loss Statement or other form of reporting information on total sales, business expenses, amount of time the individual is engaged in business operations... and the VR Counselor should again work with the client to ensure that there is an understanding of the timeline expected for case closure;

CSM Chapter 27 Step 8 states:

Once the micro enterprise (self-employment business) has been operational for at least 2 months and turning a profit for at least 90 days, the VR Counselor may consider proceeding with a successful case closure. The VR Counselor must be able to document with a Profit and Loss Statement from the client that the business is making a profit over at least 90 days.

Condition: Two of the three client files tested (67%) did not receive monthly monitoring and follow-up services from the VR counselor and one client’s case was closed without documentation supporting the profitability of the self-employment.

Cause: VR Counselors did not provide monthly monitoring and follow-up services per the established self-employment policies and procedures. USOR did not have a formal Profit and Loss Statement form for the clients to complete and the counselors would often rely on client being stable rather than being profitable.

Effect: USOR may support self-employment goals that ultimately are not viable, which could result in wasted time and resources. By the counselor not documenting profitability

through profit and loss statements, the profitability of the business could not be determined and appropriate case closure is therefore questionable.

Recommendation: IA recommends USOR follow the policies and procedures with regard to self-employment monthly monitoring and monitoring for closure, specifically, monitoring with the use of Profit and Loss Statements.

- x. VR agency in the state of the out-of-state training was not contacted

Criteria: CSM 12.7 (C)(2012) or 12.13 (C)(2014) states:

Contact the VR agency in that state and see whether or not they have purchased the training. Try and get a recommendation from other state VR staff.

Condition: In one of the two out-of-state trainings reviewed (50%), the VR Counselor did not contact the VR state agency where the training was provided, which resulted in \$7,977 of questionable costs.

Cause: VR Counselor didn't follow Client Service manual policy and procedures regarding out-of-state trainings.

Effect: Increased risk of fraud, waste, and abuse, minimized likelihood of consistent outcomes and potential jeopardy to the safety of VR clients.

Recommendation: IA recommends VR Counselors follow established policies and procedures regarding out-of-state training.

- xi. Proper identification was not obtained

Criteria: CSM 10.4 (2014) – Identification Verification for IPE Implementation states:

Prior to the implementation of an IPE all clients eligible for Vocational Rehabilitation Services must provide picture documentation that verifies their identity.

Condition: Picture identification was not required until 2014, out of six client files identified since this policy was instituted, one client file (17%) did not contain picture identification.

Cause: VR Counselor did not follow VR policy and procedure.

Effect: Increased risk of fraud, waste, and abuse.

Recommendation: IA is cognizant of the timing in this situation, the policy regarding picture identification was implemented just prior to the date the client was determined eligible, which likely resulted in the noted exception. Therefore, IA recommends USOR adequately train staff prior to implementing new policies and procedures.

- xii. Forms Receipt of Equipment or Receipt of Prosthetic Appliance were not completed

Criteria: CSM 12.5 (2006 +) states:

Authorizing for Durable Goods/Tangible Items- Things such as tools and equipment remain the property of USOR and must be returned to USOR if they are no longer being used by the

client for training or employment purposes. In cases where USOR purchases tangible items which may later be reclaimed by or returned to USOR (for reissue to another client), the VR Counselor must have the client sign a USOR 53, Receipt of Equipment, at the time the client receives the item(s). Examples of items which would always require a USOR 53 would include tools, calculators, wheelchairs, computers, etc. Prosthetic appliances require a USOR 54, Receipt of Prosthetic Appliance.

Condition: In eight of the 29 authorizations for durable goods reviewed (28%), the counselor didn't complete the appropriate receipt form. Five authorizations were missing receipt form USOR-53 in the client file, the remaining three were missing receipt form USOR-54.

Cause: VR Counselor did not ensure the appropriate USOR receipt forms were filled out per established VR policy and procedures.

Effect: Increased risk of state property loss and questions surrounding ownership.

Recommendation: IA recommends USOR train staff on the proper use of forms USOR-53 and USOR-54.

IV. OBSERVATIONS

i. Authority incorrectly cited, quoted, or out of date

In the process of verifying authority citations as stated in the Client Service Manual, Internal Audit identified nine out of a selection of 27 citations that were obsolete, deleted, and/or amended to include updated language and/or publisher locations. Internal Audit recommends that USOR ensure that the citations referenced accurately reflect current federal and state rules and regulations in both language and publisher location in order to provide staff and clients with clear policies and procedures.

ii. Client record closure review concern

One client file audited contained a *Client Record Closure Review*, which was used by internal audit to observe the effectiveness of USOR's client record closure review process. The review conducted by USOR identified ten errors within the scope of our audit. IA reviewed the completed client record closure review and identified the following: Three of the errors identified by the review were incorrect. Three errors were partially correct, either citing errors that were not errors, or missing additional errors in the identified areas. Four cited errors were correct. IA identified 20 total errors in our review process, which included the actual errors identified by USOR. Based on differences noted in the number of errors identified between IA's review and USOR's, USOR should review the adequacy and effectiveness of their *Client Record Closure Review* process.

iii. Hard copy documents filed in wrong client file

While reviewing the client files identified within the scope of this audit, IA identified several documents pertaining to clients who were not included within the scope of the audit, USOR having misplaced documents into the wrong client files. Given the confidential nature of client information, it is of the utmost importance that client information is properly filed in the correct files to ensure confidentiality in all measures.

APPENDIX A

MANAGEMENT RESPONSE, INTERNAL AUDIT, WASTE/FRAUD/ABUSE TARGETED AUDIT OF VR PROGRAM

USOR is appreciative of the targeted reviews conducted and the audit findings reported by the USBE Internal Audit Department. USOR recognizes the importance of an independent review of allegations against USOR of waste, fraud, and abuse, and USOR is grateful that internal audit performs these time-consuming reviews. USOR understands that the report reflects many hours of work and USOR respects the thoroughness and enthusiasm expressed by the audit staff conducting the audit.

In many cases, the findings in this audit mirror and further substantiate concerns previously identified by USOR from internal reviews of policies and procedures over the past 18 months. USOR already implemented many new policies and conducted multiple trainings to remediate many of the common issues identified in the (mostly) older cases chosen for the audit. USOR also recognizes that several recommendations for additional controls made in the report were implemented last fall as part of a new case management system for the Vocational Rehabilitation (VR) Program. USOR is anxious to monitor the effectiveness of these new controls and intends to conduct targeted reviews to confirm if they accomplish the intended outcome.

In other cases, Internal Audit identified findings that appear less systemic and which are uncommon in the VR program. As always, USOR appreciates the identification of possible concerns within the VR Program and USOR will use this information to conduct additional targeted case review activities and other types of activities to determine if the findings reflect infrequent, individual mistakes or larger, more systemic problems.

USOR is grateful for the acknowledgement of the limitations of this audit as described by Deborah Davis, Internal Audit Director when she states “these procedures were restricted to targeted VR case files and are more limited than would be necessary to express an audit opinion on overall compliance or the effectiveness of internal control or any part thereof.” USOR is committed to making changes where needed and taking immediate action when necessary to correct possible instances of fraud or abuse. USOR also recognizes that the findings from this audit cannot be generalized to make assessments regarding overall compliance and should not be used as the sole reason for policy changes. As always, USOR will conduct further internal investigations as well as solicit input from line staff, administrative staff and key stakeholders before adopting any significant policy changes.

Unfortunately, during the next six months, a great deal of staff time and expertise must be directed to the creation of a transition plan in anticipation of the agency move to the Department of Workforce Services (DWS). However, USOR will continue its current efforts to improve compliance and use the tools available to monitor performance. Additional changes are also underway, both to USOR policy and to USOR’s structure, to address ongoing concerns. Some of these changes are described later in this response.

Paragraphs below contain general USOR responses; however, some responses address specific findings. Many of the cases reviewed have been closed and many reflect decisions made prior to revisions to the Client Service Manual, the implementation of the new case management system called AWARE, and changes DRS has implemented to improve case management systems. USOR has responded to the

concerns recognized as those with ongoing relevance and some that USOR believes need further consideration.

Response **Comparable Benefits:**

USOR recognizes the importance of documenting the search for and use of comparable benefits and agrees that some cases reviewed lacked sufficient documentation to determine that an adequate search occurred and/or that comparable benefits were used appropriately. Third party documentation of the receipt of Pell Grant funds for school and documenting the use of those funds has been identified by USOR as an area of concern. USOR has a clear expectation that counselors must document the application for Pell Assistance by clients and also must document how Pell funds are to be used for appropriate expenses. That documentation must be specific and must occur prior to a counselor authorizing for school or other client expenses. In December 2015 VR staff were issued a memo regarding the requirement to follow the Pell Grant policy as defined in Chapter 9 of the Client Service Manual. To assist in correct application, adherence and documentation of client service policies relating to the provision of training services, staff were provided with a guidance checklist to use during the pre-authorization review process. The checklist included prompts to verify if the client record contained the current Pell Grant award status and how the Pell Grant will specifically be used toward education expenses.

Counselors must also document available comparable benefits at the time of Individualized Plan for Employment (IPE) creation and then again before generating any authorizations. The IPE page in AWARE requires VR Counselors to document efforts made in collaborating with the clients to secure comparable benefits. The IPE Page also contains checkboxes to note the sources of obtained comparable benefits, such as a Pell Grant, Medicaid or private insurance. In addition, the AWARE system requires VR Counselors to enter in the financial contribution amount from comparable benefits that will be applied towards the estimated service costs.

Although USOR does not believe that in some of the cases identified by the audit comparable benefits were an option (considering the nature of the services provided), USOR recognizes that more thorough documentation by the counselor could have provided additional justification for the services provided.

Response **Financial Needs:**

At the time the audit began, USOR was using the cost of living figures in Hawaii when determining financial participation levels for clients. It is unknown why figures from another state were chosen as the person who made that choice no longer works for the agency. Since the identification of this previous policy choice by the Internal Audit Department, USOR management has changed the figures to reflect the cost of living in Utah which current management agrees is a more appropriate standard. However, because VR is required only to uniformly apply the formula while ensuring that the level of the individual's participation is reasonable, based on need and not too high, USOR does not believe that the financial needs test applied was "unreasonable" (as termed by the audit) at any time. USOR recognizes that in several of the cases reviewed, the documentation regarding the clients' financial participation was inadequate and that errors were made on financial form calculations in some instances. It appears some of these errors were formulaic errors in the system, and others were simply mistakes made by counselors. USOR believes that all of these errors will be remedied as the Financial Needs Assessment is now integrated into the AWARE case management system. This is a change from the previous financial

needs assessment process, which was completed outside of the legacy case management system (IRIS) on a calculation form. The system integration has eliminated calculation errors and increased the assurance that client contributions are identified and utilized. AWARE populates a visual running total of any required contributions on the IPE Page, giving the VR counselor a reminder that financial contributions must be allocated and documented. Additionally, AWARE also generates an activity reminder that the financial needs assessment must be completed during the annual review process. The review process requires VR Counselors to reassess a client's current financial circumstance and correct all errors that were made when using the previous calculation form. Since implementation of the AWARE system in October 2015 more than 2,908 financial needs assessments have been completed for eligible VR clients with new or existing IPEs.

Response Potentially Unallowable Costs:

USOR acknowledges that in several cases reviewed by Internal Audit, counselors failed to follow internal purchasing policies. USOR concurs with statements which assert that USOR needs to comply with all federal regulations and internal policies and procedures. USOR disagrees with the assertion that failure to follow an internal policy would automatically identify a cost as potentially unallowable. USOR reviewed the cases cited with potentially unallowable costs and believes the costs incurred were necessary to meet the needs of the program/client and reasonable in cost (not exceeding that which would be incurred by a prudent person). For example in finding *iv* in this section, USOR had established a fee for reader services (for individuals who are blind or visually impaired) which was lower (\$6/hour) than was paid by the counselor (\$10/hour). The audit determined that the difference in the amount of the fee schedule and the amount paid was potentially unallowable. Although the counselor did not follow the fee schedule, the increased cost was still of a reasonable amount and could have been approved through supervisor procedures. USOR believes that additional discussions are needed so that expenses are recognized and evaluated in the same way by all parties.

Although the sample size of this review does not allow for generalizations to be made about the level of compliance statewide, USOR will use these findings to direct targeted case reviews in the future. In addition, the newly implemented case management system incorporates a supervisory review prior to the issuance of every authorization (compared to a post-authorization review in the old system) which USOR is hopeful will eliminate mistakes like those specifically mentioned in this section of the report. USOR looks forward to testing the effectiveness of this new internal control.

Response Questionable Costs:

USOR has previously documented problems with the practice of issuing direct client payments. In October 2013 USOR implemented a new policy to tighten controls and increase oversight for direct client payments. The policy required all direct client payments to be reviewed and approved at district director level prior to authorization and that VR counselors obtain receipts demonstrating that all funds were used for the intended purpose. USOR staff received training on the new policy, controls and casefile documentation requirements, and USOR will continue to assure that staff are trained on these policies and continue to evaluate the effectiveness of these new controls. USOR also intends to review its policies around the provision of "maintenance" and provide counselors with additional guidance regarding the purchase of food/clothing/shelter and the appropriate documentation necessary to justify the purchase of these services. USOR will also continue to have discussions regarding the reclamation from clients of unused equipment, understanding that the issue is complex and that policy must allow

for individual judgments regarding the value of used equipment, effective use of counselor time, and counselor roles as well as personal safety.

Response Individualized Plan for Employment (IPE):

Prior to 2015, specific timeframes were not required for the development of the IPE. As noted in the audit, timeframes have now been added to the manual, all staff have been trained on the requirement, and the case management system provides tools for supervisors to monitor this requirement.

USOR has recognized an ongoing compliance issues with the completion of annual reviews of the IPE. A process change removing a signature requirement in 2012 has helped improve compliance and AWARE offers additional tools to help supervisors and counselors manage this requirement.

USOR believes additional findings in this section are the result of counselors not following established policies. USOR will review its training practices to identify any gaps.

Response Miscellaneous:

USOR has been reviewing the organizational structure and provision of VR services at DSBVI for several months and has proposed integrating VR counselors for the blind into the supervisory structure at DRS. DSBVI is not a separate VR agency under federal rule and USOR is considered a combined state agency with a single VR program. Changing the reporting structure would allow counselors who assist blind and visually impaired clients to avoid separation of duty issues and better incorporate policy changes and internal controls. Specific reassignments have been postponed while DSBVI is participating in a process analysis with the assistance of the Governor's Office of Management and Budget as that analysis will provide additional information about changes that could/should be made at DSBVI. USOR believes this decision will help to increase compliance, consistency and access throughout USOR's VR program. USOR's new case management system includes additional internal controls and process changes that will reduce errors in the processing of payment for services.

In 2014 USOR conducted a thorough review of the client service policies governing the development and approval of self-employment plans. USOR implemented a revised self-employment policy chapter of the Client Service Manual in 2015 and provided statewide training to staff to ensure understanding, compliance and consistency with the new policies.

USOR is concerned about the number of identified errors regarding signed receipts for equipment and/or prosthetic appliances. USOR will be conducting additional reviews to pinpoint if this is a significant problem and if changes to training or process need to occur.

Response Observations:

USOR acknowledges that the VR Case Service Manual contains some inconsistencies and outdated references. USOR recently hired a VR Policy Coordinator to help assure that all VR policies are consistent and compliant with federal regulations. References will be updated immediately and the new coordinator will assure that all new federal regulations related to the Workforce Investment and Opportunity Act which are expected to be finalized mid-2016 are incorporated as well.

The "Client Record Closure Review" is not a required form and is not used as a formal review tool. USOR will review the use of this form in individual offices.

USOR is very concerned about the misfiling of documents. USOR will again stress to staff the importance of careful and consistent filing. USOR's new case management system is designed to create a "paperless" system so as files containing paper are eventually closed filing errors will be eliminated.

Summary:

As expressed earlier, USOR is grateful for the information produced through the audit activity and is committed to using the information to generate discussion and make improvements to the VR Program. USOR takes all allegations of fraud, waste and abuse very seriously, and USOR is grateful for the assistance provided by the Internal Audit staff in reviewing these allegations.

APPENDIX B – Auditor’s Closing Remarks

The following are concluding remarks to the responses issued by the Utah State Office of Rehabilitation found in Appendix A.

A. Comparable Benefits

IA is encouraged with USOR’s intent to ensure comparable benefits are both sought after and correctly applied as this is an area of significant concern, and one which has been identified in other audits.

As used in the response, “correct application” may have broad meaning and may be interpreted differently by individual counselors; therefore, to ensure clarity, we urge USOR to make sure the intent of Congress with regards to Pell grants and VR funds as outlined in finding III.A.i will be met. This would include that USOR’s policies should make sure maximum effort is made to ensure clients obtain assistance for post-secondary education **and** that it is used to pay for their training (i.e., tuition, fees, books, transportation, etc.) *before* VR funds are expended. Circumstances where this does not occur, such as those noted in the finding, result in potentially unallowable costs that should be negotiated with the federal awarding agency.

B. Financial Needs

USOR states, “VR is required only to uniformly apply the formula while ensuring that the level of the individual’s participation is reasonable, based on need and not too high, USOR does not believe that the financial needs test applied was “unreasonable” at any time.” IA concurs that the above mentioned criteria is required by federal regulations; however, the finding (III.B.i) also indicates the state requirements for financial need that must be met (i.e., that VR services may only be provided to individuals who are found to require financial assistance with respect to those costs).

We acknowledge USOR’s discretion in establishing policy; however, a policy (i.e., use of Hawaii’s LLSIL and a formula that includes potential non-disability related expenses) that effectively lowered the threshold for client financial participation in the program and increased the need for public funds, was not reasonable per auditor judgment, particularly given USOR’s recent financial situation.

IA is encouraged by the implementation of the AWARE system and the accompanying controls; however, we urge USOR to consider that formulaic errors, such as inclusion of non-disability related expenses, can persist within case management systems; therefore,

special care should be taken to ensure formulaic errors are not programmed into the system.

USOR states, “The documentation regarding the clients’ financial participation was inadequate;” however, IA maintains there is insufficient evidence to support the sole conclusion that the identified conditions listed in III.B.ii. are nothing more than inadequate documentation. Minimal evidence of clients’ financial participation could be the result of inadequate documentation or clients’ insufficient financial contributions toward their VR program costs. If clients were not sufficiently contributing financially, all costs associated with their VR program could potentially be considered unallowable costs.

C. Potentially Unallowable Costs

Allowability of costs, both specific and general, are outlined in federal regulations as cited in the audit. Internal policies based on federal regulations must be complied with to ensure allowability of costs, other internal policies should also be complied with to ensure an appropriate internal control environment. Federal costs must meet all applicable criteria (e.g., necessary, reasonable, adequately documented, etc.) to be allowable.

The transaction example USOR cites in their response indicates that the criteria of adequate documentation was not met; “...the increased cost was still of a reasonable amount and could have been approved.” This indicates that there was not adequate documentation of the payment in excess of the approved fee schedule and as such the amount in excess of the fee schedule is potentially unallowable. Reasonability for this transaction is also in question as, per auditor judgment, a prudent person would authorize expenditures in accordance with the federally required fee schedule or get appropriate approvals for expenditures not in accordance with the fee schedule.

Potentially unallowable costs, including maintenance costs that USOR responded to in the Questionable Costs section, should be negotiated with the federal awarding agency.

D. Findings not Addressed by USOR

USOR has responded to concerns they consider relevant and requiring further consideration; however, IA recommends USOR also reconsider the following policy areas: state procurement code, levels of authorization, retroactive authorizations, and repeat classes.