FISCAL YEAR 2010
MONITORING REPORT ON THE VOCATIONAL REHABILITATION AND INDEPENDENT LIVING PROGRAMS
IN THE STATE OF MINNESOTA

U.S. DEPARTMENT OF EDUCATION

OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

REHABILITATION SERVICES ADMINISTRATION

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INTRODUCTION AND RSA REVIEW PROCESS

Introduction

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

To fulfill its monitoring responsibilities, RSA:

- reviews the state agency's performance in assisting eligible individuals with disabilities to achieve high-quality employment and independent living outcomes;
- identifies strengths and challenges related to the agency's performance, areas of consistently high or improved performance and those areas of performance in need of improvement;
- recommends strategies to improve performance;
- requires corrective actions in response to compliance findings; and
- provides technical assistance to the state agency to enable it to enhance its performance, meet its goals and fulfill its state plan assurances.

Review Process

Pursuant to the Act, RSA reviewed the performance of the following programs administered by the Minnesota Division of Vocational Rehabilitation Services (VRS) and the Minnesota State Services for the Blind (SSB):

- the VR program, established under Title I;
- the SE program, established under Title VI, Part B;
- the IL program authorized under Title VII, Part B; and
- the independent living services program for older individuals who are blind (OIB), established under Title VII, Chapter 2.

In addition, RSA also reviewed the progress of VRS and SSB on:

- the Corrective Action Plan that was established as a result of findings from RSA's FY 2003 Section 107 monitoring review; and
- the assurances that VRS provided to RSA in conjunction with its FY 2010 state plan.

Information Gathering and Review Process Activities

During FY 2010, RSA began its review of VRS and SSB by analyzing information from a variety of sources, including but not limited to, RSA's various data collections, the VR and IL state plans and the agencies' State Rehabilitation Council (SRC) Annual Reports. After completing its internal review, the RSA review team:

- engaged in numerous teleconferences and other information gathering activities with representatives of VRS and SSB, the SRCs, Statewide Independent Living Council (SILC), Client Assistance Program and other stakeholders to gain a greater understanding of the agencies' strengths and challenges related to the administration and performance of the VR, SE, IL and OIB programs;
- conducted an on-site monitoring visit from January 25 through 29, 2010, during which it met with representatives of the Minnesota Department of Employment and Economic Development (DEED), VRS, the SRC, SILC and other stakeholders; conducted a second on-site visit from February 22 through 26, 2010, during which it met with representatives of DEED, SSB, its SRC and other stakeholders and conducted a third visit from April 26 through April 28, 2010 to complete the fiscal review of SSB.

Through the on-site visits, the review team further gathered and analyzed information and provided technical assistance in areas already identified by the review team and the agencies.

Data Used During the Review

RSA's review of VRS and SSB began in the fall of 2009 and ended in the summer of 2010. For the purpose of this review, RSA notes that its data collections are finalized and available at different times throughout the year. Consequently, the data collections for the fiscal year that ended immediately preceding that in which the review began (i.e., FY 2009) were not yet available when the review process began. Therefore, this report relies primarily on those data collections available for a completed fiscal year prior to the beginning of the review (i.e., FY 2008) as the sources of data describing the performance of VRS and SSB. However when FY 2009 data became available toward the end of the review period, and if these data signaled a significantly different level of performance than the previous five year trend, RSA included the FY 2009 data in the report.

Results of Review Activities

At the conclusion of all monitoring activities, the RSA review team:

- identified performance areas for improvement and recommended that VRS and SSB undertake specific actions to improve their performance;
- identified compliance findings and required that VRS and SSB take corrective action; and
- in collaboration with the agencies, determined whether RSA would provide technical assistance to improve their performance or correct compliance findings.

Review Team Participants

Members of the RSA Minnesota review team included representatives from each of the five functional units within the State Monitoring and Program Improvement Division. The team included the following individuals: Larry Vrooman and David Wachter (Vocational Rehabilitation Program Unit), Elizabeth Akinola (Independent Living Unit), William Bethel and David Steele (Fiscal Unit), Janette Shell and James Billy (Technical Assistance Unit) and Yann-Yann Shieh (Data Collection and Analysis Unit).

PART I: REVIEW OF MINNESOTA DIVISION OF VOCATIONAL REHABILITATION SERVICES (VRS)

Executive Summary

During fiscal year (FY) 2010, the Rehabilitation Services Administration (RSA) reviewed the performance of the following programs authorized by the *Rehabilitation Act of 1973*, as amended (the Act) in the state of Minnesota:

- the vocational rehabilitation (VR) program, established under Title I; and
- the supported employment (SE) program, established under Title VI, Part B.

Minnesota Administration of the VR and SE Programs

The Minnesota Division of Vocational Rehabilitation Services (VRS) provides VR and SE program services to all eligible individuals with disabilities in Minnesota, except those who are blind and visually impaired. VRS, the designated state unit (DSU), is housed within the Minnesota Department of Employment and Economic Development (DEED), the designated state agency (DSA).

VRS Performance over the Past Six Years

Based on data provided by VRS through various RSA reporting instruments, the agency's employment rate decreased from 56.7 percent to 49.1 percent during the period beginning in FY 2004 and ending in FY 2009. Over this same period, the number of new applicants for VR services increased from 9,310 to 9,435, the number of individuals who received services under an individualized plan for employment decreased from 13,069 to 12,723, and the number of individuals the agency assisted to achieve employment decreased from 2,820 to 2,389. From FY 2004 through FY 2009, the average hourly earnings of those individuals who achieved competitive employment increased from $9.76 to $10.61.

Additionally during the period, of those individuals who achieved an employment outcome, the number who achieved a SE outcome decreased from 521 to 459. The average hourly earnings for these individuals increased from $6.01 to $8.39.

Observations of the Agency and Stakeholders

Through the course of the review, agency personnel and representatives of stakeholders, such as the State Rehabilitation Council (SRC) and the Client Assistance Program, shared information concerning the administration and performance of the VRS VR and SE programs.

During the review, they observed that:

- the Workforce Development Division (WDD) policy mandating that VR Counselors be located in cubicles inhibits the ability of VRS staff to maintain the confidentiality of information provided by applicants and individuals being served and to engage in effective communication with individuals and providers due to the lack of interview rooms when needed;

- VRS has borne a disproportionate share of Workforce Center (WFC) infrastructure costs under the cost allocation arrangements in use at the time of the review;
- VRS staff identify themselves as employees of the Minnesota Workforce Development system, rather than as employees of VRS, and DEED policy prohibits the display of signage, the use of business cards and other indications that identify VRS as a separate and distinct entity, resulting in low visibility of the VR program within the state;
- co-location in WFCs is better suited to the provision of services to individuals served through the workforce investment system than individuals with disabilities, particularly those who are blind and deaf; and
- the leadership initiatives implemented by VRS have resulted in a higher level of shared vision and understanding of the agency's values and mission, resulting in a positive effect on the qualitative performance of the agency.

Strengths and Challenges:

Based on the observations from the agency and its stakeholders and other information gathered through the review process, RSA concluded that VRS exhibited a variety of strengths that enhanced, and experienced a number of challenges that inhibited its ability to improve, the performance of its VR and SE programs.

The agency's strengths included the incorporation of articulated values throughout its planning activities. VRS engages in a ten-step strategic planning process based on a conceptual model developed at the University of Minnesota. The agency receives input into this process from the Minnesota Management and Analysis Division and an outside contractor. As it engages in this process and develops its strategic goals, VRS maintains a focus on its stated mission to provide direct services leading to the employment of individuals with disabilities, as well as leadership and direction in the field of rehabilitation within the state. To guide its work, VRS utilizes a single strategic plan encompassing VR, IL and state-funded Extended Employment services programs, believing that the integration of these activities will result in better quality employment outcomes. VRS applies its value statements to the development of goals and priorities as well as to the implementation of strategies and related service delivery activities at the staff level, creating a common vision and focus across all levels of the agency. VRS also views its stakeholders as critical participants in its planning process and invites the chairpersons of the SRC and Statewide Independent Living Council in VR management and planning meetings to ensure they are fully informed and actively involved in all stages of the process.

To support strategic planning efforts, VRS utilizes the DEED Workforce 1 (WF1) electronic record system as an effective VR case management tool. The agency uses the data and information collected through and stored in the WF1 system to monitor the delivery and quality of VR services, make improvements in its processes, determine current levels of performance, forecast future demands on its resources and meet federal reporting requirements.

VRS management also involve staff from across the agency in the development of VR program policies and procedures, facilitating the knowledge and understanding of the need for policy changes among those individuals responsible for the provision of services. Management then distributes these policies to its staff and the public through various methods. Agency staff are notified of amendments to policies and the adoption of new policies through electronic communication followed by placement of these policies on its intra-net site. The agency also makes its policies available to the public, including consumers and advocates, through its inter-net site. To ensure that staff understand and properly implement the policies, VRS engages in a variety of training activities, including training for all new counselors, training at the time that new policies are implemented and targeted training on specific policy issues identified through the agency's quality assurance activities.

At the time of the review, VRS was experiencing several challenges, including the use of a cost allocation process within the Workforce Development Division (WDD) resulting in payment of a disproportionate share of infrastructure costs by the agency to support the operation of the work force centers (WFC). This was primarily due to the extensive use of a cost allocation methodology based on staffing levels as measured by fulltime equivalents, rather than actual customer traffic and usage of various WFC services and programs. Over time, this method of cost allocation caused an increasingly disproportionate share of WFC costs to be borne by programs with available funding, including the VR program.

In addition, VRS was not in compliance with the organizational requirements pertaining to the administration of the VR program, which also resulted in difficulties in the effective management of program resources. VRS did not employ staff 90 percent of whom worked full-time on the VR or other rehabilitation work of the agency, as specified in section 101(a)(2)(B)(ii) of the Rehabilitation Act, thus reducing the staff available to administer and provide services through the VR program. During the review, RSA found that nearly 40 percent of VRS staff were devoting a portion of their time to the provision of universal WFC services not considered to be within the scope of the VR or other rehabilitation work of the agency. The costs for this staff time were then improperly charged to the VR program, thereby reducing the funds available for use in the program.

Furthermore, VRS exists within a larger organizational structure in which VRS is not located at a level equal to that of other major organizational units within the DSA as required by section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv). Instead, VRS is submerged within the WDD and is not on a level equal to that of other major units within DEED. Moreover, the VRS Director does not have a direct line of reporting to the Commissioner of DEED, but instead reports to the Director of the WDD, who, in turn, reports to the DSA. This organizational structure has contributed to a reduction in the agency's control over its resources and its autonomy in policy and decision making.

Finally, VRS has experienced difficulty in facilitating the Governor's timely appointment of members to the SRC. Contrary to federal requirements, state law permits SRC members to serve six months beyond their first and second terms. As a result, numerous vacancies have occurred on the Council for six months or longer, compromising representation of all required stakeholder groups on the Council and the ability of the SRC to engage in its mandated functions in accordance with the Rehabilitation Act.

Acknowledgement

RSA wishes to express appreciation to the representatives of DEED, VRS, the SRC and the stakeholders who assisted the RSA review team in the monitoring of VRS.

CHAPTER 1: VOCATIONAL REHABILITATION AND SUPPORTED EMPLOYMENT PROGRAMS OF THE VRS

VR and SE Program Systems

The following sections of this chapter describe the manner in which VRS administers and operates the VR and SE programs through a variety of functions or systems, including service delivery, personnel, case and data management, quality assurance and planning.

Service Delivery

VRS provides services throughout Minnesota through 16 Workforce Service Areas (WSAs). Each WSA has one or more WorkForce Centers (WFCs) located within its boundaries. There are 49 WFCs in Minnesota. VRS field staff is highly integrated in Minnesota's One-Stop system, with 40 VRS offices being co-located in WFCs. VRS serves the remaining nine WFCs on a regularly scheduled itinerant basis. VRS also has field staff housed in three high schools and in five stand-alone sites. Within this structure, VRS has organized the field staff into 18 area teams.

VRS has implemented an order of selection with closure of Category 4since January 2000. The OOS consists of four priority categories for the provision of VR services. The agency assigns individuals to Category 1 if they experience three or more functional limitations and to Category 2 if they experience two functional limitations, in accordance with its definition of "individuals with most significant disabilities." Individuals assigned to Category 3 are those persons with "significant disabilities" as defined under federal law and all other eligible individuals are assigned to Category 4. Under the agency's management of the order, Categories 1 through 3 remained open from August 2006 until July, 2010, when Category 3 was closed due to an increase in the number of applicants since FY 2007 for which financial resources did not keep pace.

Throughout the implementation of the order, VRS has engaged in strategies to insure that individuals with disabilities receive assistance from other agencies to address their employment needs. For example, VRS has developed an effective information and referral system to other components within DEED for individuals who are deaf and hard of hearing and who are not assigned to an open category at the time they seek services from the agency.

Individuals with disabilities are most often referred to VRS for services by secondary schools and mental health agencies. VRS uses both in-person and group orientation processes depending on the office and the needs of the individual. It has initiated a "lean" process to help the agency streamline the application, orientation, eligibility and plan development processes to speed service delivery, increase engagement with individuals being served and to reduce the number of individuals who exit the VR program prior to service delivery.

VRS employs 35 placement staff and five regional placement specialists to provide job placement services directly to individuals. The agency reported that approximately 29 percent of all job placements are obtained by external vendors under performance-based contracts, and the balance (50 percent) obtain employment through other channels such as personal networks, school referrals and placement services, WorkForce Center services, or other employment services. The agency's pool of vendors consists of 56 CARF-accredited CRPs, as well as 55 "limited use" vendors that primarily serve the more remote locations in Minnesota. These limited use vendors are restricted in the number of individuals they can serve and the total dollar amount they can receive. This approach allows for the provision of services in rural areas where it is not cost effective for CARF-accredited vendors to provide services.

Assistive technology needs are met by a full time AT program specialist who leads a team of VR counselors and Rehabilitation Technicians (RT) trained in AT assessment and use. The AT staff include three regional staff and a lead person for AT in each office. These lead staff members receive training and consultation in AT-related areas. VRS also collaborates with the Agribility program, administered by the US Department of Agriculture, to assist consumers working in farming and agriculture-related occupations.

At the time of the review, VRS had adopted the business service model prevalent in DEED, resulting in the employment of three Business Services Specialists (BSS) within the agency. The VR BSS develops relationships with industries that may benefit VR consumers directly through the creation of potential openings. VRS indicated that this approach had resulted in approximately 170 individuals achieving employment, 50 of whom were engaged in home-based work.

VRS employs 31 counselors dispersed throughout the state who are dedicated to the provision of services to transition-age youths. Additionally, 76 counselors serve both adults and youths with disabilities and 49 counselors serve adults only. VRS also employs a transition specialist who convenes an internal coordinating team to review transition issues, including opportunities for joint training of education and VR staff. In addition, the specialist participates in the Minnesota State Interagency Committee, a state-mandated body operating under an interagency agreement to synchronize transition planning for improved employment outcomes. This team also identifies and plans professional development activities for staff involved in transition services.

Since FY 2006, the agency engaged in several activities to improve transition services, including the completion of a customer satisfaction survey focused on transition-age youths and the expansion of its outreach activities in order to obtain greater numbers of referrals from county mental health agencies and the Department of Corrections. VRS and the Minnesota Department of Education (MDE) also initiated a two-year grant project to determine if stationing more VR counselors in schools would improve the number of transition youths served. The grant covered the costs of itinerant office space for VRS counselors in twelve local school districts.

Each year, VRS receives approximately 12.5 million dollars from the state to manage the Extended Employment Program (EEP), which consist of three separate employment models managed by the VRS Supported Employment Program. The three programs are referred to as Center Based Employment, Community Based Employment and Supported Employment. Using approximately $2.4 million of these funds, the agency supports the Center-Based program, a sheltered employment program through which individuals not participating in the VR program are paid less than minimum wage based on their rate of production. In the Community-Based program, VRS contracts with 24 individual CRPs that use group placements and mobile work crews to provide employment opportunities for individuals who are not ready for competitive employment in the community. Through the third supported employment model, VRS establishes performance-based contracts with 28 CRPs to provide SE services to individuals with developmental disabilities and mental health impairments.

Personnel

Table 1.1 below provides the number of employees in each job classification related to the provision of VR services during FY 2008.

Table 1.1:
VRS Personnel Data Demonstrating Job Categories and Number of Staff—FY-2010

Position	Number of Staff
Rehabilitation Counselors	150.2
Vocational Rehabilitation Techs	64.75
Placement Staff	38
Administrative Staff	33
Support Staff	30.70
Rehabilitation Representatives	23.75
Regional Area Managers	18
Other Staff	16
Supervisors	8
Business Service Specialists	4
Community Liaisons	2
Interpreters	2
Total	**390.4**

VRS averaged a staff turnover rate of 13 percent from FY 2008 through FY 2010, during which time it experienced approximately four vacancies per month. The agency anticipated that this rate would increase to approximately 25 percent within the next five years, resulting in an estimated 80 vacancies, of which 30 were expected to occur within the ranks of VR counselors.

At the time of the review, all VR counselors met the agency's personnel standard for the position under its comprehensive system of personnel development (CSPD), which requires the possession of a Masters degree in rehabilitation counseling or a closely related field with coursework in all four areas specified in "category D" established by the Committee on Rehabilitation Counselor Certification. VRS does not hire counselors who do not possess these qualifications. To increase the diversity of its counseling staff, VRS has collaborated with Metro State, a local urban undergraduate program with a large population of older and more diverse returning students, placing students from this and other programs throughout the state in internships within the agency.

Data and Case Management

VRS utilizes a comprehensive data system called Workforce One (WF1) to manage its VR and IL programs. WF1 is the case management system used by DEED to track client activity in 28 state-funded employment and training programs and many locally funded programs and is also used for case management, purchasing and information management (data reporting). This system is administered and maintained by DEED and used by 128 State, County and private non-profit service providers. WF1 was first implemented in 2006 and is an internet based system that can be accessed by counselors outside the office. VR and WIA cases are maintained separately to protect the confidentiality of consumer information.

Authorizations within WF1 are tied to those services identified on each individualized plan for employment (IPE). Selection of the service provider is also interfaced with the state purchasing system, Minnesota Accounting and Procurement System (MAPS). Under this system different staff must initiate and pay the authorization, ensuring adequate internal controls. Expenditures in WF1 are tracked to individual cases, service titles, and authorizations, making the system readily amenable to the reporting of RSA 911 and RSA 113 data.

VRS has the capability to generate reports based on different levels of staff needs using MS Reporting Services. This is separate from WF1 and provides a series of case management reports at caseload, team and statewide levels. Reports are developed with input from field staff to create reports and report formats that are useful to staff. Available reports include 60 day, active status, pending status, caseload summary, and purchased service reports. The system also offers employment outcome reports including successful placements as well as performance measures reports on individual, team and statewide levels.

All case records are electronic with the exception of medical records and documents that require signatures such as IPEs, consent forms and invoices, which are maintained in print. At the time of the review, VRS was exploring the potential for the scanning of these print records and the development of electronic signature protocols, thereby creating a totally electronic case management system.
To coordinate the implementation and use of the WF1 system by VRS, the agency uses the services of a VR specialist and business analyst employed by the Bureau of Information Technology (BIT) within DEED. This individual assisted with the design of WF1 and works with VRS staff to identify and implement needed changes to the system. To facilitate her role in this activity, she is located two days per week in the agency's St. Cloud field office, where she interacts with field staff and reviews the performance of the WF1 system.

Quality Assurance

The VRS quality assurance system consists of internal and external components. The agency conducts fiscal and service record reviews for each of the 18 teams providing services, one team per month on a rotating basis, to determine that the standards of service delivery are being met. These standards include determination of eligibility within 60 days, development of an IPE in 150 days, and all other regulatory requirements. Quarterly peer reviews of service records are also conducted at the team level. Staff performance appraisals are based on the core competencies established by VRS for each position in the agency as well as on the individual's performance with respect to the strategic goals of the agency. The

VRS management information system generates numerous reports used by management to track progress on the agency's performance and strategic goals.

CRPs are required to achieve CARF accreditation. Individual service providers, termed Limited Use Vendors (LUV) by VRS, are required to obtain CARF accreditation if more than $20,000 in services are purchased. LUVs are registered businesses that must give satisfactory assurances to the state in providing employment related services. Services for job placement are purchased under performance based contracts and other services are purchased through fee-for-service arrangements. At the time of the review, VRS was organizing a CRP advisory group to discuss issues in service provision, such as a process for handling complaints and development of performance indicators.

Policies are reviewed regularly to determine the need for update. VRS tracks requests for exceptions to policy and uses this information to determine the need for policy review.

VRS participates in the DEED department-wide consumer satisfaction survey that is conducted quarterly under contract by an out-of-state entity. Individuals who have received services under an IPE are contacted by telephone and asked about their experience with the agency concerning the responsiveness to their needs, their ability to actively participate in the development of the IPE and their overall satisfaction with the agency's services. The results, described at department and program levels, are available to the public on the DEED website.

VRS conducts studies when needed, such as a study to determine the factors that result in employment with low wages or a small number of hours worked. Through these activities, VRS identifies areas for review and possible improvement. Recently, VRS determined that customer satisfaction with the program was decreasing, the length of time for developing and signing an IPE was increasing, and that this increase may affect consumer satisfaction. As a result, the agency was reviewing the IPE development process to identify inefficiencies and strategies to correct staff practices.

The agency disseminates quality assurance information to the SRC, the Commissioner of DEED, managers of other DEED programs, and to VRS staff through updates from the VRS Director and from the Director of Field Services.

Planning

VRS has developed a mission/value statement that serves as the foundation for all planning activities. According to this statement, VRS will achieve employment and greater independence for individuals with disabilities through its role as a leader in the field of rehabilitation in the state. The statement also articulates the need for broad stakeholder participation focused on the exercise of informed choice, equal opportunity, self-sufficiency and full community integration. This statement, along with the Comprehensive State Wide Needs Assessment (CSNA), guides the development of a single strategic plan encompassing the VR, IL and the state-funded Extended Employment services programs. The agency believes that the integration of the three programs is necessary to achieve a positive impact on employment and independent living outcomes. Through the development of the strategic plan, VRS identifies strategic long-term goals, as well as priorities that establish the framework within which specific steps will be taken to achieve progress toward each goal over a one to two year period. VRS invites the Council Chairpersons of these organizations to participate in strategic planning sessions to ensure that the SRC and SILC members possess sufficient information enabling them to actively participate in the agency's strategic planning process.

In addition to the strategic plan, Minnesota is one of two states that submit a Unified State Plan pursuant to the Workforce Investment Act. VRS also develops and submits to RSA a separate State Plan meeting the requirements of Section 101(a) of the Act. VRS views the results of its CSNA and on-going analysis of performance data as critical sources of information for the development of the goals and priorities contained in its strategic plan and VR State Plan.

VRS integrates its values in both its strategic planning process and evaluation activities to improve service delivery. For example, the agency identified through the review of performance data that an increased number of individuals were exiting the VR program prior to the development of the IPE. Consistent with a commitment to providing timely and quality services to individuals with disabilities and after seeking broad input underlying reasons for elevated attrition rates, VRS established goals and priorities to reduce delays and improve efficiency in service delivery. Strategies for achieving these goals included the establishment of a "Lean Committee" including field level staff and managers to review VRS processes and develop ways to improve the timeliness and efficiency of application, plan development and service delivery processes.

As part of the ongoing evaluation and plan review process, VRS presents a directors report at each SRC meeting. This report includes relevant federal and state information and developments as well as a progress report on each strategic priority. VRS also distributes information related to the strategic plan to the public by:

- posting the current plan on the DEED website;
- presenting information on how to access the strategic plan as well as describing specific portions of the plan in public forums related to various topics; and
- distributing press releases and letters to stakeholders seeking input into the state plan.

VR and SE Program Performance

The following table provides data on the performance of the VR and SE programs administered by VRS in key areas from FY 2004 through FY 2008.

Table 1.2
Program Highlights for DEED-RS VR and SE Program for FY 2004 through FY 2008

Program Highlights	2004	2005	2006	2007	2008
Total funds expended on VR and SE	$43,573,514	$41,857,561	$43,475,926	$44,384,820	$52,218,164
Individuals whose cases were closed with employment outcomes	2,820	2,219	2,523	2,502	2,620
Individuals whose cases were closed without employment outcomes	2,155	1,634	1,645	1,412	1,708
Total number of individuals whose cases were closed after receiving services	4,975	3,853	4,168	3,914	4,328
Employment rate	56.68%	57.59%	60.53%	63.92%	60.54%

Program Highlights	2004	2005	2006	2007	2008
Individuals whose cases were closed with supported employment outcomes	521	385	502	496	494
New applicants per million state population	1,825	1,505	1,385	1,594	1,890
Average cost per employment outcome	$3,174	$4,046	$3,669	$4,100	$3,711
Average cost per unsuccessful employment outcome	$2,071	$2,355	$2,362	$3,039	$2,582
Average hourly earnings for competitive employment outcomes	$9.76	$10.05	$10.42	$10.56	$10.80
Average state hourly earnings	$19.06	$19.79	$20.05	$21.04	$21.89
Percent average hourly earnings for competitive employment outcomes to state average hourly earnings	51%	51%	52%	50%	49%
Average hours worked per week for competitive employment outcomes	29.0	29.3	30.0	30.1	29.6
Percent of transition age served to total served	34.17%	36.62%	37.52%	36.77%	35.81%
Employment rate for transition population served	61.59%	65.91%	65.66%	66.57%	63.87%
Average time between application and closure (in months) for individuals with competitive employment outcomes	29.4	35.5	33.9	31.7	29.3
Performance on Standard 1	MET	MET	MET	MET	MET
Performance on Standard 2	MET	NOT MET	NOT MET	NOT MET	NOT MET

VR/SE Program Performance Observations and Recommendations

As a result of its review activities, RSA identified the performance observations set forth below and recommended that VRS take specific steps to improve the agency's performance associated with each of the observations.

1. Outreach to Section 504 Eligible Students

Observation: VRS conducts limited outreach activities to transition-age youths and their families that do not include youths receiving educational services under Section 504 of the Rehabilitation Act. This practice may reduce the ability of VRS to effectively assist youths with disabilities requiring VR services to achieve employment.

- VRS recently established a state plan goal of increasing the number and percent of special education students served by the agency. The agency has conducted outreach and marketing activities to achieve this goal. VRS staff state that students served under Section 504 of the Rehabilitation Act are not included in this outreach.

- VRS guidance and policy specifically identify procedures for serving transition aged youth who are special education students, but does not specifically include students eligible under section 504 and has not established procedures for serving 504 students.
- VRS staff states that section 504 students are more difficult to identify, as schools do not often designate a specific individual to act as a liaison with VR for these students and are not required to track these students. In addition, VR staff is not in regular contact with a school nurse, regular education teacher, or administrator who may be supporting a 504 eligible student.

Recommendations: RSA recommends that VRS:

- Develop strategic goals for the increase in service provision to Section 504 students and the achievement of outcomes by these students;
- identify section 504 eligible students in its policies and procedures for serving transition-age youths; and
- include section 504-eligible students in its outreach to transition aged youths, including outreach to school personnel who support these students.

2. Decrease in Outcomes and Increase in Cases Closed Prior to Service Delivery

- **Observation:** VRS demonstrated a reduction in the number of employment outcomes and the rehabilitation rate from FY 2004 through FY 2009. In addition, the number of individuals who exited the program prior to the development of the IPE increased during the same period. As a result, VRS assisted fewer individuals who may require its services to achieve employment during the period.
- VRS achieved 2,820 employment outcomes in FY2004, but experienced a dramatic decline in this performance in FY 2005, when it assisted only 2,219 individuals to achieve employment.
- Between FY 2006 and FY 2008, VRS increased the number of successful outcomes to 2,620, but again experienced a substantial decrease to 2,389 in FY2009.

Table 1.3
Employment outcomes FY 2004 through FY 2009

FY	2004	2005	2006	2007	2008	2009	Change 2004 to 2009
VRS							
Employment outcomes	2,820	2,219	2,523	2,502	2,620	2,389	-15.3%
National General Agencies							
Employment outcomes	109,749	103,188	102,787	102,583	104,132	92,000	-16.2%

- VRS's rehabilitation rate for FY 2009 was 49.12 percent, compared to the 55.8 percent standard required by RSA and the national combined agency average of 58.2 percent.

Table 1.4
Individuals closed prior to service delivery FY 2004 through FY 2008

FY	2004	2005	2006	2007	2008
VRS					
Closed after eligibility, before IPE developed	2,033	1,623	3,002	2,832	3,665
National General Agencies					
Closed after IPE developed, before services initiated (D4)	78,883	72,577	74,456	76,981	81,919

- VRS experienced an increase in the number of individuals whose cases were closed prior to service delivery from FY 2004 through FY 2008, as indicated in Table 1.4 above. The number of individuals exiting the VR program after their eligibility was determined but before an IPE was developed increased from 2,033 to 3,665, or an 80.3 percent increase. This data indicates that there was increased attrition during plan development and suggests the agency may have been attempting to serve more individuals than staff and fiscal resources were able to support.
- Through its implementation of an order of selection, VRS closed all priority categories from January 2004 through August 2005 with the result that no new individuals entered the program during that period of time.
- During the course of the review, RSA expressed concern that VRS has not recovered to prior performance levels and that the decline in employment outcomes from FY 2008 to FY 2009 was related to causes independent from the prior closing of all priority categories in FY 2003. In addition, with the closing of Categories 2 and 3 before the end of FY 2010, it is likely that employment outcomes in subsequent program years will again be affected.

Recommendations: RSA recommends that VRS:

- evaluate the underlying reasons for the decrease in employment outcomes and identify those factors that are within its control;
- evaluate the underlying causes for the low rehabilitation rate and identify what factors can be addressed to improve these measures;
- evaluate the underlying reasons for the increase in case closure prior to service delivery and assess the impact of delays in plan development on service delivery; and
- develop and implement goals and objectives to address the factors identified through these evaluations.

VR/SE Program Compliance Findings and Corrective Actions

As a result of its review activities, RSA identified the following compliance findings and corrective actions that VRS is required to undertake. VRS must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and is available to provide technical assistance to assist the agency in the development of the plan and the implementation of the corrective actions. RSA reserves the right to pursue enforcement actions in connection with the findings below, including the recovery of Title I VR funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of EDGAR.

1. DSU Organizational Structure

Legal Requirements:

34 CFR 361.13(b)(1)(iv) states:

> (b) *Designation of State unit.*
>
> ****
>
> (iv) Is located at an organizational level and has an organizational status within the State agency comparable to that of other major organizational units of the agency.

Program Instruction (PI)-75-31 (June 3, 1975), page 5 states:

> The Regulations reflect these statutory provisions and state that in evaluating the comparability of the organizational level and status of the organizational unit, the Secretary will give consideration to such factors as the directness of the reporting line from the administrator of organizational unit for vocational rehabilitation to the chief officer of the designated state agency; the title, status, and grade of the administrator of the organizational unit for VR, as compared with those of the heads of other organizational units of the State agency; the extent to which the administrator of the VR organizational unit can determine the scope and policies of the VR program; and the kind and degree of authority delegated to the administrator of the VR organizational unit for the administration of the VR program.

Finding: VRS has failed to satisfy the organizational requirements for a designated state unit (DSU), as required by section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

According to the FY 2010 VR State plan, the most recent plan approved by RSA, VRS is the DSU in Minnesota for providing VR services to individuals; the designated state agency (DSA) for the VR program is the MN Department of Employment and Economic Development (DEED). DEED has four major components, the Trade Division, the Business and Community Development Division, the Unemployment Insurance Division, and the Workforce Development Division. VRS – the DSU — is a subcomponent of the Workforce Development Division (WDD), which is one of the four major organizational units of DEED. Under this organizational structure, the Director of VRS reports to the Director of the WDD, who, in turn, reports to the Commissioner of DEED, the DSA.

Section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv) require the DSU to be located at an organizational level and have an organizational status within the DSA that is comparable with other major organizational units of the DSA. The determination as to what constitutes a "major organizational unit" within the DSA depends largely on the organizational structure of the DSA. It has been the long-standing policy of RSA that an evaluation of whether the DSU is located at an organizational level comparable to other major organizational units within the DSA would be based on, among other factors, the directness of the reporting line from the VR director to the chief officer of the DSA, as compared with that of the heads of other major organizational units within the DSA (PI-75-31 (June 3, 1975)). As described above, in Minnesota, DEED (the DSA) is comprised of four different major units, the heads of which administer on the Commissioner's behalf a number of programs within their purview. Each of these unit heads, including the director of WDD, reports directly to the DEED Commissioner. The heads of the subunits report to the appropriate unit head (e.g., VRS director reports to WDD director – not the DEED Commissioner). As such, the VRS director does not have a direct reporting line to the Commissioner of DEED, the DSA, and is, therefore, not at a comparable level of the four major organizational units within DEED. For these reasons, VRS has failed to satisfy the organizational requirement set forth at section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

Corrective Action: VRS must:

1.1 provide written assurance to RSA within ten days of the issuance of the final report that VRS will work with the Commissioner of DEED to ensure that revisions will be made to the DEED organizational structure that would enable VRS to comply with Federal organizational requirements for the DSU of the VR program. In particular, the revised organizational structure must ensure:
   a) the VRS Director reports directly to the head of the DSA with no intervening organizational or administrative level, and
   b) VRS has a status equal to other major organizational units within the DSA.

2. DSU Organizational Requirement—VRS Staff Time Distribution

Legal Requirements:

34 CFR 361.13(b)(1)(iii) states:

(b) *Designation of State unit.*

****

(iii) Has a staff, at least 90 percent of whom are employed full time on the rehabilitation work of the organizational unit.

34 CFR 361.3 states:

The Secretary makes payments to a State to assist in—

(a) The costs of providing vocational rehabilitation services under the State plan; and

(b) Administrative costs under the State plan.

34 CFR 361.12 states:

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

34 CFR 80.20(a) states:

> A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Preamble to 1997 VR program regulations at 62 Fed.Reg. 6308, 6316 (Feb. 11, 1997) states:

> This provision means that if the organizational unit provides other rehabilitation services, in addition to vocational rehabilitation, the 90 percent staffing requirement applies to all unit staff providing rehabilitation services, not to just the vocational rehabilitation staff. ‘‘Other rehabilitation’’ includes, but is not limited to, other programs that provide medical, psychological, educational, or social services to individuals with disabilities….The Secretary believes that this requirement is consistent with the statutory requirement in section 101(a)(2)(A)(iii) of the Act that ‘‘substantially all’’ of the DSU’s staff shall work on rehabilitation and with RSA’s longstanding interpretation of ‘‘substantially all’’ to mean 90 percent.

Finding: VRS has failed to satisfy the DSU organizational requirement of 34 CFR 361.13(b)(1)(iii), because more than ten percent of the VRS staff work at least some of the time on other matters arising under the purview of the DSA. In addition, VRS has failed to comply with 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a), because VRS has expended VR funds for purposes not related to the VR program.

As described in more detail in Finding 1 above, the DSU for the VR program in Minnesota is VRS, and the DSA for the VR program is DEED. VRS employs 390 full-time staff. However, data provided by VRS during the RSA monitoring process indicate that 130—or 33 percent—of VRS staff dedicate at least part of their time to activities beyond the VR and other rehabilitation work of the DSU (VRS). These 130 VRS staff, who split their time between the VR work of the DSU and other work of the DSA (DEED), do so by supporting the universal service activities of the one-stop workforce centers (WFCs). These universal service activities include duties such as management of the WFCs; provision of receptionist, clerical support and resource room coverage; and other services used by all individuals, regardless of whether they are individuals with disabilities seeking VR services, entering the WFCs for services provided by the WFCs. As described in Finding 1 above, VRS is housed within WDD, which is a major organizational unit of DEED. WDD is primarily concerned with the employment and other training activities funded under Title I of the Workforce Investment Act of 1998 and administered by the U.S. Department of Labor.

While onsite, RSA questioned VRS management about the high percentage of individuals (33 percent) who split their time between the VR program and other activities of DEED, including supporting the universal services activities of the WFCs. VRS management informed RSA that, while 33 percent of the staff split their time with other activities, the total number of VRS staff hours spent on these other activities was no more than ten percent of the total number of staff hours spent per year on all activities of the DSU. Therefore, VRS management believed that VRS was in compliance with 34 CFR 361.13(b)(1)(iii). In addition, according to the information provided by VRS during the RSA on-site visit, VRS expended $2,107,007.7 in Federal VR funds during FY 2009 to pay for the salaries and benefits of VRS employees for the time they spent working on universal services of the WFCs.

Section 101(a)(2)(B)(ii)(III) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iii) of its implementing regulations require that at least 90 percent of the DSU staff must be employed full-time on the VR or other rehabilitation work of the DSU. To be clear, this Federal requirement refers to 90 percent of the staff—not 90 percent of the staff's work hours. This means that no more than ten percent of the VRS staff (or 39 of the 390 staff) may spend any time working on matters that are not related to the VR or other rehabilitation work of VRS (62 Fed. Reg. 6308, 6316 (Feb. 11, 1997)). According to the data provided by VRS, 130 or 33 percent—nearly three times more than allowed under the Rehabilitation Act and its implementing regulations—of VRS' employees spend at least part of their time working on universal services activities for the WFCs, administered by WDD—not VRS. The universal services activities of the WFCs do not constitute "other rehabilitation" activities of VRS because: 1) the WFCs are administered by WDD—not VRS—and, therefore, are not VRS activities; and 2) the universal services are available to all individuals entering the WFCs and, as such, are not limited to individuals with disabilities. For these reasons, VRS has failed to comply with 34 CFR 361.17(b)(1)(iii) since more than ten percent of its staff work on matters not related to the VR and other rehabilitation work of VRS.

In addition to the excessive staff time spent by VRS employees on WFC matters, VRS has failed to comply with 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a). Section 111(a)(1) of the Rehabilitation Act and 34 CFR 361.3 require that VR funds be spent solely for the provision of VR services and the administration of the VR program. Federal regulations at 34 CFR 361.12 and 34 CFR 80.20(a) require VRS to administer the VR program in such a manner that ensures the proper and efficient expenditure and accounting of VR funds. In FY 2009 alone, VRS spent more than $2 million in salaries and benefits for VRS employees for the time they spent working on universal services for the WFCs. While VRS may expend VR funds for the provision of universal and core services at the WFCs, pursuant to 34 CFR 361.23, these expenditures must be proportional to the benefit that VRS received from providing those services. As will be described in more detail in the Fiscal Chapter of this report, VRS expended more than its fair share of the shared costs of providing these universal services. For this reason, not all of the VR expenditures incurred for this purpose were allowable under the VR program. Expenditure of VR funds for unallowable purposes violates the requirements to administer the VR program in a proper and efficient manner.

Corrective Action: VRS must:

2.1 cease using VRS staff and funds to cover non-VR activities, except in accordance with VRS' fair share pursuant to 34 CFR 361.23;

2.2 submit a written assurance to RSA within ten days of the issuance of the final report that VRS will ensure that at least 90 percent of the DSU (VRS) staff are engaged full time on the VR or other rehabilitation work of the DSU;

2.3 that VR funds—including non-Federal funds used for match and MOE purposes under the VR program—will be spent solely on allowable expenditures under the VR program; and

2.4 submit a plan, including timelines, for the steps VRS will take to ensure that at least 90 percent of its staff is employed full time on the VR and other rehabilitation work of VRS.

Technical Assistance

This section of the chapter describes the technical assistance (TA) provided by RSA to VRS during the course of the review. The TA requested by the agency to enable it to carry out the recommendations and corrective actions set forth above is included in Appendix A of this report titled "Agency Response."

Technical Assistance Provided

During the review of the VR and SE programs, RSA provided technical assistance to VRS regarding:

- The development of IPEs for transition-age youths, the amendment of such IPEs and the appropriate use of developmental plans for these individuals;
- development and use of natural supports;
- cost allocation;
- The federal staffing requirements for the DSU;
- local and state interagency agreements with education partners for the provision of transition services;
- use of Schedule A hiring practices to achieve employment in the federal government;
- coordination with Veterans Administration VR and Compensated Work Therapy programs; and
- use of the CSAVR- NET.

Chapter 2: Fiscal Management of the VRS Vocational Rehabilitation and Supported Employment Programs

RSA reviewed VRS's fiscal management of the vocational rehabilitation (VR) and Supported Employment (SE) programs. During the review process, RSA provided technical assistance to the state agency to improve its fiscal management and identified areas for improvement. RSA reviewed the general effectiveness of the agency's cost and financial controls, internal processes for the expenditure of funds, use of appropriate accounting practices and financial management systems.

Fiscal Management

The Department of Employment and Economic Development (DEED), the designated state agency (DSA), receives authorization for its funding—both state and federal dollars—through the State of Minnesota's budget process. Minnesota state government operates on a two-year budget cycle, a biennium that begins on July 1 and ends June 30 of the second year. During each odd-numbered calendar year, the governor proposes—and the legislature ratifies—the state's operating budget (also known as the biennial budget), covering the biennium. Once enacted, an operating budget can be modified in the "off-year" legislative session; revisions are referred to as supplemental budgets. Also, in legislative sessions of even-numbered calendar years, Minnesota typically adopts a capital budget for capital expenditures not financed in regular state agency operating budgets. DEED currently makes many financial determinations regarding the expenditures and allocation of costs of VR. This is especially evident in the financial administration of the many DEED Workforce Centers throughout the state.

VRS uses a Performance-Based System of Payment and Services for community rehabilitation programs and limited-use vendors. The compensation system, developed for use with community rehabilitation programs and limited-use vendors providing job placement, job coaching, and job retention services, rewards organizations facilitating successful outcomes for VR customers.

VRS Fiscal Performance

The data in the following table are taken from fiscal and program reports submitted by the state agencies to RSA, and speak to the overall effectiveness of the agency's fiscal management practices. Data related to the VR program matching requirements are taken from the fourth quarter of the respective fiscal year's SF-269 report. The data pertaining to the VR program maintenance of effort requirements are derived from the final SF-269 report of the fiscal year (two years prior to the fiscal year to which they are compared). Fiscal data related to VR program administration, total expenditures, and administrative cost percentages are taken from the RSA-2.

Table 2.1
Fiscal Data for DEED-VRS for FY 2004 through FY 2008

Minnesota (G)					
Fiscal Year	**2004**	**2005**	**2006**	**2007**	**2008**
Grant Amount	$33,320,563	$33,052,862	$34,225,892	$35,537,121	$34,861,749
Federal Expenditures	$33,320,563	$33,052,862	$34,225,892	$35,537,121	$34,861,749
Required Match	$9,018,145	$8,945,692	$9,263,170	$9,618,052	$9,435,264
Actual Match	$9,018,145	$8,945,263	$9,266,623	$9,619,834	$9,443,375
Over (Under) Match	$0	-$429	$3,453	$1,782	$8,111
Carryover at 9/30 (year one)	$0	$1,487,222	$4,422,390	$9,367,712	$6,290,990
Program Income	$1,526,706	$1,520,789	$3,155,829	$3,267,426	$2,918,249
Maintenance of Effort (MOE)	$8,835,814	$8,919,435	$9,018,145	$8,945,263	$9,266,623
Administrative Costs	$4,738,641	$5,772,890	$5,774,261	$5,735,539	$7,501,070
***Total Expenditures**	$43,573,514	$41,857,561	$43,475,926	$44,384,820	$52,218,164
Percent Admin Costs to Total Expenditures	10.88%	13.79%	13.28%	12.92%	14.36%

*Includes Supported Employment Program Expenditures.

Fiscal Management Observations and Recommendations

As a result of its review activities, RSA identified the following performance observations related to the fiscal management of the programs under review and recommended that VRS take specific steps to improve the agency's performance associated with each of the observations.

1. Enhancing Program Identity

Observation: VRS is a program within the Workforce Development Division of DEED. Approximately eight years ago, the Department of Trade and Economic Development and the Department of Economic Security merged to become DEED. As a result of the merger, a major emphasis was placed upon developing the Workforce Center System and creating a singular identity. The development of a cohesive Workforce Center identity is a laudable goal. However, implementation may have resulted in a significant loss of VR program identity. For example:

- Business cards received onsite for VR funded positions listed only "Positively Minnesota" and DEED. There was no reference to some staff being associated with the VR program;
- Information regarding the VR program and services is not readily accessible on the DEED website. The web pages containing relevant program information have no header referencing the VR program. Additionally, information regarding non-VR programs is intermixed with VR program information.
- Many of the Evidence Based Practice of Supported Employment (EBP-SE) and IL contracts reviewed did not include direct reference to the VR program despite being funded with federal VR funds. The contracts referenced DEED's responsibilities;

however, crucial references to the use of contract funds for providing VR services, in accordance with Federal Regulations, to VR applicants and consumers only was missing.

- Some job descriptions for VR funded positions lacked references to providing VR services in accordance with VR regulations. The position descriptions mentioned providing employment services to individuals with disabilities in the Workforce Center (DEED) System; however, a specific reference to VR services was missing.

VRS staff indicated they had been instructed to remove program specific references from public relation and contract documents and use inclusive DEED WFC language in an effort to support the development of a unified WFC identity. Not referencing the VR program or specific requirements directly in critical documents that demonstrate how VR funding is being used (e.g., contracts) may make it difficult for the agency to demonstrate those VR funds were not used in a manner inconsistent with federal regulations. Additionally, without specific program references in job descriptions, it may be more difficult for VR supervisors to ensure that VR funded staff are not pulled to provide coverage for non-VR programs.

Recommendation 1: RSA recommends that VRS review current program contract documentation and position descriptions to ensure that references to VR program services and requirements are included. Additionally, it may be helpful to identify ways to balance the program and WFC identity to ensure that both benefit without one eclipsing the other.

Fiscal Management Compliance Findings and Corrective Actions

RSA identified the following compliance findings and corrective actions that VRS is required to undertake. VRS must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and RSA is available to provide technical assistance to assist VRS to develop the plan and undertake the corrective actions. RSA reserves the right to pursue enforcement actions in connection with the findings below as it deems appropriate, including the recovery of Title I VR funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of EDGAR.

1. Unallowable Match — Evidence Based Practice of Supported Employment (EBP-SE) Program Contracts

Legal Requirements:

34 CFR 361.60(b)(1) and (2) state:

(1) *General*. Except as provided in paragraph (b)(2) and (3) of this section, expenditures made under the State plan to meet the non-Federal share under this section must be consistent with the provision of 34 CFR 80.24.

34 CFR 80.24 of EDGAR establishes the general requirements for meeting a program's non-Federal share.

34 CFR 80.24(b)(6), in pertinent part, requires:

> *Records*. Costs…counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors….

Background for Findings 1 and 2:

The goal of the Evidence Based Practice of Supported Employment (EBP-SE) Program, administered by VRS, is to "demonstrate and promote effective strategies for collaboration between employment and mental health services." VRS contracts with CRPs to provide EBP-SE services to individuals with mental illness; however, there is no requirement in any of the EBP-SE contracts that RSA reviewed that the services must be provided solely to VRS consumers.

VRS, a component of DEED, and the Adult Mental Health Division (AMHD) of the Minnesota Department of Human Services (DHS) are working collaboratively to implement the National Evidence Based Practice of Supported Employment in partnership with the Johnson and Johnson Dartmouth Community Mental Health Program. EBPs are specific service interventions documented to support success in recovery from significant mental illness (SMI) through clinical research trials.
EBP-SE is one of six EBPs in psychiatric rehabilitation identified by Dartmouth's Psychiatric Rehabilitation Center (PRC) and the federal Substance Abuse and Mental Health Services Administration (SAMHSA). EBP-SE is characterized by an individualized job placement and support (IPS) strategy and focuses on bringing integrated employment in the workforce at competitive wages and benefits into the lives of working-age adults with SMI. Also, EBP-SE requires a practical framework for imbedding supported employment services within a mental health treatment milieu. The goals are to fully integrate mental health treatment and supported employment to promote competitive employment. Eligibility for EBP-SE is driven by a mental health consumer's interest in working. There are no protocols for engaging participants in traditional "job readiness" type activities.

According to Section II(B)(2) of the EBP-SE contract, "[payments] are to be made from federal funds obtained by the STATE through Title I of the Vocational Rehabilitation Act (Public Law 93-112 and amendments thereto)." However, EBP-SE contractors provide certified matching fund expenditures from private and state funds equal to 5 percent of the total contract costs to VRS to be used towards satisfying its non-Federal share under the VR program.

In accordance with its obligations under 34 CFR 80.40, VRS conducts annual fidelity reviews of all EBP-SE service providers. VRS compiles its findings from the fidelity reviews in a Supported Employment Fidelity Report, which VRS provided to RSA, along with the contract documentation, during the on-site monitoring process. The reports contained VRS' comments, recommendations, and rating scores based upon the contractors' performance with regard to staffing, organization, and service indicators.

Finding: VRS used certified personnel costs of contractors to meet their non-Federal match requirement under the VR program with no supporting documentation that the contractor's costs were incurred to support the VR program and are allowable match, in violation of 34 CFR 80.24(b)(6).

The EBP-SE Program contracts state that "the GRANTEE shall provide certification that 5 percent of the amount in Attachment III [budget] was expended of GRANTEE'S funds." Consistent with this EBP-SE contract term, the FY 2008 Guild Incorporated contract, which RSA reviewed during the monitoring process, included an approved budget with a breakdown of contractor reimbursement by cost category. The contractor submits a Grant Invoice/Financial Status Request that includes the amount, by budget category, requested for reimbursement. The contractor then adds the 5 percent match, for personnel expenditures, to the total award costs for that period. The contractor does not pay the agency cash to meet the match requirement nor does the contractor provide verification of the match expenditures. In order to be used to meet the State's non-Federal share of the VR program, the allowable expenditures from non-Federal sources must be verifiable from the records of grantees and subgrantee or cost-type contractors (34 CFR 80.24(b)(6)).

Corrective Action 1: VRS must:

1.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that allowable expenditures used to meet the program's non-Federal share will comply with the requirements of 34 CFR 80.24(b)(6); and
1.2 submit data detailing the amount of match obtained that was not from verifiable records of the contractors for FYs 2005 to date.

2. Unallowable Costs under the EBP-SE Program Contracts

Legal Requirements:

Section 100(a)(2) of the Rehabilitation Act and 34 CFR 361.1 of its implementing regulations establish that the purpose of the VR program is to provide services to individuals with disabilities so that they may achieve an employment outcome that is consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

Section 111(a)(1) of the Rehabilitation Act and 34 CFR 361.3 of its implementing regulations require that Title I VR program funds be used solely to cover the costs of providing VR services and administering the VR program.

34 CFR 361.60(b)(1) states:

> (b) Non-Federal share—(1) General. Except as provided in paragraphs (b)(2) and (b)(3) of this section, expenditures made under the State plan to meet the non-Federal share under this section must be consistent with the provisions of 34 CFR 80.24.

34 CFR 80.24(a)(1) states:

> (a) Basic rule: Costs and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:
>
> (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.

2 CFR part 225, Appendix A (formerly known as OMB Circular A-87, Attachment A), paragraph C, in pertinent part, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
   b. Be allocable to Federal awards under the provisions of this Circular.
   ****
   j. Be adequately documented.
   ****
2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:
   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
   b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
   ****
3. Allocable costs.
   a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
   ****
   c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Finding: VRS is not in compliance with section 111(a)(1) of the Rehabilitation Act and 34 CFR 361.3 because the Title I VR program funds expended for EBP-SE contract costs are not used solely for the provision of VR services to VR consumers and applicants.

EBP-SE contractors employ Employment Specialists (ESs), who are part of a mental health treatment team, to manage caseloads of up to 25 participants. As described in the Background section above, salaries for the ESs are funded by Federal Title I VR funds. However, the contracts that RSA reviewed, as well as the fidelity reports that accompanied those contracts, clearly indicate that the VR-funded ESs are not solely serving VR applicants and consumers. For example:

- The Transitional Supported Employment of Moorhead (TRAN$EM) contract for the period beginning 7/1/2007, included a Supported Employment Fidelity Report dated December 21, 2007. The comments on page 4 of the report state that "[e]mployment case records reviewed **did not contain information suggesting that any current grant clients are actively receiving vocational rehabilitation services**." (emphasis added)
- The FY 2008 contract with Guild Incorporated includes a Budget Narrative (Attachment IV, page 1) listing the salaries for a full-time Lead ES, a full-time ES, and a part-time ES. VR funds the full costs of the ES positions. The Supported Employment Fidelity Report

dated December 10-11, 2007, page 4, states that “[t]he VR Counselor indicated that **VR has had 10 of the 20 persons served by one of the employment specialists open** to the VR program.“ (emphasis added)

- The Functional Industries, Inc. contract, initiated on 7/1/2007, included a Supported Employment Fidelity Report dated November 30, 2007. The comments on page 5 of the report state that “the VR counselor had **two VR cases open (out of 40 in the program)** at the time of review… the purpose of collaboration between employment specialists and VR is to discuss shared clients and referrals so that VR and SE can share resources and expertise to best serve clients. It is likely that other clients on the SE team would also benefit from VR services.” (emphasis added)

According to the information that RSA reviewed on-site, VRS used Federal VR funds to pay the budgeted costs for the ES positions per the submitted invoices despite the fact that the fidelity reviews of each of those contracts indicated that the EBP-SE contractors were not serving only individuals who are VRS consumers or applicants, as required by 34 CFR 361.3. RSA was provided no documentation demonstrating that VRS took corrective measures to prevent payment of funds or recoup those funds expended in serving non-VR applicants and consumers.

During the on-site review process, RSA also noted several instances in the contracts or related documentation that EBP-SE contractors were using VR funds to provide services that were either unallowable or unallocable to the VR funds. For example:

- The Human Development Center Employment Connection program was paid $12,540 for consultant fees in their contract beginning July 1, 2007. According to the contract documentation, the organization was “working with a consultant to develop a strategic plan… The consultant is working with the executive management team to simplify the operations team and organizational structure in an effort to provide better communication and integration across the agency.” The intent of the consultation is to enhance the functioning of the entire organization; however, the costs of the consultation are being paid through the EBP-SE contract. Because the CRP is providing services to more than just VR applicants and consumers under the EBP-SE contract, any such costs must be allocated in accordance with the benefits to the program (2 CFR part 225, Appendix A, paragraph C.3).
- The Functional Industries, Inc. contract included 1.5 FTEs for ESs and .5 FTE for a Director of Mental Health Services to supervise the ESs. As stated above, the fidelity review noted there were only 2 VR consumers – or 5 percent — out of 40 in the program. Using VR funds to pay 50 percent of the salary and benefits for a Director of Mental Health Services to supervise 1.5 FTEs serving only two VR consumers does not represent a reasonable or necessary cost to the VR program, or one that is proportional to the benefit received by the VR program, as required by the Federal cost principles. Instead, VR funds under the EBP-SE contracts should have paid only 5 percent of those personnel costs (5 percent of the 1.5 ES FTEs and 5 percent of the .5 Director FTE), pursuant to 34 CFR 361.3, 34 CFR 361.12, and the Federal cost principles of 2 CFR part 225, Appendix A.

In reviewing the contracts further, RSA noted that the contracts and supporting documentation did NOT include:

- Requirements that contractors use funds to serve only VR applicants or consumers;

- Requirements that budgets include only those personnel salary, fringe benefits, supplies and other costs associated with the provision of services to VR applicants or consumers; and
- Requirements that contractors comply with Federal requirements governing the provision of time-limited supported employment services under Titles I and VI-B of the Rehabilitation Act.

As a result, the EBP-SE contractors submitted invoices to VRS that included costs that were not limited solely to the provision of VR services to VR consumers or applicants or the administration of the VR program, as required by section 111(a)(1) of the Rehabilitation Act and 34 CFR 361.3. Without the necessary legal requirements included in the contracts to ensure funds are only used for allowable VR costs, VRS has used VR funds to pay for personnel and other costs under the EBP-SE contracts that were not allowable under or allocable to the VR program. As such, VRS is unable to ensure that only allowable, reasonable and allocable costs are charged to the EBP-SE contracts, as required by the Federal cost principles.

Furthermore, as was discussed further in Finding 1 above, each of the CRPs receiving contracts from VRS to run the EBP-SE program was required to put forth 5 percent of the total contract amount, from its Johnson and Johnson grant funds, towards helping VRS meet its match requirement under the VR program. To be an allowable source of match, the non-Federal funds must be used for an allowable VR expenditure (34 CFR 361.60(b)(1) and 34 CFR 80.24(a)(1)). In order to be an allowable expenditure under the VR program, funds must be used solely for the provision of VR services to eligible VR consumers or applicants of the VR program, or for the administration of the VR program (34 CFR 361.3). As described in more detail in this finding, the evidence demonstrates that the CRPs were serving individuals who were not solely VR consumers or applicants. To the extent that VRS is using non-Federal expenditures under the EBP-SE program for the provision of allowable VR services to eligible VR consumers or applicants, the expenditures would be allowable under the VR program. As such, those non-Federal expenditures could be used for satisfying VRS' match requirement under the VR program. On the other hand, VRS may not use non-Federal expenditures under the EBP-SE program, as a source of match, to provide services of any kind to individuals who are not consumers or applicants of the VR program. RSA will need further information from VRS about the non-Federal expenditures used for match purposes under the VR program in order to determine the level of compliance. In particular, RSA will need to know whether and how much of the EBP-SE funds used for match purposes were used to provide services to individuals who were not VR consumers or applicants and/or whether and how much of those funds were used to provide non-VR services to any individual, regardless of whether the individual is a VR consumer or applicant.

Corrective Action 2: VRS must:

2.1 cease using Title I funds under the EBP-SE contracts for the provision of non-VR services and/or the provision of services to individuals who are not consumers or applicants of the VR program, as required by 34 CFR 361.3;

2.2 cease using non-Federal funds under the EBP-SE contracts for match purposes under the VR program when those expenditures are not allowable under or allocable to the VR program, as required by 34 CFR 361.60(b)(1), 34 CFR 80.24(a), and the Federal cost principles;

2.3 submit a written assurance within 10 days of the issuance of the final report that VRS will comply with the requirements of 34 CFR 361.1, 34 CFR 361.3, 34 CFR 361.60, 34 CFR 80.24(a), and 2 CFR part 225, Appendix A, paragraph C; and

2.4 submit a spreadsheet detailing:

a) the amount of VR funds paid, from FY 2005 to date, to EBP-SE contractors for services provided to non-VR applicants and consumers. Be sure to include all costs associated with the provision of those services (e.g., fringe benefits, travel, equipment, consultation, etc.). In addition, if any Title I funds were used to pay costs associated with the administration and monitoring of the contracts (e.g., VRS monitoring staff, accounting personnel, supervisory personnel, etc.) the portion of costs associated with the provision of services to non-VR applicants and consumers must be included in this spreadsheet;

b) the amount of VR funds paid, from FY 2005 to the present, to EBP-SE contractors for the provision of non-VR services, as defined at 34 CFR 361.5(b)(58). As indicated above, be sure to include all costs associated with the provision of these services; and

c) the amount of non-Federal funds provided by the CRPs under the EBP-SE contracts toward VRS' match requirement under the VR program that were not expended in the provision of VR services to VR consumers and applicants.

3. Assigning Personnel Costs

Legal Requirements:

34 CFR 361.12 states:

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

34 CFR 80.20(a) states:

> (a) A state must exp[e]nd and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
>
> (1) Permit preparation of reports required by this part and the statutes authorizing the grant; and
>
> (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

2 CFR part 225 (formerly known as OMB Circular A-87), Appendix B, in pertinent part, states:

> 8.h.4 Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) … Such documentary support will be required where employees work on: (a) more than one federal award; and (b) A federal award and a non-federal award.
>
> 8.h.5 Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each

employee is compensated; (c) they must be signed by the employee; and (d) budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes.

Finding: VRS is not in compliance with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5, because VRS is not consistently tracking personnel costs for administering programs to ensure the costs are incurred by the appropriate grant.

VRS staff at the Central Office and Regional Office level are responsible for supervising and administering different grants and programs (i.e., VR, privately-funded Johnson and Johnson Grant, and the State-funded Extended Employment Program); however, personnel costs are not being properly allocated in accordance to the time spent supervising and administering each of the various grants. For example, VR program funds pay 100 percent of the costs of the VR Director and fiscal manager, despite the fact that both of these individuals administer other programs funded from other sources. These individuals do not keep track of their time via personnel activity reports to ensure that each program is charged a proportional share of their time, as required by the cost principles outlined in 2 CFR part 225.

Although the funding for the VR program represents a significant share of VRS' overall funding, the practice of assigning non-VR personnel costs to the VR program is not allowable under the cost principles outlined in 2 CFR part 225. To the extent VRS has staff that work on multiple programs, VRS must maintain personnel activity reports to account for the actual time staff work on each program (2 CFR part 225, Appendix B, paragraph 8). VRS' failure to account for personnel activities accurately in accordance with the actual time spent on each program results in non-compliance with the Federal cost principles set forth at 2 CFR part 225, Appendix B, paragraph 8. Furthermore, VRS has failed to comply with 34 CFR 361.12 and 34 CFR 80.20, which requires the proper and efficient administration of the VR program, which ensures proper accounting of expenditures and record-keeping. By using VR funds to pay for costs that should have been borne by other programs, VRS has not ensured proper administration and fiscal accountability under the VR program.

Corrective Action 3: VRS must:

3.1 cease using Title I funds for personnel costs that do not arise under the VR program, as supported by documentation, pursuant to 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5;

3.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.12, 34 CFR 80.20, and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5; and

3.3 submit a plan, including timelines, describing the corrective actions that will be taken to ensure:

   a) personnel activity reports are maintained that reflect actual time spent on each program in order to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and,

   b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by VRS in accordance with program requirements.

4. Allowability, Allocability, and Reasonableness of Cost Allocations in One-Stop Centers

Legal Requirements:

34 CFR 361.3 states:

The Secretary makes payments to a State to assist in—

(a) The costs of providing vocational rehabilitation services under the State plan; and

(b) Administrative costs under the State plan.

34 CFR 361.12 states:

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

34 CFR 80.20(a) states:

A state must exp[e]nd and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

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

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

20 CFR 662.280 states:

Does title I [of the Workforce Investment Act (WIA)] require One-Stop partners to use their funds for individuals who are not eligible for the partner's program or for services that are not authorized under the partner's program?

Answer: No, the requirements of the partner's program continue to apply. [WIA] intends to create a seamless service delivery system for individuals seeking workforce development services by linking the One-Stop partners in the One-Stop delivery system. <u>While the overall effect is to provide universal access to core services, the resources of each partner may only be used to provide services that are authorized and provided under the partner's program to individuals who are eligible under such program. (WIA sec. 121(b) (1)).</u> (emphasis added)

Section 121(b)(1)(A) of WIA states:

(b) One-Stop Partners.—

(1) Required partners.—

(A) In general.—Each entity that carries out a program or activities described in subparagraph (B) shall—

(i) make available to participants, through a one-stop delivery system, the services described in section 134(d)(2) that are applicable to such program or activities; and

(ii) participate in the operation of such system consistent with the terms of the memorandum described in subsection (c), and **with the requirements of the**

Federal law in which the program or activities are authorized. (emphasis added)

2 CFR part 225, Appendix A (formerly OMB Circular A-87, Attachment A), paragraph C , in pertinent part, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
   b. Be allocable to Federal awards under the provisions of this Circular.
   ****
   j. Be adequately documented.
   ****
2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally- funded. In determining reasonableness of a given cost, consideration shall be given to:
   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
   b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
   ****
3. Allocable costs.
   a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
   ****
   c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular **may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.** (emphasis added)

DOL's "Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs," 66 Fed. Reg. 29637, 29643 (May 31, 2001), in pertinent part, states:

Any methodology used must:

1) Result in an **equitable distribution** of costs and not result in any partner paying a disproportionate share of the shared One-Stop costs;
2) Not result in any partner paying a disproportionate share of the common costs;
3) Correspond to the types of costs being allocated;
4) Be efficient to use; and,
5) Be **consistently applied over time**. (emphasis added)

RSA Information Memorandum 02-13, p.59 and 62 (February 28, 2002) states:

VR Cost Allocation Methods Must:

1) Result in an equitable distribution of the shared costs;
2) Correspond to the types of costs being allocated;
3) Be efficient to use and consistently applied;
4) Be consistent with generally accepted accounting principles (GAAP);
5) Meet OMB and EDGAR requirements; and,
6) Be accepted by each partner's independent auditors to pass A-133 audits.

It is not sufficient to inspect the information supporting the agency’s financial contribution to the One-Stop or the State’s system without reviewing documents supporting the allocation principles used for all partners.

****

The pivotal point in cost-sharing or allocation is whether a benefit is received by the One-Stop partner, or specifically by the VR agency. Care should be taken when evaluating costs determined to be of benefit to the VR agency by the local boards or other partners whose perceptions of receiving a benefit may be broader than is appropriate.

Finding: VRS is not in compliance with 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, because VRS is using VR-funded staff and VR financial resources to support activities that are beyond the scope of the VR program. Moreover, the cost-sharing of these expenditures is not consistent with U.S. Department of Labor (DOL) regulations governing the one-stop system at 20 CFR 662.280 and DOL’s cost allocation guidance set forth at 66 Fed. Reg, 29637 (May 31, 2001) because the cost allocation methods used do not ensure an equitable allocation of costs to the respective one-stop partners, including VRS.

While on-site, RSA interviewed VRS staff and reviewed personnel salary documents to determine whether VRS staff, assigned to and fully paid under the VR program, were performing duties that go beyond the scope of the VR program at the Workforce Centers (WFCs), including those duties that go beyond the scope of the VR program as a required partner in the WFCs. RSA’s on-site review, which included interviews with VRS staff housed in the WFCs and VRS management staff, identified several instances where fully-funded VR staff were:

- Serving on a regular basis as WFC receptionists or resource room support staff;
- Covering the duties for short and long-term absences of WFC employees who are funded under title I of WIA; and
- Serving on a regular basis as WFC facility managers responsible for coordinating facility maintenance, emergency repairs, etc.

VRS supervisors explained to RSA, while on-site, that the time spent by VRS staff performing WFC-related responsibilities—given that VRS staff was expected to perform these duties regularly—negatively impacted VRS’ ability to meet the staffing demands for serving VR applicants and consumers. VRS management confirmed the information provided by the VRS supervisors.

RSA also found that cost-sharing of WFC expenses are allocated by different methodologies within the same WFC. For example, one WFC partner may pay its program’s share by providing staff support; another WFC partner may pay its program’s share by cash payment toward WFC operational costs (e.g., paying the water bill); finally, another WFC partner may pay its program's share via a flat rate for the year. For example:

- The VRS share of the WFC expenses is determined by the number of full-time VR employees housed in the WFCs. According to the documents RSA reviewed, there is no correlation between the amount of VRS' share and the number of VR consumers utilizing the WFC resources. Approximately 85 percent of the individuals accessing the WFCs are universal customers not associated with a specific program. Of the remaining 15 percent of customers, VR consumers comprise only 15 to 20 percent – 2.25 to 3 percent of the total number of individuals entering the WFCs. However, VRS' allocated costs for the WFCs is not proportional to such low usage by VRS consumers. For example, the St. Paul WFC Cost Allocation Plan ending December 31, 2010, uses the number of FTEs associated with each program to proportion out the costs of two "main" reception staff for the WFC. As a result, VRS is responsible for paying 39 percent of the costs ($783.60 per week).
- According to VRS management staff, the Unemployment Insurance (UI) program's share is paid via a flat fee directly to DEED, not as part of the cost allocation plans governing the other WFC partners. The UI program is not able to fully fund its share of the WFC costs assigned through the cost allocation plans for the WFCs. Under this arrangement, DEED does not distribute any of the UI funds, paid separately to DEED rather than through the cost-allocation plans, to support the shared WFC costs. Again, according to the information RSA reviewed, there is no correlation between the UI program's flat fee and the large number of individuals utilizing the WFCs due to issues arising under the UI program.

  The "Customer Registration System" (CRS) is an electronic database of one-stop customers accessing computers and/or workshops through the "resource rooms" in the WFCs. The 2009 unduplicated customer usage of WFCs resource area computers and/or attending workshops was 76,037. Of these, 74.81 percent of CRS registered customers were NOT enrolled in one of the eight identified eligibility-based programs (WIA Adult, Dislocated Worker, Youth, MFIP/TANF, FSET, Diversionary Work Program, VR, and SSB). Those NOT concurrently enrolled in any of the eight eligibility-based programs are typically called a "universal customer." Of the universal customers, 45.6 percent were customers receiving UI benefits. This high usage of the WFCs by UI recipients is not reflected in the flat fee paid by the UI program as its proportional share of the WFC costs.

RSA did not find, nor was it provided, documentation to support that any of these methodologies are reconciled to ensure each partner, including VRS—as the DSU for the VR program, pays an equitable allocation of the shared costs at the WFCs so that no partner bears a disproportionate share of the costs.

VR funds must be used solely for the provision of VR services and the administration of the VR program (34 CFR 361.3). As the VR grantee, VRS is required to maintain policies and procedures to ensure the proper administration of the VR program and fiscal accountability of all VR program funds (34 CFR 361.12 and 34 CFR 80.20(a)). In ensuring fiscal accountability, VRS must ensure that all expenditures of VR program funds are necessary, reasonable, allowable, and allocable to the VR program (2 CFR part 225, Appendix A, paragraph C). To be allocable to the VR program, the expenditures must be proportional to the benefit received by the VR program (*Id*.).

As the DSU for the VR program, VRS also is a required partner in the workforce development system, pursuant to section 121(b)(1)(B)(iv) of WIA. As a required workforce partner, VRS must carry out certain functions in a manner that is consistent with the requirements of the VR program and Title I of WIA, including providing core services at the WFCs, using a portion of its program funds to provide the core services, and entering into a Memorandum of Understanding with the local workforce investment board that describes VRS' role in the WFCs (34 CFR 361.23). Despite the requirement that VRS must participate in the funding and delivery of core services in the WFCs, DOL's regulations governing the one-stop system (20 CFR 662.280) and DOL's published guidance on cost-allocation at the WFCs (66 Fed. Reg. 29637 (May 31, 2001)) make it clear that the cost-sharing must be consistent with the VR program's requirements and must be proportional to the benefit received by the VR program at the WFC (see also RSA-IM-02-13). In particular, 20 CFR 662.280 states: **"…**[T]he resources of each partner may only be used to provide services that are authorized and provided under the partner's program to individuals who are eligible under such program." These requirements are consistent with the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, in that they all require that no program bear a disproportionate share of the costs due to the inability of another program to pay its fair share. RSA's review of DEED's WorkForce Center Allocation Guidelines (PPM506) further reinforces the principle of equitable distribution of shared costs because it makes it clear that no funding stream is exempt from participation in a local cost allocation plan.

While on-site, RSA reviewed the amount that VRS was contributing to the WFCs in MN. VRS-prepared universal customer reports, provided to RSA while on-site, indicated that WFC infrastructure costs may not be properly allocated. For example, WFC resource rooms are predominantly used by universal WFC customers (85 percent) that are not attached to any program. However, as no funding source exists for the WFC infrastructure, the programs housed in the WFC pay 100 percent of the cost, despite only 15 percent of the usage. According to VRS, VR pays on average 20 percent of the total resource room costs with only 3 percent of the total usage. Therefore, pursuant to 20 CFR 662.280, the DOL one-stop cost allocation guidance, RSA-IM-02-13, 34 CFR 361.3, and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, VRS should only be paying 3 percent of the total costs of the WFC resource rooms—the percentage of the costs that is proportional to the usage by VR consumers.

The pivotal point in determining whether the cost-sharing allocation is appropriate is determining whether the program received a benefit from its participation in the WFCs. Cost allocation methodologies must result in an equitable distribution of the shared costs, correspond to the types of costs being allocated, be efficient to use, and be consistently applied. Given all of the above, RSA finds that VRS was paying more than its fair share of the shared costs of the WFCs, as prohibited by the Federal cost principles at 2 CFR part 225, Appendix A, paragraph C. In paying more than it should have of costs not related to the VR program, these expenditures were not allowable under the VR program, pursuant to 34 CFR 361.3, and, as such, VRS failed to administer the VR program to ensure the proper accounting of all VR funds, as required by 34 CFR 361.12 and 34 CFR 80.20(a). Moreover, the disproportionate imposition of the shared costs on the VR program was not consistent with RSA-IM-02-13, 20 CFR 662.280, and DOL's published guidance on cost-allocation at the WFCs (66 Fed. Reg. 29637 (May 31, 2001)).

Corrective Action 4: VRS must:

4.1 cease paying more than its proportional share of the shared costs of the WFCs;

4.2 submit a written assurance within 10 days of the issuance of the final report that VRS will comply with the requirements of 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, especially as these requirements relate to the VRS share of the shared costs under the WFCs; and

4.3 work with DEED and the WFC partners to establish policies and procedures for the development of a method or methods to determine VRS' appropriate share of WFC operating costs that are consistent with requirements of the VR program regulations, EDGAR, OMB cost principles, and WIA. These cost sharing methodologies must ensure that:

a) the costs allocated to VRS are allowable under the VR program;
b) the computational methodology of allocating costs, as well as the basis used for their distribution, are equitable to the VR program;
c) the costs identified as shared are common to all partners;
d) VRS receives a proportional benefit from each cost allocated to it;
e) the WFC cost-sharing agreement addresses each partner's financial participation in allocated common costs pursuant to 34 CFR 361.23(a)(2);
f) the MOU or other cost-sharing agreement is based on reasonable, supportable, and valid data and is auditable; and
g) the cost allocation adheres to the Federal cost principles set forth at 2 CFR part 225.

5. Internal Controls

Legal Requirements:

34 CFR 361.12 states:

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

34 CFR 80.20(a), in pertinent part, requires that:

> (a) A state must [expend] and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
> ****
> (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

34 CFR 80.24(b)(6), in pertinent part, requires:

> *Records*. Costs…counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors….

Finding: VRS is not in compliance with 34 CFR 361.12, 34 CFR 80.20(a)(2), and 34 CFR 80.24(b)(6), because contract budgets do not contain enough specificity regarding the services being provided or the costs incurred for VRS to ensure that expenditures paid under the contract are allowable under the VR program and that they are consistent with Federal cost principles in that they are necessary, reasonable and directly related to VR services provided under the contract. The contractors simply submit invoices to VRS that contain only an amount of funds requested for each budget category. The contractors do not provide additional information or justification for the expenditures prior to receiving payment from VRS. While the level of supporting documentation is not specified in Federal law, the documentation must be such that VRS can ensure that VR funds are being spent in accordance with Federal requirements. For example:

- Some contract budgets, such as the contracts with Guild Incorporated and TRAN$EM, include utility and rent costs, which were paid by VRS upon request for payment. When RSA reviewed the relevant documents, there was no evidence that the utility costs and rent costs were allowable under the VR program and, if so, were appropriately allocated to the VR program. In response to the budget narrative question, Section VI Rent/Mortgage, "How was this figure determined?" the TRAN$EM budget narrative stated "150.00 Per Month." Unless the contractor is solely funded under the VR contract, costs must be allocated across the various programs in accordance with the Federal cost principles, set forth at 2 CFR part 225. As described in more detail in Findings 1 and 2, TRAN$EM receives funding from other sources, including the privately-funded Johnson and Johnson grant, to provide mental health-related services to individuals with disabilities who may or may not be VRS consumers. Therefore, TRAN$EM should have billed, and VRS should have paid, only the amount of the rent/mortgage that was proportional to the number of VRS consumers served under the EBP-SE contracts. Similarly, because most of the contractors are CRPs, they would have additional funding sources which would need to be taken into consideration when determining how much of the rent and associated costs are allocable to the VR program.
- HDC Employment Connection which provides services to VR consumers with mental illness, included $8,500 in indirect costs in its budget, which was paid for by VRS under the contract. There was no supporting documentation regarding how the indirect costs were determined, whether the costs were allowable under the VR program, or whether the costs were allocable to the VR program in terms of their relative proportion to the benefit VRS received.
- A VR MEC Grant included $13,512 in "professional fees" and an indirect cost of 22 percent, which VRS paid. When RSA reviewed these transactions while on-site, RSA neither found nor was provided supporting documents to explain or justify the expenditures incurred for professional services. Without this information, RSA could not determine whether these costs were allowable, reasonable, necessary, or allocable VR costs. Similarly, there were no supporting documents to explain or justify the imposition of a 22 percent charge for indirect costs, including how it was determined and whether the rate was applied appropriately. The invoices, without additional documentation, were not sufficient for VRS to determine whether VR funds were being properly spent, accounted for accurately, and appropriately allocated to the VR program, as required by 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles of 2 CFR part 225. Furthermore, to the extent that VRS was using non-Federal funds for these expenditures for match purposes, VRS failed to satisfy 34 CFR 80.24(b)(6) by not maintaining sufficient records to verify the expenditures.

- The Guild Incorporated contract states in Section II(A)(2) that "[r]eimbursement for travel and subsistence expenses actually and necessarily incurred by the GRANTEE in the performance of this grant and in an amount not to exceed none dollars ($0.00) …" However, during the contract period the grantee was paid $5,446.13 in travel expenses. The approved contract budget included $5,700 in travel expenses despite the contract stating no travel would be paid.

Federal regulations require VRS to have procedures in place so it can administer the VR program and carry out all required functions properly and efficiently (34 CFR 361.12). These procedures must enable VRS to ensure accurate financial accountability for the VR program (*Id.*). VRS must have fiscal controls in place that enable it to expend and account for the VR funds to such a degree that it can trace the funds for each activity to ensure that the funds were expended in accordance with Federal requirements (34 CFR 80.20(a)). In addition, VRS is required to monitor and manage the day-to-day operations of all grant-supported activities (34 CFR 361.40(a)). VRS contracts for VR services constitute a grant-supported activity and must be monitored by VRS to ensure compliance with all Federal requirements. VRS does not monitor overall contract expenditures to a level that ensures Federal funds were not used inappropriately, as required by 34 CFR 80.40(a). For example, as described above, VRS paid invoices without monitoring the contractors and their invoices to ensure that costs being charged were allowable under and allocable to the VR program. Moreover, VRS did not monitor to ensure that the invoices charged to, and paid by VRS with VR funds, were consistent with the terms of the actual contracts. For the reasons described herein, VRS has failed to satisfy 34 CFR 361.12, 34 CFR 80.20(a), 34 CFR 80.24(b)(6), 34 CFR 80.40(a), and the Federal cost principles at 2 CFR part 225.

Corrective Action 5: VRS must:

5.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will implement internal controls sufficient to ensure the validity of expenditures under the VR program as required by 34 CFR 361.12, 34 CFR 80.20(a)(2), and 34 CFR 80.24(b)(6), and that VRS will monitor all grant-supported activities, as required by 34 CFR 80.40(a), to ensure that VRS uses VR funds to pay only those expenditures that are allowable under and allocable to the VR program and consistent with the terms of the actual contracts ; and

5.1 develop and implement policies/procedures to ensure that:

- fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
- internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
- VRS monitors all grant-supported activities, as required by 34 CFR 80.40(a).

Issue for Further Review

RSA plans to conduct further review of the impact that VRS' organizational location within DEED and its role in the WFCs may have on VRS' ability to comply with the non-delegable functions requirement set forth at 34 CFR 361.13(c). As the DSU for the VR program, VRS is solely responsible for, among other things, the allocation and expenditure of VR funds; this function may not be delegated to another agency or individual (34 CFR 361.13(c)(1)(iv) and (c)(2)). In particular, RSA will be conducting further review to determine whether the VRS Director has control over the amount of costs for the WFCs charged to VRS.

Technical Assistance

This section of the chapter describes the technical assistance (TA) provided by RSA to VRS during the course of the review. The TA requested by the agency to enable it to carry out the recommendations and corrective actions set forth above is included in Appendix A of this report titled "Agency Response."

Technical Assistance Provided

To enable the agency to improve its fiscal management processes, RSA provided technical assistance to VRS during the review process regarding:

- Personnel time and reporting requirements and their relationship to cost allocation requirements;
- Cost allocation in relationship to the WFC costs; and
- Approaches to ongoing contract monitoring.

CHAPTER 3: PROGRESS TOWARD REDRESSING FINDINGS FROM PRIOR RSA REVIEWS

As a result of the RSA review of VRS conducted in FY 2003, the state agency implemented a Corrective Action Plan (CAP). A summary of the progress that VRS has made on the CAP appears below.

Corrective Action Plan

Through the implementation and completion of the CAP, VRS successfully resolved all compliance findings in the following programmatic and fiscal areas:

- presumptive eligibility for applicants determined eligible for Social Security benefits in accordance with 34 CFR 361.42(a)(3)(i)(A);
- assessment for determining eligibility and priority for services pursuant to 34 CFR 361.42;
- the time standard for eligibility determination under 34 CFR 361.41(1);
- the requirement for the specific extension of time for determining eligibility as required by 34 CFR 361.41(b)(1)(i);
- the content of the IPE established by 34 CFR 361.46(a)(3);
- frequency of contact between the VR counselor and the individual established in state policy;
- requirements for closing the record of services of an individual who has achieved an employment outcome under 34 CFR 361.56(a) and (c);
- requirements for closing the record of service pursuant to 34 CFR 361.47(a)(9);
- reasons for case Closure without employment outcomes;
- policies governing services to individuals under 34 CFR 361.48;
- written policies that ensure services are based on individual needs and the informed choice of the individual in accordance with 34 CFR 361.50(a);
- preference for in-state services pursuant to 34 CFR 361.50(b);
- fee schedule requirements under 34 CFR 361.50(c); and
- the prohibition against absolute durational limits for services under 34 CFR 361.50(d)(2).

PART II: REVIEW OF MINNESOTA STATE SERVICES FOR THE BLIND (SSB)

Executive Summary

During fiscal year (FY) 2010, the Rehabilitation Services Administration (RSA) reviewed the performance of the following programs authorized by the *Rehabilitation Act of 1973,* as amended (the Rehabilitation Act or Act) administered by the State Services for the Blind in the state of Minnesota:

- the vocational rehabilitation (VR) program, established under Title I;
- the supported employment (SE) program, established under Title VI, Part B; and
- the independent living services program for older individuals who are blind (OIB), established under Title VII, Chapter 2.

Minnesota Administration of the VR, SE, and OIB Programs

SSB serves all eligible legally blind individuals in Minnesota and is housed within the Minnesota Department of Employment and Economic Development (DEED), the designated state agency. SSB provides services under the VR, SE and OIB programs. All services under the IL Part B program are administered by the Division of Vocational Rehabilitation Services (VRS).

SSB is composed of five units—the Workforce Development Unit, Administrative Services Unit, Senior Services Unit, Adaptive and Assistive Technology Unit and the Communications Center.
The VR program is operated chiefly by the Workforce Development and Administrative Services Units. The OIB program is administered by the Senior Services, Administrative Services Unit, and Adaptive and Assistive Technology Units. The Communications Center is fully funded by Minnesota and provides Braille, talking book and radio communication services for the blind.

SSB Performance over the Past Five Years

Based on data provided by SSB through various RSA reporting instruments, the agency's employment rate increased from 41.6 percent to 47.0 percent during the period beginning in FY 2004 and ending in FY 2008. Over this same period, the number of new applicants for VR services decreased from 430 to 323, the number of individuals who received services under an individualized plan for employment decreased from 865 to 667, and the number of individuals the agency assisted to achieve employment decreased from 109 to 93. From FY 2004 through FY 2008, the average hourly earnings of those individuals who achieved competitive employment increased from $11.72 to $13.83.

Additionally during the period, of those individuals who achieved an employment outcome, the number who achieved a supported employment outcome decreased from 6 to 5. The average hourly earnings for these individuals decreased from $8.42 to $6.47.

Either directly, or through grants or contracts with service providers, the number of individuals served through the SSB OIB Program increased from 2,812 to 3,081.

Observations of the Agency and Stakeholders

Through the course of the review, agency personnel and representatives of stakeholders, such as the State Rehabilitation Council (SRC) and the Client Assistance Program, shared information concerning the administration and performance of the SSB VR, SE and OIB programs. During the review, they observed that:

- SSB communicates effectively in an open and forthcoming manner with staff, consumer groups and service providers;
- a large number of individuals exited the VR program without achieving employment over the past eight years;
- there is limited funding available for the Senior Services program;
- the roles of VR Counselors and Rehabilitation Technicians staff in the Senior Services Unit are not clear to SSB consumers.
- SSB would benefit from increasing the number of highly qualified blind employees among its staff; and
- the OIB program has experienced an increase in the number of individuals requiring services as a result of increased outreach activities.

Strengths and Challenges:

Based on the observations from the agency and its stakeholders and other information gathered through the review process, RSA concluded that SSB exhibited a variety of strengths that enhanced, and experienced a number of challenges that inhibited its ability to improve, the performance of its VR, SE and OIB programs.

At the time of the review, a significant strength of the SSB program was the manner in which the agency facilitates the individual's informed choice in the selection of adjustment to blindness providers and services through the discussion of consumer satisfaction results and visits to the three rehabilitation centers for the blind in the state. In addition, as part of their new employee orientation, SSB staff receives adjustment to blindness skills training at any of the three centers for the blind in the state. Two of these centers use the traditional instruction method that allows a blind or visually impaired individual to manage with the sight they have by using low-vision aids and devices such as magnifiers. The third center uses the "structured discovery" method that teaches a blind or visually impaired individual to manage without use of sight by wearing sleep shades. This method encourages the use of alternative techniques to perform daily living tasks and develop other skills. SSB believes this training improves both service delivery and employment outcomes by increasing counselor awareness of and familiarity with the challenges, resources and capabilities of individuals who are blind.

However, the agency was experiencing several challenges in the management and operation of its programs, including its organizational structure within DEED. SSB exists within the larger organization of DEED that places an intervening level, the WDD, between the DSA and DSU. This has the potential to reduce control of the DSU over staff, resources and policy within the WDD system.

In addition, SSB did not engage in a strategic planning process and had not developed a strategic plan specific to SSB. Without a clear future direction specifically for SSB and without a comprehensive understanding of the status of its current programs, improving agency performance is difficult. SSB does not have a staff position dedicated to interpreting data, evaluating program performance and presenting that information as input to the agency's planning effort.

SSB was engaging in limited outreach activities to expand its referral sources and to increase the number of applicants for VR services. Minnesota does not maintain a registry for the blind and SSB does not administer a children's program, both of which typically serve as referral sources for agencies assisting individuals who are blind and visually impaired. SSB hired a marketing specialist who devotes 25 percent of his time to VR outreach and is beginning efforts to identify employed individuals who are losing vision. The agency is researching strategies for conducting outreach to new Americans. SSB is making inroads in reaching Somalis with visual impairments but is experiencing difficulty in reaching individuals from the Hmong community.

Finally, SSB has found it difficult to provide IL services to the increasing number of older blind individuals resulting from SSB outreach activities. SSB staff and monetary resources cannot meet the demand for services from an aging population and that resulting from increased SSB outreach to older individuals who are blind.

Acknowledgement

RSA wishes to express appreciation to the representatives of the DEED and SSB, SRC, SILC and the stakeholders who assisted the RSA monitoring team in the review of SSB.

CHAPTER 1: VOCATIONAL REHABILITATION AND SUPPORTED EMPLOYMENT PROGRAMS OF THE SSB

VR and SE Program Systems

The following sections of this chapter describe the manner in which SSB administers and operates the VR and SE programs through a variety of functions or systems, including service delivery, personnel, case and data management, quality assurance and planning.

Service Delivery

SSB employs 18 VR counselors, nine of whom are located in the greater metropolitan Minneapolis and St. Paul areas. Seventy percent of the clients served in the vocational rehabilitation program live in this seven county metropolitan area. An additional nine counselors are located in One-Stop Centers throughout rural Minnesota. Each of these nine counselors is assigned to multiple counties so that all counties in the state have a designated service delivery contact.

SSB places emphasis on the conduct of comprehensive assessments and encourages staff to undertake activities that provide thorough information for vocational planning and decision-making. Staff are expected to guide the individual through review of skills, abilities, and consumer preferences as well as labor market information to identify a career path for the individual. Situational assessments are used to identify work skills and orientation and mobility skills. Community rehabilitation program (CRP), assistive technology (AT) and placement staff may be involved in the conduct of the situational assessments.

The SSB Adaptive and Assistive Technology unit provides AT services for situational assessments, work experiences and placements. This unit also provides courtesy consultation services to employers for job retention purposes.

Vendors who are willing to participate in specific training designed by SSB are eligible for a fee-for-service agreement to provide job placement services. The half-day training introduces vendor staff to working with blind and visually impaired individuals. The roles of the vendor, SSB Counselor, VR Tech and AT Specialist are discussed. Vendors also receive a brief introduction to accessible technology, work incentives, and SSB services. The vendor, counselor and customer must develop a placement plan and meetings are required every two months to review the plan. The content of vendor reports are clearly defined so that SSB receives detailed information on the placement activities.

Supported employment services are facilitated by each counselor on a case-by-case basis. Placement services may be purchased from a CRP or provided by an internal job placement specialist who assists in developing supported employment opportunities. SSB makes arrangements for extended services with funding sources on a case-by-case basis. The counselor is responsible for ensuring that the supports are in place. SSB does not fully expend its Title VI, Part B, funds and transfers any unused funds to VRS.

SSB facilitates consumer involvement in the selection of a vendor for adjustment to blindness training by providing the individual with information about facility based programs as well as individual instruction from itinerant vendors. Consumers are encouraged to investigate the scope of services provided by each vendor, the service delivery model of that vendor and the outcomes realized by previous consumers. Consumers choosing to attend adjustment to blindness training at a community rehabilitation program are required to tour all relevant programs prior to making a decision about their service provider. There are two such providers in the Minneapolis area and one in Duluth. SSB also provides the consumer with the results of the Vendor Satisfaction Survey for itinerant providers and CRPs.

Individuals age 14 to 21 comprise approximately 200 percent of the SSB aggregate caseload. Schools are the major referral source and doctors refer youths with recent vision loss. Collaboration with education officials occurs on an individual basis at the local level. SSB collaborates with teachers of the blind and visually impaired to provide orientation and mobility training, rehabilitation teaching, and the purchase of assistive technology devices, while the students are in school to facilitate a smooth transition from school to post-school activities. SSB collaborates in the development of the IEP and ensures an IPE is implemented prior to graduation for students who have been determined eligible for vocational rehabilitation services.

SSB engages in a variety of activities designed to promote the involvement of transition-age youths in the VR process at earlier ages. It provides training in the alternative techniques of blindness to increase a student's skills during evenings, weekends and summer and winter breaks. In addition, SSB conducts a Saturday morning gathering twice per year called "SSB 101" to explain the agency's services and the difference between entitlement programs and eligibility programs.

In addition, the agency developed a brochure titled "Myths versus Reality" that discusses the difference in entitlement programs versus eligibility programs. The document is targeted for use by students and their parents who are familiar with the special education system but who may be confused by the difference in youth and adult service provision. The brochure is a companion piece to a step-by-step guide to the VR process written for all applicants and consumers. Other outreach events include participation in a transition weekend held at the Academy for the Blind, sponsoring information interview fairs and meetings with teachers of the blind and visually impaired for casual discussions about the rehabilitation process.

SSB and the Minnesota Department of Education (MDE) have jointly operated a two-week summer transition forum for over 30 years. The Department organizes the event, recruits and pays the teachers. SSB provides employment related sessions such as mock interviews, job-shadowing experiences and AT assessments. Students live in a dorm, learn to shop and cook in this environment, and experience being responsible for themselves and their daily activities. Each year, approximately 20 students participate in this summer camp.

Finally, SSB collaborates with the MDE in providing an AT lending library. The library allows students to try different pieces of technology and provides the IEP team with the documentation needed to purchase equipment. Teachers are given guidelines on who should participate and how long the equipment can be kept. SSB purchases equipment using SSA reimbursement funds. MDE handles the check-in/out process, shipment and repair of equipment and provides SSB with an annual report on program activity.

Personnel

SSB employs 52 persons dedicated to the provision of VR services. Table 1.1 below presents the breakdown of the number of staff for each position. Of this total, 18 are VR counselors, all of whom meet the CSPD standard of a Masters degree in Rehabilitation Counseling or a closely related field and eligibility to sit for the exam sponsored by the Committee on Rehabilitation Counseling Certification.

Table 1.1
FY 2008 SSB Personnel Data Demonstrating Job Categories and Number of Staff in Each Category

Position	Number of Staff
Qualified Rehabilitation Counselor	18
VR Technician/support staff	12
Central Office Administrative Staff	7
Assistive Technology Specialist	5
Field Operations Director and Regional Supervisors	4
Placement Staff	2
Assistive Technology Supervisor	1
Admin Services Unit director	1
Psychologist	1
State Director	1
Total	**52**

Minnesota personnel guidelines require all new VR counselors to be hired at at least the Senior Counselor level. Senior counselors can be promoted to the level of career counselor after attaining three years of experience and developing an area of specialization. Vocational rehabilitation technicians (VR tech) perform a mixture of clerical and client contact duties in support of two to three counselors. VR techs perform intake functions, assessment activities, career exploration and job seeking skills training, the processing of authorizations and reception duties.

Data and Case Management

SSB uses the Workforce One (WF1) data and case management system to manage its VR and OIB programs. WF1 is the case management system used by DEED to track client activity in 28 state-funded employment and training programs and many locally funded programs and is also used for case management, purchasing and information management (data reporting). This system is administered and maintained by DEED and used by 128 State, County and private non-profit service providers. WF1 was first implemented in 2006 and is an internet based system that can be accessed by counselors outside the office. VR and WIA cases are maintained separately to protect the confidentiality of consumer information.

Authorizations within WF1 are tied to those services identified on each individualized plan for employment (IPE). Selection of the service provider is also interfaced with the state purchasing system, Minnesota Accounting and Procurement System (MAPS). Under this system different staff must initiate and pay the authorization, ensuring adequate internal controls. Expenditures in WF1 are tracked to individual cases, service titles, and authorizations, making the system readily amenable to the reporting of RSA 911 and RSA 113 data.

All case records are electronic with the exception of medical records and documents that require signatures such as IPEs, consent forms and invoices, which are maintained in print. At the time of the review, SSB was exploring the potential for the scanning of these print records and the development of electronic signature protocols, thereby creating a totally electronic case management system.

SSB relies on central office IT staff for system updates or maintenance support. If an error is found in the system, SSB contacts central office IT staff to resolve the problems. At the time of this review SSB was experiencing a vacancy in the staff position assigned to manage data, generate reports and conduct queries. Consequently, SSB personnel did not have direct access to real time data collected by the SSB WF1 and, therefore, could not perform ad hoc queries of this data. Customized reports take longer to obtain because they are generated by central office IT staff using WF1. RSA 113 report data are generated from the system and transferred to a spreadsheet before being entered into RSA's management information system (MIS). RSA 911 report data are prepared by central office IT staff.

Quality Assurance

The SSB quality assurance activities consist of the review of reports generated by the agency's WF1 system and the conduct of service record reviews, performance appraisals, consumer satisfaction surveys and vendor outcome satisfaction surveys. Service Record Reviews are conducted on 10 percent of each counselor's caseload twice per year. Performance is assessed based on the goals established by the counselors and supervisors.

SSB uses WF1 reports to track the timeliness of eligibility determination and plan development as well as to track the employment rate of consumers. The system generates a case list by status for quality control purposes. Select SSB employees, based on business need, have access to these reports.

SSB has been involved in the DEED department-wide Customer Satisfaction Survey (CSS) since the inception of this instrument. SSB and the Customer Satisfaction and Goals and Priorities Committee of the SRC-B review the survey questions and request changes or additions as appropriate to obtain information relevant to the SSB program. Consumers who have received services under an IPE are contacted by telephone by an out-of-state entity regarding their experiences with the agency. The results, at Department and Agency levels, are available to the public on the DEED website. SSB receives the results quarterly and shares that information with the Customer Satisfaction and Goals and Priorities Committee, the SRC-B and the vocational rehabilitation staff. SSB and the Customer Satisfaction and Goals and Priorities Committee review the CSS results on a quarterly basis to identify trends and provide feedback to SSB on enhancement of service delivery.

The vendor satisfaction survey (VSS) collects data on vendor performance and is administered to any consumer who has participated in skills of blindness training provided by any of the agency's vendors.

Consumers who have completed training by CRPs and individual providers are always surveyed. The VSS is administered six months after training is completed, whether the service record is open or closed. SSB receives a report of results, by individual vendor, twice per year. The report is shared with the SRC-B, is available in alternative formats, and is posted on the SSB website. The information is used by VRC's and their consumers when they are selecting service and service providers for the IPE. The results are also provided to all vendors. The CSS and VSS are not used by SSB to evaluate the performance of service providers.

Operating Agreements with both CRPs and individual providers have long-standing specific standards for qualifications to provide training in Braille, Orientation and Mobility, Rehabilitation Teaching and Assistive and Adaptive Technology. SSB requires training for all placement vendors, introducing potential services providers to the extensive career choices for individuals with a vision loss, orienting them to low tech and high tech accommodations and explaining the required procedures for collaborating with SSB counselors and assistive technology. Operating agreements are signed with placement vendors only after successful completion of this training.

Planning

Minnesota submits a unified state plan. As part of this process, a system strategic plan is developed based on input from the appropriate divisions within DEED, including SSB, and other local partners. SSB responds to those goals that are appropriate for its programs. In addition, each year SSB and the SRC-B mutually develop and agree to goals and priorities specific to the vocational rehabilitation program.

SSB submits a separate VR State plan to RSA. This plan is developed to address the needs identified through a variety of processes, including the comprehensive statewide needs assessment (CSNA), the Consumer Satisfaction Survey, the results of quality assurance case reviews, SSB's performance on federal standards and indicators and input from field staff and from the SRC-B.

The CSNA is completed on a three-year cycle, while the other processes are completed on an ongoing basis. The SRC-B receives periodic reports to ensure its members are kept apprised of agency performance as well as emerging trends and issues. The SRC-B provides substantial input through its Minority, Transition, Customer Satisfaction Survey and Deaf Blind committees. These committees inform the SRC-B Goals and Priorities committee and the agency as they jointly develop and present draft goals and priorities to the full SRC-B.

SSB conducts on-going internal program assessment and planning. The Director of Field Operations and the three regional supervisors meet every other week to explore ongoing caseload issues and input from field staff. Local staff is involved in the identification of challenges and their resolution.

Promising VR and SE Program Practices

Throughout the review process, RSA solicited input from SSB and its stakeholders regarding promising practices undertaken by the agency in the administration and operation of the VR and SE programs. The RSA review team substantiated the positive outcomes generated by the practices in the course of conducting monitoring activities. A description of a promising practice identified during the review follows below.

SRC-B Work Plan and Committee Membership

SSB and the SRC-B jointly developed a work plan tied to the Council's statutorily-mandated duties and functions. The work plan consists of a chart that identifies the activities the SRC-B must begin, engage in or accomplish during each month. For example, the work plan contains activities related to the conduct of the comprehensive statewide needs assessment, the development of the state plan goals and priorities and the conduct/review of customer satisfaction surveys. Each month's activities are standard from year to year.

In addition, the SRC-B holds elections in February for its officers of chair and a vice-chair. In August, the chair solicits nominees for the committees that begin their work October 1. Committees are composed of council members, staff, and consumer organizations. Each committee has a charter with a minimum number of members. For example, the Communications Center Committee must have a teacher of the blind, a representative from the Minnesota Braille and Talking Book Library, a consumer, a representative from the state Department of Education as well as several council members.

With these procedures in place, the SRC-B has overcome a period in its history when the Council's attention to its mandated functions and duties was diverted by a disagreement between the disability community and the SSB. The Council now accomplishes its duties in a timely and transparent manner that involves the community it serves.

VR and SE Program Performance

The following table provides data on the performance of the VR and SE programs administered by SSB in key areas from FY 2004 through FY 2008.

Table 1.2
Program Highlights for SSB VR and SE Program for FY 2004 through FY 2008

Program Highlights	2004	2005	2006	2007	2008
Total funds expended on VR and SE	$9,977,220	$10,977,991	$10,784,412	$10,735,139	$10,488,238
Individuals whose cases were closed with employment outcomes	109	128	104	81	93
Individuals whose cases were closed without employment outcomes	153	149	95	117	105
Total number of individuals whose cases were closed after receiving services	262	277	199	198	198
Employment rate	41.60%	46.21%	52.26%	40.91%	46.97%
Individuals whose cases were closed with supported employment outcomes	6	7	7	6	5
New applicants per million state population	84	72	71	54	62
Average cost per employment outcome	$15,940	$12,386	$16,819	$17,713	$18,094
Average cost per unsuccessful employment outcome	$10,901	$14,497	$14,247	$17,371	$18,046
Average hourly earnings for competitive employment outcomes	$11.72	$13.38	$15.08	$14.07	$13.83
Average state hourly earnings	$19.06	$19.79	$20.05	$21.04	$21.89
Percent average hourly earnings for competitive employment outcomes to state average hourly earnings	61%	68%	75%	67%	63%
Average hours worked per week for competitive employment outcomes	30.3	29.6	27.2	27.6	28.2
Percent of transition age served to total served	24.05%	22.38%	19.60%	22.22%	26.26%
Employment rate for transition population served	31.75%	38.71%	41.03%	25.00%	42.31%
Average time between application and closure (in months) for individuals with competitive employment outcomes	45.3	34	33.7	29.5	44.4
Performance on Standard One	MET	MET	MET	MET	MET
Performance on Standard Two[1]	NOT MET[1]	NOT MET[1]	NOT MET[1]	NOT MET[1]	NOT MET[1]

[1] SSB has fewer than 100 minority closures per year, but has a plan in place to increase this number and meet the standard.

VR/SE Program Performance Observations and Recommendations

As a result of its review activities, RSA identified the performance observations set forth below and recommended that SSB take specific steps to improve the agency's performance associated with each of the observations.

1. Employment Rate

Observation: The high rate of closures for individuals exiting the VR program without an employment outcome after eligibility, but before IPE development is a significant factor in SSB's performance on Indicator 1.2, the percentage of individuals achieving an employment outcome of all individuals receiving VR services. SSB is not meeting the minimum required performance level for VR agencies serving the blind on this indicator (68.9 percent). As a result, SSB is assisting fewer individuals who require its services to obtain employment.

- As indicated in table 1.2, during the period of time from FY 2004 to FY 2008 SSB's employment rate has varied from a high of 52.26 percent to a low of 40.91 percent. In FY 2009, SSB achieved an employment rate of 48.71, well below the required performance level of 68.9 percent and nearly 18 percentage points below the 66.61 percent average for all blind agencies in FY 2009. Between FY 2004 and FY 2009, SSB achieved an average employment rate of 46.02 percent, indicating consistently low performance over time.
- During the period of time from FY 2004 through FY 2008, the employment rate for transition students ranged from 25.00 percent to 42.31 percent with an average of 35.76 percent over that five year period. This indicates that transition age youth are served with even less effectiveness by SSB than the adult population.
- From FY 2004 through FY 2008, the percentage of individuals who exited without an employment outcome, after eligibility was determined, but before an IPE was developed, ranged from 19.2 percent to 26.5 percent. This further reduces the number of applicants who can at application reasonably expect to achieve employment as a result of the services received from SSB. For example, in FY 2008, SSB closed 93 cases, representing 28.2 percent of the total cases closed by SSB, after the individuals successfully achieved employment, while 105 individuals (31.8 percent) were not successful after receiving services, 71 individuals (21.5 percent) exited the VR program prior to receiving services and an additional 61 individuals (18.5 percent) withdrew prior to eligibility. This indicates that fewer than 1 in 3 applicants for SSB services were successful in obtaining employment that year.

Recommendations: RSA recommends that SSB:

1.1 evaluate the reasons for the consistently low rehabilitation rate;

1.2 collect data to identify and evaluate effective service delivery practices that are associated with improved employment outcomes and replicate them throughout the state;

1.3 establish performance goals with measurable targets and objectives to address these concerns; and

1.4 assess agency performance on an ongoing basis and distribute the results to agency staff and stakeholders.

2. Data Collection and Use

Observation: SSB's WF1 system contains basic features designed to assist SSB with performing case management and reporting functions. However, SSB does not use several features of the system that would enable it to improve the scope of its planning and management strategies.

- Multiple staff indicated in interviews that they do not use data for tracking or evaluating the performance of the VR, SE, and OIB programs.
- The agency uses the services of one IT person in the DSA to manage its data system. At the time of the review, the individual who filled the position had resigned. SSB employs no other staff who know how to manage the RSA 911 data file.
- SSB's WF1 has limited reporting capabilities. The reports typically used by SSB are days from eligibility to IPE date, consumers' days in status, and individual counselors' case load.
- SSB only collects data required for RSA reporting purposes, such as that necessary for the RSA-113 and RSA-911 forms. The agency does not collect or use data for planning or policy purposes.
- The SRC indicated that the agency reports performance data, but does not interpret it or use the information to improve its programs.
- SSB has the capability to make improvements to WF1 including the redesign of the IPE format to make it user friendly to both staff and individuals served by the agency. SSB also could collaborate with VRS to take advantage of VRS system improvements that would enhance and improve SSB's service delivery and planning processes, without detracting from the independence of SSB.

Recommendations: RSA recommends that SSB:

2.1 collect and analyze data needed to assist it in achieving its goals;

2.2 improve data quality and accuracy through the provision of training and guidance on proper coding and the assignment of staff to ensure data quality;

2.3 collect data to identify and evaluate effective service delivery practices and replicate them throughout the state;

2.4 distribute general agency-wide performance data to all staff; and

2.5 consider expanding its use of available WF1 features to improve case management and planning processes.

3. Quality Assurance

Observation: RSA observed that SSB's QA system is incomplete and does not assist the agency to evaluate all aspects of its service delivery system. RSA bases this observation on the following information.

- The SSB quality assurance system includes the components of customer satisfaction surveys of individuals who achieved employment outcomes and those that did not, as well as individuals who completed adjustment to blindness training six months prior to the survey; regular, random service record reviews by supervisors and peers; MIS reports; and annual employee performance evaluations.

- SSB has established standards for its community rehabilitation programs and for providers of assistive technology services. However, SSB does not have methods and measures in place to evaluate the quality and effectiveness of the services provided. SSB does not track the employment outcomes of individuals who have received adjustment to blindness training.
- SSB states that it lacks sufficient staff to monitor the quality of services provided by providers.
- SSB has established inconsistent expectations and standards among its service providers. For example, one provider of adjustment to blindness services is expected to infuse its curriculum with pre-vocational awareness and training while another is asked not to integrate these services in its curriculum. Consistent expectations and standards for providers of like services are essential to evaluating the quality of services provided.

Recommendations: RSA recommends that SSB:

3.1 participate in the Program Evaluation and Quality Assurance Community of Practice supported by the National Center for Rehabilitation Training Materials (NCRTM) and its partners;

3.2 review the community of practice website at www.ncrtm.org regarding practices, principles and methods, shared by members of the practice;

3.3 adopt consistent expectations and evaluation methods for providers of like services that contribute to achievement of employment outcomes; and

3.4 through these activities identify and develop additional components of a quality assurance system that is comprehensive and provides the agency with information to evaluate its progress toward strategic goals.

4. Strategic Planning

Observation: SSB has not engaged in a strategic planning process and has not developed a strategic plan specific to its programs. Without a clear future direction specifically for SSB and without a comprehensive understanding of the status of its current programs, improving agency performance is difficult. RSA bases this observation on the following information:

- DEED, the designated state agency, has a stated vision and mission that is very broad and relates to the services of SSB only with respect to achieving employment. It does not provide direction for the future of SSB.
- Some SSB staff and stakeholders view SSB as a reactive agency rather than a proactive one. The focus of the agency’s state plan, management practices and service delivery system is to maintain the agency’s current practices.
- The agency uses program data for caseload management purposes but does not use data for quality assurance or planning. The SRC-B indicated that SSB provides performance data if requested and the data is provided without analysis. The state director indicated that no staff position is dedicated to reviewing and interpreting the data.”
- The SSB state plan goals, strategies for achieving those goals and methods for evaluating the effectiveness of those strategies are limited in their scope. The state plan goals and strategies relate to achievement of the federal standards and indicators and achieving a specific number of employment outcomes for individuals who are deaf in the coming

federal fiscal year. In addition, strategies that are evaluated and found to be ineffective are revised or changed to focus on the desired results.

- Fiscal management services are performed by the DSA and SSB. DSA fiscal staff and SSB program and fiscal staff communicate frequently. SSB staff perform fiscal and program forecasting and planning functions for SSB.

Recommendations: RSA recommends that SSB:

4.1 engage in a strategic planning process to establish an SSB specific vision, mission and goals to guide the agency's future direction;

4.2 substantively involve staff at all levels in developing the vision, mission and strategic goals to establish a shared vision and sense of agency purpose and direction; and

4.3 ensure that its strategic planning process incorporates results of quality assurance activities and measures that inform the identification of the improvements required to achieve the agency's strategic goals.

5. Presumptive Eligibility

Observation: SSB counselors and administrators reported that SSB common intake and interview procedures along with presumptive eligibility processes frequently resulted in individuals applying for and made eligible for VR services when those individuals had no interest in achieving an employment outcome. Instead, individuals were interested in other services offered by SSB, such as talking book or Braille services. Consequently, these individuals are incorrectly presumed eligible for VR services as they are not interested in finding employment.

- Applicants and potential applicants to the Workforce Development Unit of SSB begin the intake process with inadequate or inaccurate information regarding the services available, the vocational rehabilitation process, and the intended employment outcome of VR services.
- SSB operates under a state rule requiring the assumption that an individual is interested in VR services unless an individual specifically states he or she is not interested in employment. Consequently, it may be incorrectly assumed that the individual is interested in VR services.
- Comments from counselors suggest that a significant number of the individuals who apply for VR services do not fully understand the services provided by the VR, IL and OIB programs and that many of these individuals were not interested in seeking employment. This is supported by data indicating a high percentage of cases closed prior to eligibility, 18.5 percent in FY 2008, and prior to service delivery, 21.5 percent in FY 2008.
- SSB counselors reported that the case management system includes check boxes to record an individual's SSI or SSDI eligibility based on the information obtained at intake and prior to the input of information by the counselor. SSI and SSDI eligibility status is automatically carried over to the screen for determining eligibility for VR services. SSB expectations for prompt presumptive eligibility determination often result in the eligibility determination being made by the VR counselor prior to meeting the individual.
- Counselors reported that, during the first meeting with an individual, it frequently becomes apparent the individual was not seeking VR services, but rather was interested in IL, OIB or other services offered by SSB.

- Although completion of a VR application is generally sufficient to demonstrate the intent to apply for VR services and to obtain an employment outcome, this presumption is problematic within SSB's system. Providing little or no explanation of those services at application and assuming that all individuals are interested in employment unless they specifically state otherwise creates the potential for an individual to apply for VR services with no knowledge of or intent to apply for those services or to seek an employment outcome.
- The RSA team observed that the presumptive eligibility policies within SSB accurately reflected the intent of the Act to ensure that an individual who has a disability or who is blind, as determined under Title II or Title XVI of the Social Security Act, is for the purposes of determining eligibility for vocational rehabilitation services, considered to have a physical or mental impairment which constitutes or results in a substantial impediment to employment under the Act. However, counselor involvement in the eligibility decision is still essential to ensure the other criteria of the eligibility determination are satisfied.

Recommendations: RSA recommends that SSB:

5.1 evaluate and modify the initial intake and application procedures to ensure consumers receive adequate information about various SSB programs and are making an informed decision to apply for VR, IL, OIB or other services, free from any assumption on the part of SSB staff;

5.2 evaluate and modify the presumptive eligibility processes to ensure that a determination of presumptive eligibility does not occur for individuals receiving SSI or SSDI until the VR counselor has reviewed the information and if deemed necessary by the VR counselor, meets with the individual; and

5.3 evaluate the number of closures prior to eligibility and prior to service delivery to determine the reasons for these closures, possible relationships to application and orientation procedures and changes needed to address any concerns that are identified.

VR/SE Program Compliance Findings and Corrective Actions

As a result of its review activities, RSA identified the following compliance findings and corrective actions that SSB is required to undertake. SSB must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and is available to provide technical assistance to assist the agency in the development of the plan and the implementation of the corrective actions. RSA reserves the right to pursue enforcement action in connection with the findings below as it deems appropriate, including the recovery of Title I VR funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of EDGAR.

1. DSU Organizational Structure

Legal Requirements:

34 CFR 361.13(b)(1)(iv) states:

> (b) *Designation of State unit.*
>
> ****
>
> (iv) Is located at an organizational level and has an organizational status within the State agency comparable to that of other major organizational units of the agency.

Program Instruction (PI)-75-31 (June 3, 1975), page 5 states:

> The Regulations reflect these statutory provisions and state that in evaluating the comparability of the organizational level and status of the organizational unit, the Secretary will give consideration to such factors as the directness of the reporting line from the administrator of organizational unit for vocational rehabilitation to the chief officer of the designated State agency; the title, status, and grade of the administrator of the organizational unit for VR, as compared with those of the heads of other organizational units of the State agency; the extent to which the administrator of the VR organizational unit can determine the scope and policies of the VR program; and the kind and degree of authority delegated to the administrator of the VR organizational unit for the administration of the VR program.

Finding: SSB has failed to satisfy the organizational requirements for a designated state unit (DSU), as required by section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

According to the FY 2011 VR State plan, the most recent plan approved by RSA, SSB is the DSU in Minnesota for providing VR services to individuals who are blind; the designated state agency (DSA) for the VR program is the MN Department of Employment and Economic Development (DEED). DEED has four major components, the Trade Division, the Business and Community Development Division, the Unemployment Insurance Division, and the Workforce Development Division. SSB—the DSU—is a subcomponent of the Workforce Development Division (WDD), which is one of the four major organizational units of DEED. Under this organizational structure, the Director of SSB reports to the Director of the WDD, who, in turn, reports to the Commissioner of DEED, the DSA.

Section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv) require the DSU to be located at an organizational level and have an organizational status within the DSA that is comparable with other major organizational units of the DSA. The determination as to what constitutes a “major organizational unit” within the DSA depends largely on the organizational structure of the DSA. It has been the long-standing policy of RSA that an evaluation of whether the DSU is located at an organizational level comparable to other major organizational units within the DSA would be based on, among other factors, the directness of the reporting line from the VR director to the chief officer of the DSA, as compared with that of the heads of other major organizational units within the DSA (PI-75-31 (June 3, 1975)). As described above, in Minnesota, DEED (the DSA) is comprised of four different major units, the heads of which administer on the Commissioner’s behalf a number of programs within their purview. Each of these unit heads, including the director of WDD, reports directly to the DEED Commissioner. The heads of the subunits report to the appropriate unit head (e.g., SSB director reports to WDD director—not the DEED Commissioner). As such, the SSB director does not have a direct reporting line to the Commissioner of DEED, the DSA, and is, therefore, not at a comparable level of the four major organizational units within DEED. For these reasons, SSB has failed to satisfy the organizational requirement set forth at section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

Corrective Action: SSB must:

1.1 provide written assurance to RSA within ten days of the issuance of the final report that SSB will work with the Commissioner of DEED to ensure that revisions will be made to the DEED organizational structure that would enable SSB to comply with Federal organizational requirements for the DSU of the VR program. In particular, the revised organizational structure must ensure:
   a) the SSB Director reports directly to the head of the DSA with no intervening organizational or administrative level, and
   b) SSB has a status equal to other major organizational units within the DSA.

Technical Assistance and Continuing Education

This section of the chapter describes the technical assistance (TA) and continuing education provided by RSA to SSB during the course of the review and the continuing education needs of the agency identified by its personnel and stakeholders. The TA requested by the agency to enable it to carry out the recommendations and findings set forth above is included in Appendix B of this report titled "Agency Response."

Technical Assistance Provided

During the review of the VR and SE programs, RSA provided technical assistance to SSB regarding:

- outreach to parents and transition-age youths;
- requirements for the presumption of eligibility for VR services;
- program management strategies using performance data; and
- the relationship between the comprehensive statewide needs assessment, quality assurance and program evaluation information, and strategic plan goals and strategies.

Continuing Education

During the course of the review, SSB and stakeholder representatives, including the SRC, requested that agency personnel receive continuing education in the areas of:

- macular degeneration and other visual impairments;
- new employee orientation specific to SSB; and
- increased training programs specific to VR, IL and OIB programs.

CHAPTER 2: INDEPENDENT LIVING SERVICES PROGRAM FOR OLDER INDIVIDUALS WHO ARE BLIND

Program Systems

The following sections of this chapter describe the manner in which SSB administers and operates the independent living services program for older individuals who are blind (OIB), authorized pursuant to Title VII, Chapter 2, of the *Rehabilitation Act*, through a variety of functions or systems, including service delivery, personnel, case and data management, quality assurance and planning.

Program Administration and Service Delivery

SSB provides OIB services directly through the SSB Senior Services Unit (SSU), or through referrals to community agencies. The SSU has a flexible service system that may include a rehabilitation counselor, rehabilitation teacher or volunteers, all focused on assisting people to live more independently. Services may be provided in the consumer's local area at senior centers, public libraries, churches, or home. Services may also be provided in groups, through general information seminars, or in one-on-one sessions.

Personnel

SSB uses VR technicians and counselors to provide OIB services. SSB uses the position title VR tech for staff working in either the VR, SE or OIB programs. Field staff in the SSU each serves a geographic area under direction of the unit supervisor to meet the needs of individuals under the OIB program and other state funded programs operated by the SSU.

SSB also employs a full-time outreach coordinator, one of whose responsibilities is to educate Minnesotans about services that are available through the OIB program.

Data Management

SSB uses the WF1 system to collect and report data for the completion of the RSA-annual 7-OB report. Staff is able to enter required data for the report into the system on a daily basis. The program manager compiles the data, reviews it for accuracy and adequacy, and enters the data into the annual RSA-7-OB report for submission via the RSA management information system.

Quality Assurance

SSB conducts limited activities in the area of quality assurance for the OIB program. The program manager reviews data entered into the agency's data collection system about consumers served. OIB program performance information is also obtained from consumers through satisfaction surveys.

Planning

SSB does not engage in a separate planning process for the OIB program. However, new methods and approaches for providing OIB services are included in the State Plan for Independent Living.

OIB Program Performance

The following table provides data on SSB OIB program performance in key areas from FY 2008 through FY 2009.

Table 2.1
Minnesota OIB Program Highlights for FY 2008 and FY 2009

Expenditures, Performance, and FTEs	2008	2009
Title VII, chapter 2 expenditures	$500,881	$534,918
Total expenditures (including chapter 2)	$545,881	$545,881
Total served older individuals who are blind	3,081	3,323
Total FTEs	19.34	19.66
Total FTEs with disabilities	0.00	0.00

OIB Program Performance Observations and Recommendations

As a result of its review activities, RSA identified the performance observations set forth below and recommended that SSB take specific steps to improve the agency's performance associated with each of the observations.

1. Quality Assurance and Use of Data for OIB Program Improvement

Observation: SSB does not have a formal process for conducting oversight, monitoring and evaluation of OIB service delivery. Developing and implementing such policies and practices would enable SSB to develop methods and approaches to improve the OIB program and service delivery.

- The program manager randomly reviews data entries and consumer case notes. SSB employs no other mechanisms to evaluate the quality and sufficiency of services.
- The agency has not established measurable goals and does not have a process for reviewing and using data to evaluate or improve program performance.

Recommendation 1: RSA recommends that SSB establish a formal process for conducting oversight, monitoring and evaluation of OIB service delivery. RSA recommends that this process include, but not be limited to: developing and implementing written policies and procedures made available to all OIB staff and service providers; written standards for service providers; establishing criteria, methodology and schedule for reviewing service record information for accuracy, completeness, and quality. Having a formal process in place will enable SSB to consistently evaluate OIB program performance, and to ensure that the service delivery system yields quality results.

1. Strategic Planning

Observation: SSB has not developed a strategic plan to guide the direction and improvement of the OIB program.

- SSB has invested in increasing the number of consumers served through the OIB program by conducting outreach activities.
- SSB has not considered a formal process for improving the way OIB services are provided, and the agency has not formally identified program goals.
- The program manager and staff do not have a written strategic plan in place.
- Having a strategic plan in place will enable SSB, its consumers and stakeholders to develop program goals and objectives that could improve OIB program performance.

Recommendation 2: RSA recommends that SSB work with OIB program staff, consumers and other stakeholders to develop a written strategic plan for the improvement and future of the program. Such a plan should contain specific program goals and objectives, and should provide for consumer involvement and participation in the achievement of the goals and objectives.

2. Referrals for OIB consumers needing VR services

Observation: Staff of the OIB program only provides services to individuals who are not seeking competitive employment. Having a formal referral requirement and process in place will enable staff to refer OIB consumers seeking employment to the VR program for services while receiving OIB services to achieve their IL goals.

- SSB has no formal requirement that OIB consumers seeking employment should be referred to the VR program for services.
- SSB does not currently have policies for service provision, including the referral process in place that applies specifically to the OIB and IL programs.
- The SSU staff members who provide OIB services indicate that they are not aware that OIB consumers who have an employment goal may be referred for VR services while working toward achieving their IL goals.

Recommendation 3: RSA recommends that SSU staff providing OIB services be informed that consumers seeking employment of any kind may be referred to the VR program for services while concurrently receiving OIB services for non-work related IL goals. This information can be provided to SSU staff in the IL and OIB policy manual under development within the agency.

Technical Assistance

This section of the chapter describes the technical assistance (TA) provided by RSA to SSB during the course of the review. The TA requested by the agency to enable it to carry out the recommendations set forth above is included in Appendix B of this report titled “Agency Response.”

Technical Assistance Provided

During the review of the OIB program, RSA provided technical assistance to SSB regarding:

- quality assurance processes;
- development and implementation of written policies and procedures specific to the OIB programs; and
- strategic planning.

Chapter 3: Fiscal Management of SSB Vocational Rehabilitation, Supported Employment and the Independent Living Services for Older Individuals Who Are Blind Programs

RSA reviewed SSB's fiscal management of the vocational rehabilitation (VR), Supported Employment (SE) and Independent Living Services for Older Individuals Who are Blind (OIB) programs. During the review process, RSA provided technical assistance to the state agency to improve its fiscal management and identified areas for improvement. RSA reviewed the general effectiveness of the agency's cost and financial controls, internal processes for the expenditure of funds, use of appropriate accounting practices and financial management systems.

Fiscal Management

The Department of Administration (DOA) gives state agencies the authority, known as Authority for Local Purchases (ALP), to obtain certain items from vendors rather through DOA. The Department of Employment & Economic Development (DEED), the designated state agency (DSA) receives authorization for its funding—both state and federal dollars—through the State of Minnesota's budget process. Minnesota state government operates on a two-year budget cycle, a biennium that begins on July 1 and ends June 30 of the second year. During each odd-numbered calendar year, the governor proposes—and the legislature ratifies—the state's operating budget (also known as the biennial budget), covering the biennium. Once enacted, an operating budget can be modified in the "off-year" legislative session; revisions are referred to as supplemental budgets. Also, in legislative sessions of even-numbered calendar years, Minnesota typically adopts a capital budget for capital expenditures not financed in regular state agency operating budgets. DEED currently makes many financial determinations regarding the expenditures and allocation of costs of SSB. This is especially evident in the financial administration of the many DEED Workforce Centers throughout the state. SSB utilizes a contracting practice that pays their service providers for services per a set time period (e.g. hour, day or week) of service. SSB develops operating agreements with each rehabilitation facility from which SSB purchases rehabilitation services and piggy-backs, as appropriate, on those agreements of VRS.

SSB Fiscal Performance

The data in the following tables are taken from fiscal and program reports submitted by the state agencies to RSA, and speak to the overall effectiveness of the agency's fiscal management practices. Data related to the VR program matching requirements are taken from the fourth quarter of the respective fiscal year's SF-269 report. The data pertaining to the VR program maintenance of effort requirements are derived from the final SF-269 report of the fiscal year (two years prior to the fiscal year to which they are compared). Fiscal data related to VR program administration, total expenditures, and administrative cost percentages are taken from the RSA-2. OIB program fiscal data, including the sources and amount of funding, match and carryover, are extracted from the programs' SF-269s and the RSA-7OB report.

Table 3.1
Fiscal Data for DEED-SSB for FY 2004 through FY 2008

Minnesota (B)					
Fiscal Year	**2004**	**2005**	**2006**	**2007**	**2008**
Grant Amount	$7,314,271	$7,255,507	$7,729,380	$8,267,505	$8,262,335
Federal Expenditures	$7,314,271	$7,255,507	$7,729,380	$8,267,505	$8,262,335
Required Match	$1,979,593	$1,963,689	$2,091,941	$2,237,584	$2,236,185
Actual Match	$2,091,941	$2,237,584	$2,091,941	$2,237,584	$2,236,185
Over (Under) Match	$112,348	$273,895	$0	$0	$0
Carryover at 9/30 (year one)	$1,180,550	$565,680	$392,066	$1,185,369	$1,724,434
Program Income	$824,539	$453,891	$512,939	$104,332	$647,397
Maintenance of Effort (MOE)	$2,091,941	$2,237,584	$2,091,941	$2,237,584	$2,091,941
Administrative Costs	$1,479,833	$1,706,720	$1,606,141	$1,609,884	$1,752,733
***Total Expenditures**	$9,977,220	$10,977,991	$10,784,412	$10,735,139	$10,488,238
Percent Admin Costs to Total Expenditures	14.83%	15.55%	14.89%	15.00%	16.71%

*Includes Supported Employment Program Expenditures.

Table 3.2
Fiscal Data for DEED-OIB for FY 2004 through FY 2008

Minnesota (B)					
Fiscal Year	**2004**	**2005**	**2006**	**2007**	**2008**
Grant Amount	$491,147	$528,814	$510,270	$510,501	$500,881
Federal Expenditures	$491,147	$528,814	$510,270	$510,501	$500,881
Required Match	$54,572	$58,757	$56,697	$56,722	$55,653
Actual Match	$1,270,627	$1,281,555	$1,447,841	$1,521,829	$1,625,719
Over (Under) Match	$1,216,055	$1,222,798	$1,391,144	$1,465,107	$1,570,066

Fiscal Management Observations and Recommendations

As a result of its review activities, RSA identified the following performance observations related to the fiscal management of the programs under review and recommended that SSB take specific steps to improve the agency's performance associated with each of the observations.

1. Underutilization of Supported Employment Funds

Observation: In FY 2004 and FY 2005, SSB utilized all of its Supported Employment (SE) Funds; however, for FY 2006, SSB returned 22 percent of the SE grant to the U.S. Treasury. In FY 2007, SSB again utilized all of its SE funds but for the last two completed fiscal years (FY 2008 and FY 2009), it did not spend 90 percent and 82 percent of the SE funds, respectively. During these fiscal years, SSB transferred the unspent funds to VRS to avoid returning those funds to the U.S. Treasury. This keeps the funds within the state but fails to provide services to SSB consumers which are offered through its SE program.

Recommendation 1: SSB should plan the use of the SE funds during the development of future program service delivery systems and the budget planning process. These funds, which do not require any state match, if properly planned for and implemented, could provide SE services for SSB consumers with the most severe disabilities, who would benefit from this program activity.

2. Increasing Level of Carry-over of Federal Funds

Observation: SSB experienced a growing carry-over of federal funds into the second year of the grant. The carryover since FY 2007 (14 percent) continued to exceed the national average of 13 percent. (e.g. FY 2008–21 percent, FY 2009–23 percent, and FY 2010–32 percent). This increasing level of unobligated federal funds applied results in a rollover of prior fiscal year funds, which lessens the required new fiscal year fund expenditures and obligations and a continual increase in the carryover of funds each year.

Recommendation 2: SSB should coordinate its program and fiscal planning processes to ensure that both sections are clear on the expected program service requirements and the funds that are available for each fiscal year. To avoid a one-time peak in service delivery and expenditures, SSB may project over the next two years, to determine the additional persons who could be served or additional services that could be provided. This long term equalization of current excess cash will avoid building a sudden capacity which would not be able to be maintained after the large carryover is under control.

3. Contract Formats and Time Periods Drive Payments to Contractors

Observation: The SSB contract format and resulting invoicing process inhibits the agency's ability to ensure it is receiving comparable services to the funds it is paying to the respective contractors, which negatively impacts the agency's ability to properly monitor those contracts in each program function and activity.

For example is the contract with the CRP "CHOICE, Unlimited":

1. Services (are just listed) to be provided include OJT Evaluation, Vocational Evaluation, Situational Assessment, OJT, Work Adjustment Training, Job Seeking Skills, Job Shadowing, Job Coaching, Job Development and Job Placement without any description as to what these services are to include in order for SSB to be able to monitor services delivered or document that expenses were tied to services delivered.
2. SSB pays for services on an hourly basis, which provides the time frame in which the service is provided but does not ensure the quality and quantity of services. This also precludes any possibility of measurable outcomes.
3. There is no explanation or description where these activities will take place (e.g. in a classroom, in a try-out work experience, at the vendor's facility, etc.) which makes it impossible for SSB to determine what to monitor, or how to measure success in service provision.
4. By paying on an hourly basis for services which cannot be defined, SSB could be paying double for the same activity that benefited two or more VR consumers and/or benefited other vendors

and those who not applicants or consumers of the VR program. For example, a contractor charging SSB for one hour of job development for one consumer and charging SSB for the same hour of service while concurrently serving another consumer.

5. *The only report* that is required as payment for **<u>any or all</u>** of these services is a report that includes: 1) the business contacted; 2) person contacted and title; 3) method of contact (phone, email, in person, by letter); 4) reason for the contact; and 5) results of the contact with next steps. This report does not appear to support most of the activities for which SSB pays an hourly fee.
6. Under Section VIII – Vendors Compliance (Section C) states: *"The vendor cannot bill SSB for an amount greater than the fees indicated in the current operating agreement or fee modification addendum."* Section C continues: *"The vendor agrees to charge SSB no higher fee than other purchasers of their services and may bill for services only for the authorized time period."* The contract and billing processes do not permit SSB to monitor this section of the contract.
7. Under Section XII – FEES, it states that vendor must be given 24 hour notice if a scheduled session is cancelled but the agreement is not set up to provide structured sessions. Further, this cancellation policy does not take into effect the changing medical issues faced by persons with disabilities.

For example, the contract with CRP - Blindness: Learning in New Dimensions (Blind, Inc.)
Fees are paid for non-performance to Blind, Inc:

- As long as the student attends 75 percent of scheduled sessions in month, SSB pays the entire month;
- If the student is in class for less than 75 percent of the month, payment is prorated **<u>plus</u>** paying for a week of services never received;
- This training occurs within a facility offering housing while training and SSB pays: a) 100 percent (e.g., a full month of housing costs) when the consumer is there two weeks out of that month; b) a pro-rated cost **<u>plus two weeks of notice</u>** costs if the consumer is there less than 50 percent of the month; however, c) although SSB is paying for housing it is not receiving, the agreement requires that: "Any student who leaves the center must immediately relinquish their space in the student apartments."

Recommendation 3: SSB should consider the following contract and invoicing changes:

3.1 develop a contract with a cost per training unit that is measurable which will consistently track and adequately document all expenditure of VR funds; and

3.2 develop processes to ensure consistent invoicing of expenditures that ensures: a) only VR consumers and applicants are benefiting from services provided; b) the ability to monitor expenditures from invoices submitted and records kept by the CRP; and c) SSB does not pay for services not received or directly benefiting it.

Fiscal Management Compliance Findings and Corrective Actions

RSA identified the following compliance findings and corrective actions that SSB is required to undertake. SSB must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and RSA is available to provide technical assistance to assist SSB to develop the plan and undertake the corrective actions. RSA reserves the right to pursue enforcement actions in connection with the findings below as it deems appropriate, including the recovery of Title I VR funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of EDGAR.

1. Assigning Personnel Costs

Legal Requirements:

34 CFR 361.12 states that:

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

34 CFR 80.20(a) requires that:

> (a) A state must exp[e]nd and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
>
> (1) Permit preparation of reports required by this part and the statutes authorizing the grant; and
>
> (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

2 CFR part 225, Appendix B (formerly known as OMB Circular A-87, Attachment B), paragraph 8, in pertinent part, states:

> 8.h.4 Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) … Such documentary support will be required where employees work on: (a) more than one federal award; and (b) A federal award and a non-federal award.
>
> 8.h.5 Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be signed by the employee; and (d) budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes.

Finding: SSB is not in compliance with 34 CFR 361.12, 34 CFR 80.20, and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5, because SSB is not consistently tracking personnel costs for those individuals working on multiple programs to ensure that programs are bearing a share of those costs that are proportional to the benefit received. Although SSB has a tracking mechanism that could appropriately charge the benefiting grant, SSB is not applying the allocation of those costs consistently across all staff. Pursuant to 2 CFR part 225, Appendix B, paragraph 8.h.4, SSB has each staff person complete a Personnel Activity Report and submit it at the end of each calendar month. While on-site in April 2010, RSA conducted a sample review of SSB's staff payroll and personnel activity reports. For those SSB employees who work on more than one grant or funding source, RSA noticed that the personnel activity reports were completed differently among the staff. For example, some individuals gave a total per month for time spent on each program; others gave total time spent on each program for each day of the month. RSA also noticed that many of the reports contained projected or estimated time spent on each activity, rather than a listing of actual time spent on each, as required by 2 CFR part 225, Appendix B, paragraph 8.h.5. The practice of staff reporting projected or estimated time became apparent during the review when RSA noted that many of the personnel activity reports contained identical time allocation percentages for each of the programs month after month. For example:

- One individual reported on a daily basis an exact amount of time spent on each of the seven projects he performed [e.g. 1) 3 hours and 6 minutes; 2) 6 minutes; 3) 6 minutes; 4) 6 minutes; 5) 1 hour; 6) 3 hours and 6 minutes; and 7) 30 minutes]. According to the personnel activity reports reviewed by RSA, this individual reported the identical percentages of time spent on each of the seven programs for every day of the month, month after month.
- Many other individuals submit personnel activity reports that record the total hours worked each day and allocate those hours (and related costs) to the same three project codes in the same percentage for the report month [e.g. 65.41 percent, Code 484 (Basic VR); 20.58 percent, Code 485 (State-Non-Match); and 14.01 percent Code 497 (Older Blind)].

When RSA questioned SSB fiscal staff about the completion of these personnel activity reports, RSA was told that staff are not required to maintain supporting documentation to ensure that the reports reflect an actual accounting of time spent on each program that month. Instead, SSB fiscal staff informed RSA that the time allocations generally are given in relationship to the SSB budget for each of those programs. For example, the written Administrative Support Unit (ASU) Daily Time Charging Codes requires certain ASU staff to code their time in accordance with dollars budgeted to specific funding sources by each SSB section (e.g., AA&T, BEP, WDU = $9,803,523 – Code 484 – 65.41 percent; Comm Center $3,083,872 (State-Non-Match) – Code 485 – 20.58 percent; and SSU (Older Blind – $2,099,661 – Code 497 — 14.01 percent). Regulations at 34 CFR 361.3 require that VR funds must be used solely for the provision of VR services or for the administration of the VR program.

To constitute an administrative cost under the VR program, the expenditure must be incurred in the performance of administrative functions of the VR program (34 CFR 361.5(b)(2)). Administrative salaries, including those for clerical and other support staff who work under the VR program, constitute a VR-related administrative cost (34 CFR 361.5(b)(2)(xi)). Personnel costs arising under other programs, such as IL-part B or OIB, do not constitute VR administrative costs because they do not arise from the performance of administrative functions for the VR program. Therefore, administrative expenditures for other programs are not allowable under the VR program, pursuant to 34 CFR 361.3, and may not be paid for with VR funds. Given that SSB does not require its employees who work on multiple programs to submit personnel activity reports that accurately reflect the actual time spent on each program but, rather, allows those reports to reflect time estimates based on program budgets, SSB has failed to comply with 2 CFR part 225, Appendix B, paragraphs 8.h.4 and 8.h.5. As a result, SSB has failed to ensure it administers the VR program in a proper and efficient manner and accounts for all funds accurately, as required by 34 CFR 361.12 and 34 CFR 80.20(a).

Corrective Action 1: SSB must:

1.1 cease using Title I funds for personnel costs that do not arise under the VR program, as supported by documentation, pursuant to 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5;

1.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5; and

1.3 submit a plan, including timelines, describing the corrective actions that will be taken to ensure:

   a) personnel activity reports are maintained that reflect actual time spent on each program in order to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and,

   b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by SSB in accordance with program requirements.

2. Failure to Maintain Written Policies Governing Fees for Purchased VR Services

Legal Requirements:

34 CFR 361.50 (c)(1) states:

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

34 CFR 361.12 states that:

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

2 CFR part 225, Appendix A (formerly known as OMB Circular A-87, Attachment A), paragraph C, in pertinent part, states:

> C.1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
>
> a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
>
> b. Be allocable to Federal awards under the provisions of this Circular.
>
> ****
>
> C.3. Allocable costs.
>
> a. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Finding: SSB is not in compliance with 34 CFR 361.50(c)(1), 34 CFR 361.12, and 2 CFR part 225, because it does not have a written policy that specifically governs the rate setting methodology for all purchased VR services, or a uniform cost basis for services provided by CRPs. Instead, SSB accepts, and pays, the stated cost of the vendor or CRP without any analysis or determination of the reasonableness of the cost for the service provided.

SSB spends more than a third of its VR grant—39.3 percent—on purchased VR services; whereas the national average among all Blind agencies is 35 percent. Further, SSB spends more than twice the amount on purchased VR services per employment outcome ($18,093), than the national average for Blind agencies ($7,132). According to the information RSA reviewed during the monitoring process, SSB does not use a competitive bidding process or go through DEED's Central Purchasing Unit for any service purchased outside of a contract or that costs less than $2,500. Although there are no written policies establishing this, RSA learned during the monitoring process that SSB pays $55 per hour for certain services (e.g. OJT Evaluation, Vocational Evaluation, Situational Assessment, OJT, Work Adjustment Training and Job Shadowing), regardless of the intensity required for the delivery of those services. In addition to the actual purchase of services at set hourly rates, RSA learned that SSB also pays an hourly rate for travel plus a mileage fee. For example, a vendor providing job development services earns $40 per hour, plus $30 per hour for travel and 55 cents per mile. The amounts SSB pays for these services and related expenses are those billed by the vendors. RSA found no evidence, nor did SSB provide information showing otherwise, that SSB had ever conducted a market analysis to determine the appropriate rate of payment for each of the purchased services.

Federal regulations require SSB to establish procedures that enable it to administer the VR program in an efficient manner that ensures it can carry out all functions properly (34 CFR 361.12). SSB also must establish and maintain written policies that govern the rates of payment for all purchased VR services (34 CFR 361.50(c)(1)). The Federal cost principles require that allowable costs be necessary and reasonable for proper and efficient program performance and administration, as well as be allocable to the program (2 CFR part 225, Appendix A, paragraph C.1). To be allocable to a program, the cost must be relative to the benefit received (*Id*. at paragraph C.3.). SSB has failed to comply with 34 CFR 361.12 and 34 CFR 361.50(c)(1) by not having a uniform system for developing fees with CRPs. By paying the invoiced cost, without having the policies governing fees in place or having conducted a market analysis to determine the reasonableness of the amount charged, SSB is not able to determine the relative benefit the program is receiving in order to ensure the costs are allocable to the program and that the VR program is not overcharged for those services. SSB, therefore, has failed to comply with the requirements set forth at 34 CFR 361.12, 34 CFR 361.50(c)(1), and the cost principles set forth at 2 CFR part 225.

Corrective Action 2: SSB must:

2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that SSB will comply with 34 CFR 361.12, 34 CFR 361.50, and the Federal cost principles set forth at 2 CFR part 225;

2.2 develop and maintain written policies that govern the rate setting methodology for all purchased VR services, as required by 34 CFR 361.50(c)(1), in order to ensure uniformity in payments for such services; and

2.3 submit copies of policies and procedures developed pursuant to this corrective action to RSA to ensure completion of that action.

3. Failure to Monitor Grant Activities

Legal Requirements:

34 CFR 80.40(a) states:

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function and activity.

Finding: SSB is not in compliance with 34 CFR 80.40(a) because it does not conduct monitoring activities, or have a formal monitoring protocol established, to ensure that VR grant-supported activities performed by CRPs and other contractors comply with applicable Federal requirements, and that performance goals are being achieved.

SSB does not have a written policy governing the monitoring of its contracts, and, as a result, SSB does not monitor its contractors to ensure requirements are satisfied and that the services, for which payments are made, were actually provided to VR consumers. RSA noted that the contracts it reviewed during the monitoring process did not require SSB to monitor the contractors. In fact, the only review process that RSA noted in the contracts for certain entities—e.g., CHOICE, Larson Vocational Services, Opportunity Partners, Complete Career Services, and the Courage Center—was one that required the contractors to submit a monthly written report that describes the activities performed for only one of the many services (e.g. job development/placement) provided by the contractors during that month. SSB fiscal staff confirmed to RSA that these reports, submitted by the contractors with the invoices for payments, were the extent of SSB's monitoring. Furthermore, according to the information RSA learned while on-site reviewing these contracts, SSB's only financial review of contracts is targeted solely to ensuring that the number of hours or charges itemized on the invoices do not exceed the terms of the contracts. SSB pays the invoices in full so long as the number of hours and charges are within the parameters of the contract.

As a recipient of federal funds, SSB is responsible for monitoring all grant supported activities (34 CFR 80.40(a)). A review of monthly reports that describe only one of many services provided by the contractor that month does not provide SSB with information that will enable the agency to ensure compliance with federal requirements or that performance goals have been achieved under the full scope of the contract. This can only be accomplished through a structured, formalized monitoring process that may involve activities such as a review of agency performance data and service records, interviews with CRP staff, and analysis of outcomes against established standards and indicators the agency expects from its vendors. Without a formalized approach, the agency is unable to ensure that grant supported activities comply with applicable Federal requirements and that performance goals are being achieved; therefore, SSB is not compliant with 34 CFR 80.40(a).

Corrective Action 3: SSB must:

3.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 80.40(a), to ensure that it will monitor grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved; and

3.2 develop and implement policies and procedures to monitor the activities and services provided by the CRPs and other vendors providing services through the VR contracts to assure compliance with applicable Federal requirements and achievement of performance goals.

4. Allowability, Allocability, and Reasonableness of Cost Allocations in One-Stop Centers

Legal Requirements:

34 CFR 361.3 states:

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

34 CFR 361.12 states:

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

34 CFR 80.20(a) states:

> A state must exp[e]nd and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
> (3) Permit preparation of reports required by this part and the statutes authorizing the grant, and
> (4) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

20 CFR 662.280 states:

> Does title I [of the Workforce Investment Act (WIA)] require One-Stop partners to use their funds for individuals who are not eligible for the partner's program or for services that are not authorized under the partner's program?
>
> Answer: No, the requirements of the partner's program continue to apply. [WIA] intends to create a seamless service delivery system for individuals seeking workforce development services by linking the One-Stop partners in the One-Stop delivery system. <u>While the overall effect is to provide universal access to core services, the resources of each partner may only be used to provide services that are authorized and provided under the partner's program to individuals who are eligible under such program. (WIA sec. 121(b) (1)).</u> (emphasis added)

Section 121(b)(1)(A) of WIA states:

(b) One-Stop Partners.—

(1) Required partners.—

(A) In general.—Each entity that carries out a program or activities described in subparagraph (B) shall—

(i) make available to participants, through a one-stop delivery system, the services described in section 134(d)(2) that are applicable to such program or activities; and

(ii) participate in the operation of such system consistent with the terms of the memorandum described in subsection (c), and **with the requirements of the Federal law in which the program or activities are authorized.** (emphasis added)

2 CFR part 225, Appendix A (formerly OMB Circular A-87, Attachment A), paragraph C , in pertinent part, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
   b. Be allocable to Federal awards under the provisions of this Circular.

   ****

   j. Be adequately documented.

   ****

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally- funded. In determining reasonableness of a given cost, consideration shall be given to:
   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
   b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

   ****

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

   ****

   c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular **may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.** (emphasis added)

DOL's "Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs," 66 Fed. Reg. 29637, 29643 (May 31, 2001), in pertinent part, states:

Any methodology used must:

1) Result in an **equitable distribution** of costs and not result in any partner paying a disproportionate share of the shared One-Stop costs;
2) Not result in any partner paying a disproportionate share of the common costs;
3) Correspond to the types of costs being allocated;
4) Be efficient to use; and,
5) Be **consistently applied over time**. (emphasis added)

RSA Information Memorandum 02-13, p.59 and 62 (February 28, 2002) states:

VR Cost Allocation Methods Must:

1) Result in an equitable distribution of the shared costs;
2) Correspond to the types of costs being allocated;
3) Be efficient to use and consistently applied;
4) Be consistent with generally accepted accounting principles (GAAP);
5) Meet OMB and EDGAR requirements; and,
6) Be accepted by each partner's independent auditors to pass A-133 audits.

It is not sufficient to inspect the information supporting the agency's financial contribution to the One-Stop or the State's system without reviewing documents supporting the allocation principles used for all partners.

****

The pivotal point in cost-sharing or allocation is whether a benefit is received by the One-Stop partner, or specifically by the VR agency. Care should be taken when evaluating costs determined to be of benefit to the VR agency by the local boards or other partners whose perceptions of receiving a benefit may be broader than is appropriate.

Finding: SSB is not in compliance with 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, because SSB is using VR-funded staff and VR financial resources to support activities that are beyond the scope of the VR program. Moreover, the cost-sharing of these expenditures is not consistent with U.S. Department of Labor (DOL) regulations governing the one-stop system at 20 CFR 662.280 and DOL's cost allocation guidance set forth at 66 Fed. Reg, 29637 (May 31, 2001), because the cost allocation methods used do not ensure an equitable allocation of costs to the respective one-stop partners, including SSB.

While on-site, RSA interviewed SSB staff to determine whether SSB staff, assigned to and fully paid under the VR program, were performing duties that go beyond the scope of the VR program at the Workforce Centers (WFCs), including those duties that go beyond the scope of the VR program as a required partner in the WFCs. RSA's on-site review, which included interviews with SSB staff housed in the WFCs and SSB management staff, identified instances where fully-funded VR staff was serving on a regular basis as WFC resource room support staff. Specifically, in the Bemidji WFC, SSB staff is performing WFC related responsibilities and are expected to perform these duties regularly. These expectations negatively impact SSB's ability to have those staff fully engaged in SSB duties.

RSA also found that WFCs used differing methodologies to allocate cost-sharing of WFC expenses. For example, one WFC may pay its SSB share by providing staff support while, the same cost in another WFC may be paid by allocating costs. Frequently, the SSB share of the WFC expenses is determined by the number of full time SSB employees housed in the WFCs. According to the documents RSA reviewed, there is no correlation between the amount of SSB's share and the number of VR consumers utilizing the WFC resources. Approximately 85 percent of the individuals accessing the WFCs are universal customers not associated with a specific program. SSB's allocated costs for the WFCs are not proportional to usage by SSB consumers.

The Unemployment Insurance (UI) program's share is paid via a flat fee directly to DEED, not as part of the cost allocation plans governing the other WFC partners. The UI program is not able to fully fund its share of the WFC costs assigned through the cost allocation plans for the WFCs. Under this arrangement, DEED does not distribute any of the UI funds, paid separately to DEED rather than through the cost-allocation plans, to support the shared WFC costs. Again, according to the information RSA reviewed, there is no correlation between the UI program's flat fee rate and the large number of individuals utilizing the WFCs due to issues arising under the UI program. For example, in the Brainerd Cost Share Agreement, UI staff positions are deducted from staffing calculation and proportionate shares of staffing allocated to remaining partners. However, these funds are not incorporated in the local agreements resulting in each partner not paying a fair share. UI does not fulfill its reception obligation. When partner costs are not incorporated uniformly in the local agreements, the excess unallowable costs are distributed to the other WFC participants.

RSA did not find, nor was it provided, documentation to support that any of these methodologies are reconciled to ensure each partner, including SSB—as the DSU for the VR program, pays an equitable allocation of the shared costs at the WFCs so that no partner bears a disproportionate share of the costs.

VR funds must be used solely for the provision of VR services and the administration of the VR program (34 CFR 361.3). As the VR grantee, SSB is required to maintain policies and procedures to ensure the proper administration of the VR program and fiscal accountability of all VR program funds (34 CFR 361.12 and 34 CFR 80.20(a)). In ensuring fiscal accountability, SSB must ensure that all expenditures of VR program funds are necessary, reasonable, allowable, and allocable to the VR program (2 CFR part 225, Appendix A, paragraph C). To be allocable to the VR program, the expenditures must be proportional to the benefit received by the VR program (*Id*.).

As the DSU for the VR program, SSB also is a required partner in the workforce development system, pursuant to section 121(b)(1)(B)(iv) of WIA. As a required workforce partner, SSB must carry out certain functions in a manner that is consistent with the requirements of the VR program and Title I of WIA, including providing core services at the WFCs, using a portion of its program funds to provide the core services, and entering into a Memorandum of Understanding with the local workforce investment board that describes SSB’s role in the WFCs (34 CFR 361.23). Despite the requirement that SSB must participate in the funding and delivery of core services in the WFCs, DOL’s regulations governing the one-stop system (20 CFR 662.280) and DOL’s published guidance on cost-allocation at the WFCs (66 Fed. Reg. 29637 (May 31, 2001)) make it clear that the cost-sharing must be consistent with the VR program’s requirements and must be proportional to the benefit received by the VR program at the WFC (see also RSA-IM-02-13). In particular, 20 CFR 662.280 states: **“…**[T]he resources of each partner may only be used to provide services that are authorized and provided under the partner’s program to individuals who are eligible under such program." These requirements are consistent with the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, in that they all require that no program bear a disproportionate share of the costs due to the inability of another program to pay its fair share. RSA's review of DEED's WorkForce Center Allocation Guidelines (PPM506) further reinforces the principle of equitable distribution of shared costs because it makes it clear that no funding stream is exempt from participation in a local cost allocation plan.

The pivotal point in determining whether the cost-sharing allocation is appropriate is determining whether the program received a benefit from its participation in the WFCs. Cost allocation methodologies must result in an equitable distribution of the shared costs, correspond to the types of costs being allocated, be efficient to use, and be consistently applied. Given all of the above, RSA finds that SSB was paying more than its fair share of the shared costs of the WFCs, as prohibited by the Federal cost principles at 2 CFR part 225, Appendix A, paragraph C. In paying more than it should have of costs not related to the VR program, these expenditures were not allowable under the VR program, pursuant to 34 CFR 361.3, and, as such, SSB failed to administer the VR program to ensure the proper accounting of all VR funds, as required by 34 CFR 361.12 and 34 CFR 80.20(a). Moreover, the disproportionate imposition of the shared costs on the VR program was not consistent with RSA-IM-02-13, 20 CFR 662.280, and DOL's published guidance on cost-allocation at the WFCs (66 Fed. Reg. 29637 (May 31, 2001)).

Corrective Action 4: SSB must:

4.1 cease paying more than its proportional share of the shared costs of the WFCs;

4.2 submit a written assurance within 10 days of the issuance of the final report that SSB will comply with the requirements of 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, especially as these requirements relate to the SSB share of the shared costs under the WFCs; and

4.3 work with DEED and the WFC partners to establish policies and procedures for the development of a method or methods to determine SSB's appropriate share of WFC operating costs that are consistent with requirements of the VR program regulations, EDGAR, OMB cost principles, and WIA. These cost sharing methodologies must ensure that:
   a) the costs allocated to SSB are allowable under the VR program;
   b) the computational methodology of allocating costs, as well as the basis used for their distribution, are equitable to the VR program;
   c) the costs identified as shared are common to all partners;
   d) SSB receives a proportional benefits from each cost allocated to it;
   e) the WFC cost-sharing agreement addresses each partner's financial participation in allocated common costs pursuant to 34 CFR 361.23(a)(2);
   f) the MOU or other cost-sharing agreement is based on reasonable, supportable, and valid data and is auditable; and
   g) the cost allocation adheres to the Federal cost principles set forth at 2 CFR part 225.

Issue for Further Review

RSA plans to conduct further review of the impact that SSB's organizational location within DEED and its role in the WFCs may have on SSB's ability to comply with the non-delegable functions requirement set forth at 34 CFR 361.13(c). As the DSU for the VR program, SSB is solely responsible for, among other things, the allocation and expenditure of VR funds; this function may not be delegated to another agency or individual (34 CFR 361.13(c)(1)(iv) and (c)(2)). In particular, RSA will be conducting further review to determine whether the SSB Director has control over the amount of costs for the WFCs charged to SSB.

Technical Assistance

This section of the chapter describes the technical assistance (TA) provided by RSA to SSB during the course of the review. The TA requested by the agency to enable it to carry out the recommendations and corrective actions set forth above is included in Appendix B of this report titled "Agency Response."

Technical Assistance Provided

To enable the agency to improve its fiscal management processes, RSA provided technical assistance to SSB during the review process regarding:

- the development of fee structures that would be tied to measurable outcome in services provision;
- the Designing of cost sharing within each of the workforce development centers based on service levels;
- the areas in which monitoring would meet regulatory requirements and assist in program management; and
- the changes within the contract language and structure that would strengthen fiscal oversight.

CHAPTER 4: PROGRESS TOWARD REDRESSING FINDINGS FROM PRIOR RSA REVIEWS

As a result of the RSA review of SSB conducted in FY 2003, the state agency implemented a Corrective Action Plan (CAP). A summary of the progress that SSB has made on the CAP appears below.

Corrective Action Plan

Through the implementation and completion of the CAP, SSB successfully resolved compliance findings in the following programmatic and fiscal areas:

- documentation that the individual's disability results in a substantial impediment to employment;
- documentation of a specific extension of time for determining eligibility;
- determination that an individual requires vocational rehabilitation services to prepare for, secure, retain or regain employment consistent with the applicant's unique strengths, resources, priorities, concerns, abilities, capabilities, interest and informed choice;
- assessment for determining eligibility and priority for services;
- frequency of contact between the VR counselor and the individual;
- requirements for closing the record of service based on a satisfactory outcome;
- SRC-B approval of policies for file documentation;
- description of the policies and procedures needed to ensure equal access to services for individuals with minority backgrounds; and
- presumptive eligibility for applicants determined eligible for SSA benefits (34 CFR 361.42(a)(3)(i)(A).

SSB has not successfully resolved a compliance finding related to, and continues to work toward, the resolution of the time standard of 90 days for development of the IPE (34 CFR 361.45(a)(3).

Documentation of Development of IPE Past 90 Days: Since FY 2004, SSB has monitored counselor performance and has reviewed one-half of the SSB counselor caseloads each quarter with the remaining half of the counselor caseloads reviewed in the following quarterly review covering all cases where IPE development took longer than 90 days. SSB anticipated completion of this corrective action within one year following implementation of the CAP.

Status: SSB has not demonstrated compliance with this requirement at the 90 percent level. In December 2009, SSB implemented additional policies, standards and training, which include requirements for supervisory review of cases for which the IPEs were not developed within 90 days. SSB expects to complete this corrective action by December 30, 2010.

PART III: REVIEW OF THE MINNESOTA INDEPENDENT LIVING PROGRAM

Executive Summary

Minnesota Administration of the IL Program

During fiscal year (FY) 2010, the Rehabilitation Services Administration (RSA) reviewed the performance of the independent living (IL) program, authorized under Title VII, Part B, of the *Rehabilitation Act of 1973,* as amended (the Act), administered by the Division of Vocational Rehabilitation Services (VRS) in the State of Minnesota.

IL Program Performance over the Past Five Years

Either directly, or through grants or contracts with centers for independent living (CILs) and other service providers, the number of individuals served through the VRS IL Part B Program decreased from 706 in FY 2006, to 233 in FY 2008.

Observations of the Agency and Stakeholders

Through the course of the review, agency personnel and representatives of stakeholders, such as the Statewide Independent Living Council (SILC), shared information concerning the administration and performance of the IL program. During the review, they observed that:

- the SILC conducts on-site visits to the CILs to learn about consumer IL needs from CIL staff. This enables the SILC to have a clearer understanding of how the CILs develop goals and objectives for incorporation into future state plans for independent living (SPIL); and
- there is a collaborative working relationship among the Minnesota CILs, the SILC and the DSUs which facilitates effective IL service provision to consumers.

Strengths and Challenges

Based on the observations from the agencies, the stakeholders and other information gathered through the review process, RSA concluded that the agencies and the SILC exhibited a variety of strengths that enhanced, and experienced a number of challenges that inhibited their ability to improve the performance of the IL program.

As part of their orientation, SSB IL program staff receives adjustment to blindness skills training at any of the three centers for the blind in the state. Two of these centers use the traditional instruction method of adjustment to blindness skills training. This method allows a blind or visually impaired individual to manage with the sight they have by using low-vision aids and devices such as magnifiers. The third center uses the structured discovery instruction method that teaches a blind or visually impaired individual to manage without any use of sight by wearing sleep shades to perform daily living and other skills. This method encourages the use of alternative techniques to prepare for the possibility of further loss of vision. Undergoing training in adjustment to blindness enables the IL staff to better understand the service needs of newly blind consumers and provides them with the necessary knowledge, understanding and interpersonal skills needed to provide effective IL services to blind consumers, regardless of the degree of vision loss.

However at the time of the review, SSB was challenged to meet the increasing demand for OIB services as "baby boomers" reached age 55 and as a result of its own outreach activities. This was in contrast to a decreasing demand for IL services among individuals with blindness under the age of 55 in Minnesota.

Acknowledgement

RSA wishes to express appreciation to the representatives of DEED and VRS, the SILC and the stakeholders who assisted the RSA monitoring team in the review of the VRS IL program.

CHAPTER 1: INDEPENDENT LIVING (IL) PROGRAM

IL Program Systems

The following sections of this chapter describe the manner in which VRS administers and operates the IL program, authorized pursuant to Title VII, Part B, of the *Rehabilitation Act,* through a variety of functions or systems, including service delivery, personnel, case and data management, quality assurance and planning.

Program Administration and Service Delivery

VRS administers the Part B IL program in Minnesota. SSB uses its Part B funds to conduct outreach activities to increase referrals for IL services. Because Minnesota is a "723 state," VRS administers the Part C CILs programs. VRS provides IL services directly and through contracts with the CILs. In FY 2009, the state awarded eight Part B contracts in the amount of $115,000 for IL services. Each of the eight CILs in Minnesota received a contract for $14,375.

VRS also administers an agency-based State Independent Living Services (SILS) program operated cooperatively through VR field offices statewide to provide independent living services including counseling, service coordination and the purchase of equipment.

SSB uses Part B funds to provide outreach to unserved or underserved populations, including minority groups and persons in both urban and rural areas of the state. SSB also provides IL services to all Minnesotans who are blind or visually impaired using state funds.

VRS and SSB use Part B funds for the operation of the Minnesota Statewide Independent Living Council, (MNSILC), and to fund the SILC resource plan. The SILC is physically located within the DSU; however, it is an independent entity of state government and is neither part of, nor subordinate to any state agency. Administrative support is provided to the SILC by the VRS IL Section. Title I Program Income is utilized for the payment of staff salaries, as well as fringe and other benefits, while providing either administrative support to the SILC, or performing the other duties and responsibilities of the IL Section. VRS also uses Title I program income to fund a VR/IL collaboration contract with CILs to provide VR-related IL services to consumers who have employment goals.

As part of their efforts to determine the IL needs in the state, VRS and MNSILC approved a plan and funding for a statewide assessment of home accessibility services and resources in FY 2007. The project will document and describe state and center services for home accessibility including ramps, modified stairs, home modifications, and related assistive technology. This project is being funded through ARRA Part B IL funds. A portion of the funds will be utilized to provide staff support under a subcontract with the Courage Center. The project will take place in three stages, and information gathered in each stage will inform and influence subsequent activities and priorities.The project will take place in three stages, and information gathered in each stage will inform and influence subsequent activities and priorities.

Personnel

Staff from the Community Partnerships section of VRS is primarily responsible for the provision of administrative support services under Minnesota's Part B and Part C IL programs. The Community Partnerships section includes one Director, four Rehabilitation Specialists, one Independent Living Specialist, and one IL-VR counselor. This counselor also serves a full IL caseload in the seven-county metropolitan area. The director of Community Partnerships, who reports to the director of Rehabilitation Services, is responsible for management and oversight of the Part B program.

In addition, fifteen VR counselors in field offices throughout the state have limited responsibilities for IL services and carry a small number of IL cases in their overall VR caseloads. This approach to IL service delivery seeks to ensure access to IL services statewide for consumers who reside in unserved and underserved areas of the state. Clerical support is assigned on a part-time as-needed basis.

SSB employs one staff person to conduct outreach activities for the OIB program and the state-funded IL services program. This staff person's position is paid for with Part B funds.

SSB also uses VR techs and counselors from its senior services unit to provide other IL services to blind and visually impaired individuals in all age categories.

Data Management

VRS uses Workforce 1 to collect and compile required data for the RSA-704 Part I report. Information on outreach activities conducted with Part B funds for this report is gathered from SSB. Individual CILs each use separate information collection systems to gather required data for the 704 Part II reports.

Quality Assurance

Compliance with eligibility, development or waiver of IL plans, and other IL program standards and assurances are assured through the ongoing review process of Minnesota's centers and SILS program. VRS utilizes the RSA review instrument for determining compliance with Federal CIL standards, assurances and indicators. During the monitoring and on-site review process, VRS reviews randomly selected consumer case files to assure that consumers are receiving requested services to meet their IL goals.

All eight of Minnesota's CILs undergo either an annual on-site monitoring or an on-site compliance review each year. The on-site monitoring review includes, for example, activities associated with the CIL's state contract and implementation of the Minnesota SPIL. An on-site compliance review is conducted at each center every three years.

SSB uses feedback from consumers regarding the outreach activities conducted with Part B funds for quality assurance and program improvement.

Planning

The DSU and SILC utilize the SPIL planning framework that was developed by SILC-Net, ILRU, and NCIL, in the development of the State Plan for Independent Living. The SILC and DSU participated in training regarding the development of an outcome-focused SPIL, and the evaluation of an outcome-focused SPIL. In addition, there is regular communication between VRS and the eight CILs to discuss IL services, programs and funding.

Promising IL Program Practices

Throughout the review process, RSA solicited input from VRS and its stakeholders regarding promising practices undertaken by the agency in the administration and operation of the IL program. The RSA review team substantiated the positive outcomes generated by the practices in the course of conducting monitoring activities. One of these practices included:

1. IL/VR Collaboration

In FY 2007, DEED, the MNSILC, and the eight CILs determined to fund the MNSILC with $115,000, the total IL Part B award for the state. This amount was replaced and an additional $185,000 of SSA program income to create the IL/VR collaboration. Under the collaboration, the CILs provided work-related IL services to VR consumers who had an employment goal. Each CIL met with the VR office in its service area to identify work-related IL consumer needs, to develop initiatives, and set priorities under the IL/VR collaboration to meet those needs at the local level. This arrangement created an expectation that local needs and priorities would vary among the regions of the state.

The IL needs identified included school-to-work transition, pre-employment preparation, and case management services. In addition to addressing these needs, the collaboration provided work-related IL services to targeted unserved and underserved populations and groups such as individuals with serious mental illness, veterans, and individuals with autism spectrum disorders.

The Minnesota IL/VR collaboration yielded the results summarized in the table below.

Table 1.1 Selected Examples of VRS-IL Collaboration

Center	VRS Connection
Independent Lifestyles Center for Independent Living 519 2nd St. North St. Cloud, MN 56303 Funding: $165,000	Works with VRS staff in: • St. Cloud • Little Falls • Cambridge • Monticello • Willmar CIL staff spend time at VRS offices on a scheduled basis 2nd year service summary: • Total 433 consumers • 393 served in transition groups • 40 served in one-to-one services
OPTIONS Interstate Resources Center for Independent Living 318 3rd St. NW East Grand Forks, MN 56721 Funding: $25,377	Works with VRS staff in Bemidji and Park Rapids area with primary focus on transition age students 2nd year service summary: • transition students gain employment after high school • 16 consumers from Park Rapids area receiving services • VRS/Options interface established with key area schools
Southeastern Minnesota Center for Independent Living (SEMCIL) 2720 North Broadway Rochester, MN 55906 Funding: $150,050	Works with VRS staff in: • Faribault • Rochester • Winona 2nd year service summary: • Provided IL services to 237 transition age students in Fillmore, Goodhue, Olmsted, Rice, Steel, Wabasha, and Winona counties

IL Program Performance

The following table provides data on the VRS IL Part B program performance in key areas from FY 2006 through FY 2008.

Table 1.2
Minnesota IL Part B Program Highlights for FY 2006 through FY 2008

Funding, Performance, and FTEs	2006	2007	2008
Title VII, chapter 1, Part B funds	$301,477	$301,477	$296,212
Total resources (including Part B funds)	$5,380,874	$4,062,369	$5,263,451
Total served	706	246	223
Total consumer service records closed	428	175	161
Cases closed, completed all goals	373	162	149
Total goals set	1,683	184	227
Total goals met	891	116	164
Total individuals accessing previously unavailable transportation, health care, and assistive technology	104	111	0
Total FTEs	3.00	6.00	5.82
Total FTEs with disabilities	1.00	1.00	1.00

IL Program Performance Observations and Recommendations

As a result of its review activities, RSA identified the performance observations set forth below and recommended that VRS take specific steps to improve the agency's performance associated with each of the observations.

1. Potential Conflict of Interest in Using DSU staff to Provide Administrative Support to the SILC

Observation: VRS has not adopted written policies to ensure that the DSU staff that provides administrative support to the SILC is not assigned duties that may create a conflict of interest. The lack of written policies and procedures could potentially result in the DSU assigning duties to this staff person that could impair effective performance of SILC functions.

- VRS currently uses a VRSIL specialist to provide administrative support to the MNSILC.
  - This staff person is responsible for arranging MNSILC meetings, reconciling MNSILC accounts and expenditures, submitting invoices for payment, compiling data for the 704 reports, and serves as the liaison between the DSU and the MNSILC, the eight CILs and RSA. This staff person also conducts CIL onsite monitoring reviews and other oversight activities for the Part B and Part C IL programs.
  - Although there is a separation of duties in the IL specialist's job description, VRS does not have any written policies on conflict of interest regarding assignment of

MNSILC duties. Both VRS and the MNSILC indicate that there have not been issues under the current arrangement but they would like to avoid any that may arise.

Recommendation 1: RSA recommends that VRS develop written policies on conflict of interest. VRS could also avoid potential conflict of interest issues if the SILC hires, supervises and fires its own staff.

2. Difficulty Replacing SILC Members

Observation: The MNSILC actively seeks to maintain the council composition required by the Act and its implementing regulations. However, it has found it difficult to replace members when term limits expire. As a result, the MNSILC may not be able to fulfill its mandated functions in an effective and efficient manner.

- The MNSILC currently includes all the required membership categories. However, five vacancies exist in the categories of additional members that may be included on the SILC.
- discussions with VRS and the MNSILC indicate that nominations for new SILC members are submitted to the governor's office, but appointments are not made in a timely manner.

Recommendation 2: RSA recommends that VRS and the MNSILC continue their ongoing effort to obtain the governor's appointment of new members to the MNSILC. RSA also recommends that the MNSILC increase outreach activities among community partners, service providers and local businesses, as well as interest and consumer groups in its efforts to identify and recruit representatives for the required and additional SILC membership categories.

IL Program Compliance Findings and Corrective Actions

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

1. SILC Duties under its Resource Plan

Legal Requirement:

Section 705(c) of the Rehabilitation Act of 1973, as amended, and 34 CFR 364.21(g) **–** The SILC shall 1) jointly develop and sign (in conjunction with the DSU) the State plan; 2) monitor, review and evaluate the implementation of the State plan; 3) Coordinate activities with the State Rehabilitation Advisory Council established under section 105 of the Act and councils that address the needs of specific disability populations and issues under other Federal law; 4) ensure that all regularly scheduled meetings of the SILC are open to the public and sufficient advance notice is provided; and 5) submit to the Secretary all periodic reports as the Secretary may reasonably request and keep all records, and afford access to all records, as the Secretary finds necessary to verify the periodic reports.

Finding 1: The MN SILC is not in compliance with the requirements at 34 CFR 364.21(g) because it is conducting activities that are outside its authorized duties with Part B funds set aside for its resource plan. Specifically, the MN SILC is using a portion of its Part B funds to conduct statewide disaster preparedness training and conferences. The SILC may use its Part B resource plan funds to perform only those duties authorized by 34 CFR 364.21(g).

The SILC may receive funding from other sources besides Part B and may use these funds to engage in activities beyond those listed in 34 CFR 364.21(g) as long as the other activities do not impair or interfere with the SILC's ability to perform its statutory duties.

In addition, the DSU can contract out the performance of any of the activities authorized under section 713 using its own state procurement procedures. Conducting disaster preparedness training for people with disabilities is an authorized use of Part B funds. There is nothing that prevents the SILC from responding to a request for proposals to perform any of the section 713 activities and entering into a contract with the DSU to do so. Because the DSU is the entity responsible for disbursing Part B funds for the purposes authorized in section 713, it cannot just give the funds to the SILC to perform those duties (on its own or through subcontract). After the DSU provides the SILC with any Part B funds to use in its resource plan, it must disburse any additional Part B funds intended for activities other than those SILC duties listed in section 705, to the SILC, or any other organization, in accordance with its own state procurement procedures.

Corrective Action 1: The DSU and the SILC must:

1.1 cease providing and using resource plan funds to conduct any activities not related to the SILC's section 705 duties; and

1.2 take the steps necessary to comply with the requirements in 34 CFR 364.21(g) so that the MN SILC uses Part B funds provided under its resource plan to perform only its authorized duties.

Technical Assistance

This section of the chapter describes the technical assistance (TA) and continuing education provided by RSA to VRS during the course of the review. The TA requested by the agency to enable it to carry out the recommendations and corrective actions set forth above is included in Appendix A of this report titled "Agency Response."

Technical Assistance Provided

During the review of the IL program, RSA provided technical assistance to VRS regarding:

- DSU staffing and support for the SILC;
- SILC resource plan development process;
- SILC statutory roles and responsibilities;
- clarification that the SILC may compete for and be awarded Part B funds to perform most 713 activities, but the SILC may not subcontract those funds; and
- clarification that resource plan funds may only be used to carry out SILC statutory roles and responsibilities.

CHAPTER 2: FISCAL MANAGEMENT OF THE INDEPENDENT LIVING PROGRAM

RSA reviewed the fiscal management of the Independent Living (IL) program by VRS and the SSB. During the review process, RSA provided technical assistance to the state agencies to improve their fiscal management and identified areas for improvement. RSA reviewed the general effectiveness of the agencies' cost and financial controls, internal processes for the expenditure of funds, use of appropriate accounting practices and financial management systems.

Fiscal Management

The Minnesota Department of Employment and Economic Development (DEED) through VRS, and SSB administer the Part B IL program in the state. Because MN is a 723 state, VRS also administers the Part C CILs programs. MN provides IL services directly and through subgrants with the CILs.

Administrative support is provided to the SILC by the VR IL Section. Title I Program Income is utilized to pay for the IL Section's staff salaries, as well as fringe and other benefits. Staff provides administrative support to the SILC or performs other duties/responsibilities of the IL Section. VRS contracts with IL providers using the same administrative process as VR contracts.

Fiscal Performance

The data in the following table are taken from fiscal and program reports submitted by the state agencies to RSA, and speak to the overall effectiveness of their fiscal management practices. Specifically, IL program fiscal data, including the sources and amount of funding, match and carryover, are extracted from the program's SF-269s and the RSA-704 report.

Table 2.1
Fiscal Data for DEED-VRS for FY 2004 through FY 2008

Minnesota (G)					
Fiscal Year	**2004**	**2005**	**2006**	**2007**	**2008**
Grant Amount	$241,000	$249,708	$247,211	$247,211	$242,894
Federal Expenditures	$241,000	$249,708	$247,211	$247,211	$242,894
Required Match	$26,778	$27,745	$27,468	$27,468	$26,988
Actual Match	$331,250	$1,325,000	$1,358,750	$2,300,000	$2,440,000
Over (Under) Match	$304,472	$1,297,255	$1,331,282	$2,272,532	$2,413,012

Table 2.2
Fiscal Data for DEED-SSB for FY 2004 through FY 2008

Minnesota (B)					
Fiscal Year	**2004**	**2005**	**2006**	**2007**	**2008**
Grant Amount	$52,902	$54,814	$54,266	$54,266	$53,318
Federal Expenditures	$52,902	$54,814	$54,266	$54,266	$53,318
Required Match	$5,878	$6,090	$6,030	$6,030	$5,924
Actual Match	$262,775	$338,699	$275,787	$272,057	$268,094
Over (Under) Match	$256,897	$332,609	$269,757	$266,027	$262,170

Fiscal Management Compliance Findings and Corrective Actions

RSA identified the following compliance finding and corrective action that VRS is required to undertake. VRS must develop a corrective action plan for RSA's review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and RSA is available to provide technical assistance to assist VRS to develop the plan and undertake the corrective actions. RSA reserves the right to pursue enforcement actions in connection with the findings below as it deems appropriate, including the recovery of Title VII IL funds, pursuant to 34 CFR 80.43 and 34 CFR Part 81 of the Education Department General Administrative Regulations (EDGAR).

1. Internal Controls

Legal Requirements:

34 CFR 364.34 states:

> In addition to complying with applicable EDGAR fiscal and accounting requirements, the State plan must include satisfactory assurances that all recipients of financial assistance under parts B and C of chapter 1 of title VII of the Act will adopt those fiscal control and fund accounting procedures as may be necessary to ensure the proper disbursement of and accounting for those funds.

34 CFR 80.20(a), in pertinent part, requires that:

> (b) A state must [expend] and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
> ****
> (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

34 CFR 80.40(a) in pertinent part, requires grantees to “monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.”

2 CFR part 225, Appendix A (formerly known as OMB Circular A-87, Attachment A), paragraph C, in pertinent part, states:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
    a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
    b. Be allocable to Federal awards under the provisions of this Circular.

    ****

    j. Be adequately documented.

34 CFR 364.4(b)

Advocacy means pleading an individual’s cause or speaking or writing in support of an individual. To the extent permitted by State law or the rules of the agency before which an individual is appearing, a non-lawyer may engage in advocacy on behalf of another individual. Advocacy may—

(2) Be on behalf of—

(i) A single individual, in which case it is individual advocacy;

(ii) A group or class of individuals, in which case it is *systems* (or *systemic*) *advocacy*

(iii) Oneself, in which case it is *self advocacy*.

Finding: VRS provides IL-Part B funds to centers for independent living for their general operation through grant agreements. VRS is not in compliance with 34 CFR 364.34 and 34 CFR 80.20(a)(2), because the budgets contained in the grant agreements do not contain enough specificity for VRS to ensure that expenditures paid under the subgrant are allowable under and allocable to the IL program. The subgrantees simply submit invoices to VRS that contain only an amount of funds requested for each budget category. While the level of supporting documentation is not specified in Federal law, the subgrantees do not provide sufficient information in either the budget or the invoices for VRS to ensure that IL funds are being spent in accordance with Federal requirements. For example:

- The subgrant with Freedom Resource Center for Independent Living, Inc. and the Independent Lifestyles, Inc., includes utility and rent costs, which were paid by VRS upon request for payment. When RSA reviewed the relevant documents, there was no evidence that the utility costs and rent costs were appropriately allocated to the IL program, given that the center receives funds from other sources as well. The budget narrative for the Freedom Resource Center, Attachment II states that:
    1. Rent and utilities were budgeted at $19,985 and included rent for office space in Fergus Falls and Fargo. There was no indication of how this amount was determined to be the share allocable to IL under the contract or if the office space in Fergus Falls and Fargo was only being used to provide services under this subgrant.
    2. The “total salaries for the year are budgeted at $191,171. The Center has 12 full time and one three fourth time staff positions. **Time is allocated based on the percentage of funds each grant contributes to the total Center budget.**” (emphasis added)

Salary and other costs must be allocated across the various programs in accordance with the Federal cost principles, set forth at 2 CFR part 225.

- Several of the budgeted items had no budget narrative included (e.g., printing -$3,800, membership and subscriptions-$2,660, communications-$5,508). Without a description of the expenditures contained in the budgeted categories, VRS is unable to determine if the costs are allowable and allocable to the IL program.

VRS requires IL subgrantees to submit invoices with short narratives regarding subgrant performance attached as evidence of benefit to the IL program. In certain cases where activities may or may not be allowable, depending on how they are implemented, the subgrantee needs to provide more information so that VRS can determine whether the charge is allowable under the IL program. For example, VRS's grant agreement with the Independent Lifestyles, Inc. s included the following objectives:

- Maintain involvement in the legislative process on local, state and federal levels to monitor and advocate for legislation which affects persons with disabilities.
- Advocate for increased funding from government sources (i.e., State and Federal operations grants).

The quarterly financial status reports included a performance report that listed the activities supported under the subgrant. Activities listed included:

- "Continued to work on making the State Legislature aware of problems directly affecting consumers by sending emails, distributing printed fact sheets, & attending meetings for one on one legislator interaction as possible. A recent result of this is the MN legislature passing regulations allowing an increase in a home's square footage for modifications, subject to Federal DHS approval."
- "Successful voting phone bank completed by ILICIL advocacy Committee members."

Although 34 CFR 364.4(b) permits centers for independent living to provide systems advocacy—advocacy on behalf of a group or class of individuals—VRS must clearly differentiate between advocacy activities that are permitted and lobbying activities that are prohibited under the OMB cost principles and require sufficient information from its grantees to determine the difference. While the invoice was paid by VRS, there was no documentation that VRS attempted to determine if the costs associated with these activities were allowable.

VRS must have the fiscal controls and fund accounting procedures necessary to ensure the proper disbursement of and accounting for IL funds (34 CFR 364.34). These fiscal controls must enable it to expend and account for the IL funds to such a degree that it can trace the funds for each activity to ensure the funds were expended in accordance with Federal requirements (34 CFR 80.20(a)). VRS does not require sufficient information in its subgrantee budgets or invoices to enable it to monitor overall subgrant expenditures to a level that ensures Federal funds were not used inappropriately, as required by 34 CFR 80.40(a). For the reasons described herein, VRS has failed to satisfy 34 CFR 364.34, 34 CFR 80.20(a), 34 CFR 80.40(a), and the applicable Federal cost principles at 2 CFR part 225.

Corrective Action 1: VRS must:

1.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will implement internal controls sufficient to ensure the validity of expenditures under the IL program as required by 34 CFR 364.34 and, 34 CFR 80.20(a)(2), and that VRS will monitor all grant-supported activities, as required by 34 CFR 80.40(a), to ensure that VRS uses IL funds to pay only those expenditures that are allowable under and allocable to the IL program and consistent with the terms of the actual contracts; and

1.2 develop and implement policies/procedures to ensure that:

- fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
- internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
- VRS monitors all grant-supported activities, as required by 34 CFR 80.40(a).

APPENDIX A: VRS RESPONSE

Part I: Responses to Observations, Recommendations, Compliance Findings or Corrective Actions and TA Needs

Chapter 1: VR/SE Program Performance Observations and Recommendations

1. Outreach to Section 504 Eligible Students

Recommendations: RSA recommends that VRS:

1.1 Develop strategic goals for the increase in service provision to Section 504 students and the achievement of outcomes by these students;

1.2 identify section 504 eligible students in its policies and procedures for serving transition-age youths; and

1.3 include section 504-eligible students in its outreach to transition aged youths, including outreach to school personnel who support these students.

Agency Response: 504-eligible students are incorporated in VRS policies and procedures. Additionally, we are currently in dialog with Minnesota Department of Education to improve our ability to identify 504-eligible students.

Technical Assistance: VRS does not request TA.

2. Decrease in Outcomes and Increase in Cases Closed Prior to Service Delivery

Recommendations: RSA recommends that VRS:

2.1 evaluate the underlying reasons for the decrease in employment outcomes and identify those factors that are within its control;

2.2 evaluate the underlying causes for the low rehabilitation rate and identify what factors can be addressed to improve these measures;

2.3 evaluate the underlying reasons for the increase in case closure prior to service delivery and assess the impact of delays in plan development on service delivery; and

2.4 develop and implement goals and objectives to address the factors identified through these evaluations.

Agency Response: VRS accepts these recommendations and has implemented several strategic initiatives to remedy the decrease in employment outcomes and closure prior to service delivery. These initiatives are described in the current Performance Improvement Plan.

Technical Assistance: VRS does not request TA.

VR/SE Program Compliance Finding and Corrective Action

1. DSU Organizational Structure

Corrective Action: VRS must:

1.1 provide written assurance to RSA within ten days of the issuance of the final report that VRS will work with the Commissioner of DEED to ensure that revisions will be made to the DEED organizational structure that would enable VRS to comply with Federal organizational requirements for the DSU of the VR program. In particular, the revised organizational structure must ensure:

  a) the VRS Director reports directly to the head of the DSA with no intervening organizational or administrative level, and
  b) VRS has a status equal to other major organizational units within the DSA.

Agency Response: The organizational placement of the DSU is comparable to other WIA programs within DEED and has a status equal to those programs.

RSA Response: RSA maintains its finding based on the facts presented in the report. VRS must undertake the corrective actions specified therein to resolve the finding.

Technical Assistance: VRS does not request TA.

2. DSU Organizational Requirement—VRS Staff Time Distribution

Corrective Action: VRS must:

2.1 cease using VRS staff and funds to cover non-VR activities, except in accordance with VRS' fair share pursuant to 34 CFR 361.23;

2.2 submit a written assurance to RSA within ten days of the issuance of the final report that VRS will ensure that at least 90 percent of the DSU (VRS) staff are engaged full time on the VR or other rehabilitation work of the DSU;

2.3 that VR funds—including non-Federal funds used for match and MOE purposes under the VR program—will be spent solely on allowable expenditures under the VR program; and

2.4 submit a plan, including timelines, for the steps VRS will take to ensure that at least 90 percent of its staff is employed full time on the VR and other rehabilitation work of VRS.

Agency Response: VRS accepts this finding and has corrected its operations to ensure that VRS staff and funds are only used to cover VR activities. VRS has also corrected its operations to ensure that at least 90 percent of the DSU (VRS) staff are engaged full time on vocational rehabilitation or other rehabilitation work of the DSU.

Technical Assistance: VRS does not request TA.

Chapter 2: Fiscal Management of the VRS Vocational Rehabilitation and Supported Employment Programs

Fiscal Management Observations and Recommendations

1. Enhancing Program Identity

Recommendation 1: RSA recommends that VRS review current program contract documentation and position descriptions to ensure that references to VR program services and requirements are included. Additionally, it may be helpful to identify ways to balance the program and WFC identity to ensure that both benefit without one eclipsing the other.

Agency Response: VRS did not respond to this recommendation.

Technical Assistance: VRS does not request TA

Fiscal Management Compliance Findings and Corrective Actions

1. Unallowable Match Source — In-Kind Costs under the Evidence Based Practice of Supported Employment (EBP-SE) Program Contracts

Corrective Action 1: VRS must:

1.1 cease using third-party in-kind contributions, regardless of the source, to meet the non-Federal share of the VR program;

1.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that allowable expenditures used to meet the program's non-Federal share will comply with the requirements of 34 CFR 361.60(b) and 34 CFR 80.24; and

1.3 submit a spreadsheet detailing the amount of third-party in-kind contributions from all contractors used as non-federal match for FYs 2005 to date.

Agency Response: The request for proposals published in April, 2006 provides additional background on the source of the funds used for match for the EPB-SE grants as well as the match requirements. This RFP was not considered by the reviewers during the on-site review. This RFP specifically states:

> "**GRANT AMOUNT:** A total of $150,000 annually is available through the Vocational Rehabilitation Program on a one-time basis. It is expected that 2-3 fidelity enhancement grants will be awarded. A 21.3 percent hard cash match is required to receive grant funds. Federal funds may not be used for the cash match. Examples of a cash match include: adult mental health initiatives funding, private foundation funds, integrated MH funds, Rule 78 funds, CSSA or county funding, or any other non federal funding sources. Grants will be awarded starting September 30, 2006 for 12 months."

All funds used for match were hard cash match; in-kind contributions have never been allowed. Additionally, all sources of match were certified as private and with no federal participation by each grantee. Sources of match for the VR EBP-SE grants in FY 06 were as follows:

- Functional Industries - Match: $13,772.27; Source: United Way
- Human Development Center - Match: $8,120; Source: Saint Louis County CSP-Rule 78 (100 percent State Mental Health funding)
- Guild Incorporated - Match: $14,292; Source: Hearth Connection-Private non-profit which receives State Homeless/Supportive services funds
- Tran$Em - Match: $5,538; Source: Adult Mental Health Initiative Funds - Becker/Clay/Ottertail/Wilkin counties. 100 percent state funds.

Additionally, RSA reviewers commented on the use of private grant sources. There were no private funds from Johnson and Johnson used by the grantees, either for grants or for hard match. The references to Johnson and Johnson are due to the fact that the national learning collaborative, in which MN VRS and 12 other State VR programs are involved, which provides technical assistance and training through Dartmouth Psychiatric Rehabilitation Center, receives its funding from the Johnson and Johnson Foundation. Minnesota VRS did not receive, nor use any private funds from either Dartmouth or Johnson and Johnson.

VRS and the DEED Financial Services Division are reviewing the existing practices for meeting matching requirements.

<u>RSA Response</u>: The finding was revised per the information provided in the above VRS response to the report.

Technical Assistance: VRS does not request TA.

2. Unallowable Costs under the EBP-SE Program Contracts

Corrective Action 2: VRS must:

2.1 cease using Title I funds under the EBP-SE contracts for the provision of non-VR services and/or the provision of services to individuals who are not consumers or applicants of the VR program, as required by 34 CFR 361.3;

2.2 cease using non-Federal funds under the EBP-SE contracts for match purposes under the VR program when those expenditures are not allowable under or allocable to the VR program, as required by 34 CFR 361.60(b)(1), 34 CFR 80.24(a), and the Federal cost principles;

2.3 submit a written assurance within 10 days of the issuance of the final report that VRS will comply with the requirements of 34 CFR 361.1, 34 CFR 361.3, 34 CFR 361.60, 34 CFR 80.24(a), and 2 CFR part 225, Appendix A, paragraph C; and

2.4 submit a spreadsheet detailing:

   a. the amount of VR funds paid, from FY 2005 to date, to EBP-SE contractors for services provided to non-VR applicants and consumers. Be sure to include all costs associated with the provision of those services (e.g., fringe benefits, travel, equipment, consultation, etc.). In addition, if any Title I funds were used to pay costs associated with the administration and monitoring of the contracts (e.g., VRS monitoring staff, accounting personnel, supervisory personnel, etc.) the portion of costs associated with the provision of services to non-VR applicants and consumers must be included in this spreadsheet;

b. the amount of VR funds paid, from FY 2005 to the present, to EBP-SE contractors for the provision of non-VR services, as defined at 34 CFR 361.5(b)(58). As indicated above, be sure to include all costs associated with the provision of these services; and
c. the amount of non-Federal funds provided by the CRPs under the EBP-SE contracts toward VRS' match requirement under the VR program that were not expended in the provision of VR services to VR consumers and applicants.

Agency Response: VRS accepts this finding and asserts that the non-compliance stems from the longstanding use of a broad interpretation of the term "VR eligible" that had previously been approved by the RSA Regional Office.

Technical Assistance: VRS requests technical assistance to carry out the above corrective actions.

3. Assigning Personnel Costs

Corrective Action 3: VRS must:

3.1 cease using Title I funds for personnel costs that do not arise under the VR program, as supported by documentation, pursuant to 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5;

3.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.12, 34 CFR 80.20, and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5; and

3.3 submit a plan, including timelines, describing the corrective actions that will be taken to ensure:

a) personnel activity reports are maintained that reflect actual time spent on each program in order to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and,
b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by SSB in accordance with program requirements.

Agency Response: VRS accepts this finding and asserts that it has initiated discussions with DEED Financial Services Division to develop a compliance plan for the tracking of personnel costs.

Technical Assistance: VRS requests technical assistance to carry out the above corrective actions.

4. Allowability, Allocability, and Reasonableness of Cost Allocations in One-Stop Centers

- According to VRS management staff, the Unemployment Insurance (UI) program's share is paid via a flat fee directly to DEED, not as part of the cost allocation plans governing the other WFC partners. The UI program is not able to fully fund its share of the WFC costs assigned through the cost allocation plans for the WFCs. Under this arrangement, DEED does not distribute any of the UI funds, paid separately to DEED rather than through the cost-allocation plans, to support the shared WFC costs. Again, according to the information RSA reviewed, there is no correlation between the UI program's flat fee and the large number of individuals utilizing the WFCs due to issues arising under the UI program.

Agency Response: UI is not required to be present in the WFCs, nor are participants required to use the WFCs to access UI services. UI clients are encouraged to use the UI WEB system from their homes or call direct to UI staff to enroll and receive services. The WFCs may provide incidental services such as contact numbers or direct clients to the UI WEB site. UI wanted to contribute to this limited service and provide resources based on estimated clients that may have used the WFC's computers. If UI activity is increased in the WFCs, then those UI activities should become part of the cost allocation plans. UI has REA staff located in some WFCs that are part of the cost allocation plans.

Corrective Action 4: VRS must:

4.1 cease paying more than its proportional share of the shared costs of the WFCs;

4.2 submit a written assurance within 10 days of the issuance of the final report that VRS will comply with the requirements of 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, especially as these requirements relate to the VRS share of the shared costs under the WFCs;

4.3 work with DEED and the WFC partners to establish policies and procedures for the development of a method or methods to determine VRS' appropriate share of WFC operating costs that are consistent with requirements of the VR program regulations, EDGAR, OMB cost principles, and WIA. These cost sharing methodologies must ensure that:

   a) the costs allocated to VRS are allowable under the VR program;
   b) the computational methodology of allocating costs, as well as the basis used for their distribution, are equitable to the VR program;
   c) the costs identified as shared are common to all partners;
   d) VRS receives a proportional benefits from each cost allocated to it;
   e) the WFC cost-sharing agreement addresses each partner's financial participation in allocated common costs pursuant to 34 CFR 361.23(a)(2);
   f) the MOU or other cost-sharing agreement is based on reasonable, supportable, and valid data and is auditable; and
   g) the cost allocation adheres to the Federal cost principles set forth at 2 CFR part 225.

Agency Response: VRS accepts this finding and asserts that it is in the process of implementing new cost allocation methodologies which ensure that VR is not providing a disproportionate share of financial resources to support One Stop activity. The new cost allocation methodologies correlate to the VRS' proportion of WFC costs to the number of VR consumers utilizing the WFC resources.

Technical Assistance: VRS requests technical assistance from the Department of Education and the Department of Labor to address funding challenges inherent to the One-Stop system.

5. Internal Controls

Corrective Action 5: VRS must:

5.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will implement internal controls sufficient to ensure the validity of expenditures under the VR program as required by 34 CFR 361.12, 34 CFR 80.20(a)(2), and 34 CFR 80.24(b)(6), and that VRS will monitor all grant-supported activities, as required by 34 CFR 80.40(a), to ensure that VRS uses VR funds to pay only those expenditures that are allowable under and allocable to the VR program and consistent with the terms of the actual contracts ; and

5.2 develop and implement policies/procedures to ensure that:

   a) fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
   b) internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
   c) VRS monitors all grant-supported activities, as required by 34 CFR 80.40(a).

Agency Response: VRS accepts this finding and asserts that it has initiated discussions with DEED Financial Services Division to increase the level of specificity in contract budgets and invoices.

Technical Assistance: VRS requests technical assistance to carry out the above corrective actions.

APPENDIX B: SSB RESPONSE

Part II: Responses to Observations, Recommendations, Compliance Findings or Corrective Actions and TA Needs

Chapter 1: Vocational Rehabilitation and Supported Employment Programs of the SSB

VR/SE Program Performance Observations and Recommendations

1. Employment Rate

Recommendations: RSA recommends that SSB:

1.1 evaluate the reasons for the consistently low rehabilitation rate;

1.2 collect data to identify and evaluate effective service delivery practices that are associated with improved employment outcomes and replicate them throughout the state;

1.3 establish performance goals with measurable targets and objectives to address these concerns; and

1.4 assess agency performance on an ongoing basis and distribute the results to agency staff and stakeholders.

Agency Response: SSB agrees with the RSA recommendation and has already taken steps to address its employment rate. Steps include convening a task force that includes SRC-B members, SRC-B committee members from the community and SSB staff to evaluate the reasons for the low rate. It has also requested and received an initial data analysis from The Rehabilitation Research and Training Center on Disability Statistics and Demographics at Hunter College of CUNY and requested, received and reviewed data analysis from the Region V TACE Center. SSB has also reviewed its existing intake process, shared the resulting data with staff, and made system adjustments based on that review. Similar efforts will continue on an ongoing basis.

Technical Assistance: SSB requests Technical Assistance from RSA, with particular focus on effective service delivery practices associated with improved employment outcomes for programs serving persons who are blind.

2. Data Collection and Use

Recommendations: RSA recommends that SSB:

2.1 collect and analyze data needed to assist it in achieving its goals;

2.2 improve data quality and accuracy through the provision of training and guidance on proper coding and the assignment of staff to ensure data quality;

2.3 collect data to identify and evaluate effective service delivery practices and replicate them throughout the state;

2.4 distribute general agency-wide performance data to all staff; and

2.5 consider expanding its use of available WF1 features to improve case management and planning processes.

Agency Response: SSB agrees with RSA recommendations and is already taking specific steps to improve its data collection and use. These steps include making improvements to the WF1 system and collaborating with external entities such as the Program Evaluation and Quality Assurance Community of Practice and The Rehabilitation Research and Training Center on Disability Statistics and Demographics at Hunter College of CUNY to more fully understand and apply results of analysis of data. SSB is also exploring options for increasing its internal capacity to conduct data analysis and transfer analysis results into specific programmatic improvements. All of these efforts will focus on improving customer outcomes in all of SSB's programs.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations.

3. Quality Assurance

Recommendations: RSA recommends that SSB:

3.1 participate in the Program Evaluation and Quality Assurance Community of Practice supported by the National Center for Rehabilitation Training Materials (NCRTM) and its partners;

3.2 review the community of practice website at www.ncrtm.org regarding practices, principles and methods, shared by members of the practice;

3.3 adopt consistent expectations and evaluation methods for providers of like services that contribute to achievement of employment outcomes; and

3.4 through these activities identify and develop additional components of a quality assurance system that is comprehensive and provides the agency with information to evaluate its progress toward strategic goals.

Agency Response: SSB generally agrees with the recommendations from RSA regarding quality assurance and has implemented a number of specific steps to improve its functioning in this area. Steps include participation in the Program Evaluation and Quality Assurance Community of Practice supported by the National Center for Rehabilitation Training Materials (NCRTM) and its partners; revamping its case review protocol and assessing its operating agreements with community rehabilitation programs and individual contact vendors with an increased focus on outcomes rather than process.

Technical Assistance: SSB does not request TA**.**

4. Strategic Planning

Recommendations: RSA recommends that SSB:

4.1 engage in a strategic planning process to establish an SSB specific vision, mission and goals to guide the agency's future direction;

4.2 substantively involve staff at all levels in developing the vision, mission and strategic goals to establish a shared vision and sense of agency purpose and direction; and

4.3 ensure that its strategic planning process incorporates results of quality assurance activities and measures that inform the identification of the improvements required to achieve the agency's strategic goals.

Agency Response: SSB generally agrees with the recommendations from RSA regarding strategic planning. With the assistance of the TACE, it has begun a process to establish an SSB-specific vision, mission and goals to guide the agency. This process includes significant input from the SRC-B, staff, stakeholders and partners. It is designed to result in measurable performance indicators for the units of the organization that will align with overall agency goals as well as VR goals and priorities developed jointly with the SRC-B.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations.

5. Presumptive Eligibility

Recommendations: RSA recommends that SSB:

5.1 evaluate and modify the initial intake and application procedures to ensure consumers receive adequate information about various SSB programs and are making an informed decision to apply for VR, IL, OIB or other services, free from any assumption on the part of SSB staff;

5.2 evaluate and modify the presumptive eligibility processes to ensure that a presumptive eligibility does not occur for individuals receiving SSI or SSDI until the VR counselor has reviewed the information and if deemed necessary by the VR counselor, meets with the individual; and

5.3 evaluate the number of closures prior to eligibility and prior to service delivery to determine the reasons for these closures, possible relationships to application and orientation procedures and changes needed to address any concerns that are identified.

Agency Response: **A**s noted to RSA during a conference call on January 20, 2011, SSB has undertaken specific steps to more fully understand and address the referral and application process with a focus on improving outcomes for blind Minnesotans served. Those steps include a detailed review over a four month period of its referral and intake process. In addition, SSB and its SRC-B have established a task force to provide analysis of the data relative to successful and unsuccessful case closures.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations.

VR/SE Program Compliance Findings and Corrective Actions

1. DSU Organizational Structure

Finding: SSB has failed to satisfy the organizational requirements for a designated State unit (DSU), as required by section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

Corrective Action: SSB must:

1.1 provide written assurance to RSA within ten days of the issuance of the final report that SSB will work with the Commissioner of DEED to ensure that revisions will be made to the DEED organizational structure that would enable SSB to comply with Federal organizational requirements for the DSU of the VR program. In particular, the revised organizational structure must ensure:

the SSB Director reports directly to the head of the DSA with no intervening organizational or administrative level, and

b) SSB has a status equal to other major organizational units within the DSA.

<u>**Agency Response**</u>: **The organizational placement of the DSU is comparable to the other WIA programs within DEED and has a status equal to those programs.**

RSA Response: RSA maintains the finding based on the facts presented in the report. SSB must undertake the corrective actions specified therein to resolve the finding.

Technical Assistance: None requested.

Chapter 2: Independent Living Services Program for Older Individuals Who Are Blind

OIB Program Performance Observations and Recommendations

1. Quality Assurance and Use of Data for OIB Program Improvement

Recommendation 1: RSA recommends that SSB establish a formal process for conducting oversight, monitoring and evaluation of OIB service delivery. RSA recommends that this process include, but not be limited to: developing and implementing written policies and procedures made available to all OIB staff and service providers; written standards for service providers; establishing criteria, methodology and schedule for reviewing service record information for accuracy, completeness, and quality. Having a formal process in place will enable SSB to consistently evaluate OIB program performance, and to ensure that the service delivery system yields quality results.

<u>**Agency Response**</u>: SSB generally agrees with RSA regarding Quality Assurance and Use of Data for OIB Program Improvement. SSB developed and implemented in July 2010 updated written policies and procedures for the OIB program, draft elements of which were shared with RSA during their site visit in February of 2010. Written standards for service providers have been in place for many years and continue to be applied to vendors of OIB services. In addition, it will be resuming its formal process for reviewing casework for accuracy, completeness and quality.

Technical Assistance: SSB does not request TA**.**

2. Strategic Planning

Recommendation 2: RSA recommends that SSB work with OIB program staff, consumers and other stakeholders to develop a written strategic plan for the improvement and future of the program. Such a plan should contain specific program goals and objectives, and should provide for consumer involvement and participation in the achievement of the goals and objectives.

Agency Response: SSB generally agrees with the recommendations from RSA regarding strategic planning. As noted above for the VR program, SSB has, with the assistance of the TACE, begun a process to establish an SSB-specific vision, mission and goals to guide the agency. This process includes significant input from the SRC-B, staff, stakeholders and partners. It is designed to result in measurable performance indicators for the Senior Services Unit of the organization that will align with overall agency goals.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations.

3. Referrals for OIB consumers needing VR services

Recommendation 3: RSA recommends that SSU staff providing OIB services be informed that consumers seeking employment of any kind may be referred to the VR program for services while concurrently receiving OIB services for non-work related IL goals. This information can be provided to SSU staff in the IL and OIB policy manual under development within the agency.

Agency Response: As noted to RSA during a conference call on January 20, 2011 and a summary e-mail later that day, the policy manual for the Senior Services Unit, under development during the on-site visit, has been finalized In June of 2010, SSU staff was trained on the policy, changes were made in the WF1 data system to align data with the new policy and it became effective on July 16, 2010. The Policy Manual, at page 15 of Chapter 4, references the required referral of persons who wish to pursue a vocational goal to VR, thus solidifying and reinforcing in policy an expectation that has existed since at least 1986.

Technical Assistance: SSB does not request TA**.**

Chapter 3: Fiscal Management of SSB Vocational Rehabilitation, Supported Employment and the Independent Living Services for Older Individuals Who Are Blind Programs

Fiscal Management Observations and Recommendations

1. Underutilization of Supported Employment Funds

Recommendation 1: SSB should plan the use of the SE funds during the development of future program service delivery systems and the budget planning process. These funds, which do not require any state match, if properly planned and implemented, could provide SE services for SSB consumers with the most severe disabilities, who would benefit from this program activity.

Agency response: SSB agrees with this recommendation and will continue to align its service and budgeting processes in the provision of supported employment services.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations, with particular focus on effective strategies for securing ongoing supports by programs serving persons who are blind.

2. Increasing Level of Carry-over of Federal Funds

Recommendation 2: SSB should coordinate their program and fiscal planning processes to ensure that both sections are clear on the expected program service requirements and the funds that are available for each fiscal year. To avoid a one-time peak in service delivery and expenditures, SSB may project over the next two years, to determine what additional persons who could be served or additional services which could be provided. This long-term equalization of current excess cash will avoid building a sudden capacity which would not be able to be maintained after the large carryover is under control.

Agency Response: SSB agrees with RSA's recommendation and will continue its efforts to level and equalize its use of available resources.

Technical Assistance: SSB does not request TA**.**

3. Contract Formats and Time Periods Drive Payments to Contractors

Recommendation 3: SSB should consider the following contract and invoicing changes:

- 3.1 develop a contract with a cost per training unit that is measurable which will consistently track and adequately document all expenditure of VR funds; and
- 3.2 develop processes to ensure consistent invoicing of expenditures that ensures: a) only VR consumers and applicants are benefiting for services provided; b) the ability to monitor expenditures from invoices submitted and records kept by the CRP; and c) VR does not pay for services not received or directly benefiting them.

Agency Response: SSB agrees with RSA's recommendation and will consider the recommended contract and invoicing changes.

Technical Assistance: SSB requests technical assistance to carry out the above recommendations.

Fiscal Management Compliance Findings and Corrective Actions

1. Assigning Personnel Costs

Finding: SSB is not in compliance with 34 CFR 361.12, 34 CFR 80.20, and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5, because SSB is not consistently tracking personnel costs for those individuals working on multiple programs to ensure that programs are bearing a share of those costs that are proportional to the benefit received. Although SSB has a tracking mechanism that could appropriately charge the benefiting grant, SSB is not applying the allocation of those costs consistently across all staff.

Corrective Action 1: SSB must:

1.1 cease using Title I funds for personnel costs that do not arise under the VR program, as supported by documentation, pursuant to 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5;

1.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5; and

1.3 submit a plan, including timelines, describing the corrective actions that will be taken to ensure:

   a) personnel activity reports are maintained that reflect actual time spent on each program in order to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and

   b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by SSB in accordance with program requirements.

Agency Response: SSB agrees clarification of its processes is needed and will:

- cease using Title I funds for personnel costs that do not arise under the VR program, as supported by documentation, pursuant to 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5;
- submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR part 225, Appendix B, 8.h.4 and 8.h.5; and
- submit a plan, including timelines, describing the corrective actions that will be taken to ensure:
  a) personnel activity reports are maintained that reflect actual time spent on each program in order to support the allocation of an equitable portion of personnel costs for individuals, not charged indirectly, who work on more than one federal grant program or cost objective; and,
  b) personnel and administrative costs are allocated equitably, either directly or indirectly, to each program administered by SSB in accordance with program requirements.

Technical Assistance: SSB requests technical assistance to carry out the above corrective actions**.**

2. Failure to Maintain Written Policies Governing Fees for Purchased VR Services

Finding: SSB is not in compliance with 34 CFR 361.50(c)(1), 34 CFR 361.12, and 2 CFR part 225, because it does not have a written policy that specifically governs the rate setting methodology for all purchased VR services, or a uniform cost basis for services provided by CRPs. Instead, SSB accepts, and pays, the stated cost of the vendor or CRP without any analysis or determination of the reasonableness of the cost for the service provided.

Corrective Action 2: SSB must:

2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that SSB will comply with 34 CFR 361.12, 34 CFR 361.50, and the Federal cost principles set forth at 2 CFR part 225;

2.2 develop and maintain written policies that govern the rate setting methodology for all purchased VR services, as required by 34 CFR 361.50(c)(1), in order to ensure uniformity in payments for such services; and
2.3 submit copies of policies and procedures developed pursuant to this corrective action to RSA to ensure completion of that action.

Agency Response: SSB agrees with the findings that it does not have a written policy that specifically governs the rate setting methodology for all purchased VR services, or a uniform cost basis for services provided by CRPs. It will:

- submit a written assurance to RSA within 10 days of receipt of the final monitoring report that SSB will comply with 34 CFR 361.12, 34 CFR 361.50, and the Federal cost principles set forth at 2 CFR part 225;
- develop and maintain written policies that govern the rate setting methodology for all purchased VR services, as required by 34 CFR 361.50(c)(1), in order to ensure uniformity in payments for such services; and
- submit copies of policies and procedures developed pursuant to this corrective action to RSA to ensure completion of that action.

Technical Assistance: SSB requests technical assistance to carry out the above corrective actions.

3. Failure to Monitor Grant Activities

Finding: SSB is not in compliance with 34 CFR 80.40(a) because it does not conduct monitoring activities, or have a formal monitoring protocol established, to ensure that VR grant-supported activities performed by CRPs and other contractors comply with applicable Federal requirements, and that performance goals are being achieved.

Corrective Action 3: SSB must:
3.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 80.40(a), to ensure that it will monitor grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved; and
3.2 develop and implement policies and procedures to monitor the activities and services provided by the CRPs and other vendors providing services through the VR contracts to assure compliance with applicable Federal requirements and achievement of performance goals.

Agency Response: SSB agrees it does not have a formal monitoring protocol for monitoring grants. It agrees to:

- submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 80.40(a), to ensure that it will monitor grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved; and
- develop and implement policies and procedures to monitor the activities and services provided by the CRPs and other vendors providing services through the VR contracts to

assure compliance with applicable Federal requirements and achievement of performance goals.

Technical Assistance: SSB requests technical assistance to carry out the above corrective actions.

4. Allowability, Allocability, and Reasonableness of Cost Allocations in One-Stop Centers

Finding: SSB is not in compliance with 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, because SSB is using VR-funded staff and VR financial resources to support activities that are beyond the scope of the VR program. Moreover, the cost-sharing of these expenditures is not consistent with U.S. Department of Labor (DOL) regulations governing the one-stop system at 20 CFR 662.280 and DOL's cost allocation guidance set forth at 66 Fed. Reg, 29637 (May 31, 2001), because the cost allocation methods used do not ensure an equitable allocation of costs to the respective one-stop partners, including SSB.

Corrective Action 4: SSB must:

4.1 cease paying more than its proportional share of the shared costs of the WFCs;

4.1 submit a written assurance within 10 days of the issuance of the final report that SSB will comply with the requirements of 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, especially as these requirements relate to the SSB share of the shared costs under the WFCs;

4.1 work with DEED and the WFC partners to establish policies and procedures for the development of a method or methods to determine SSB's appropriate share of WFC operating costs that are consistent with requirements of the VR program regulations, EDGAR, OMB cost principles, and WIA. These cost sharing methodologies must ensure that:

a) the costs allocated to SSB are allowable under the VR program;
b) the computational methodology of allocating costs, as well as the basis used for their distribution, are equitable to the VR program;
c) the costs identified as shared are common to all partners;
d) SSB receives a proportional benefits from each cost allocated to it;
e) the WFC cost-sharing agreement addresses each partner's financial participation in allocated common costs pursuant to 34 CFR 361.23(a)(2);
f) the MOU or other cost-sharing agreement is based on reasonable, supportable, and valid data and is auditable; and
g) the cost allocation adheres to the Federal cost principles set forth at 2 CFR part 225.

Agency Response: As noted to RSA during a conference call on January 20, 2011, and a summary e-mail later that day, the findings at pp. 75 of the draft report were inaccurate and seemed to be a cut and paste from pp.35 of the draft report. SSB recognizes that those inaccuracies at pp.75 of the draft report were corrected by RSA in the final version.

However, SSB realizes the need to ensure compliance with pertinent federal regulations and law. Towards that end, SSB has, as a full partner in the Minnesota Workforce Center system, actively participated in the development and implementation of Minnesota's Cost Allocation Plan Policy. This policy is designed to ensure the determination of SSB's share of WFC operating costs is appropriate and consistent with requirements of the VR program regulations, EDGAR, OMB cost principles, and WIA. Its cost sharing methodologies are intended to ensure that:

a) the costs allocated to SSB are allowable under the VR program;
b) the computational methodology of allocating costs, as well as the basis used for their distribution, are equitable to the VR program;
c) the costs identified as shared are common to all partners;
d) SSB receives proportional benefits from each cost allocated to it;
e) the WFC cost-sharing agreement addresses each partner's financial participation in allocated common costs pursuant to 34 CFR 361.23(a)(2);
f) the MOU or other cost-sharing agreement is based on reasonable, supportable, and valid data and is auditable; and
g) the cost allocation adheres to the Federal cost principles set forth at 2 CFR part 225.

SSB will continue to apply the Cost Allocation Plan Policy to ensure compliance with federal requirements.

In addition, SSB will submit a written assurance within 10 days of the issuance of the final report that SSB will comply with the requirements of 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and the Federal cost principles set forth at 2 CFR part 225, Appendix A, paragraph C, especially as these requirements relate to the SSB share of the shared costs under the WFCs;

Technical Assistance: SSB requests technical assistance to carry out the above corrective actions, with specific assistance to ensure Minnesota's Cost Allocation Plan Policy meets federal requirements.

APPENDIX C: MN IL RESPONSE

IL Program Performance Observations and Recommendations

1. Potential Conflict of Interest in Using DSU staff to Provide Administrative Support to the SILC

Recommendation 1: RSA recommends that VRS develop written policies on conflict of interest. VRS could also avoid potential conflict of interest issues if the SILC hires, supervises and fires its own staff.

Agency Response: The DSU (VRS, SSB) has developed and signed a written administrative agreement between the DSU and Statewide Independent Living Council. This agreement, sets forth the mutually agreed upon terms and conditions for the provision of administrative support to the SILC. In the recently approved 2011-2013 State Plan for IL, the SILC and the DSU have dedicated Part B resources for the research and hiring of a dedicated SILC staff person.

Technical Assistance: VRS and SSB do not request TA**.**

2. Difficulty Replacing SILC Members

Recommendation 2: RSA recommends that VRS and the MNSILC continue their ongoing effort to obtain the governor's appointment of new members to the MNSILC. RSA also recommends that the MNSILC increase outreach activities among community partners, service providers and local businesses, as well as interest and consumer groups in its efforts to identify and recruit representatives for the required and additional SILC membership categories.

Agency Response: In 2007, the SILC and DSU developed a recruitment packet, which has been distributed annually to statewide community partners, CILs, other service providers and local businesses. Although the appointment process has been delayed in recent years, the Governor's office has recently appointed five new members to the council. The DSU and SILC will continue efforts to foster relationships with the Governor's office staff in an effort to secure potential new members of the SILC.

Technical Assistance: VRS, SSB, and the SILC do not request TA**.**

IL Program Compliance Findings and Corrective Actions

1. SILC Duties under its Resource Plan

Corrective Action 1: The DSU and the SILC must:

1.1 cease providing and using resource plan funds to conduct any activities not related to the SILC's section 705 duties; and

1.2 take the steps necessary to comply with the requirements in 34 CFR 364.21(g) so that the MN SILC uses Part B funds provided under its resource plan to perform only its authorized duties.

Agency Clarification: The MN SILC did not conduct statewide disaster preparedness training and conferences. In the approved 2008-2010 State Plan for Independent Living, funding was set aside for disaster/emergency preparedness planning. In consultation with the SILC, the DSU developed funding criteria and timelines for submission and approval of a Request for Proposal (RFP) for Disability/Emergency Preparedness planning for persons with disabilities. The DSU, with members of the Council, were responsible for the review and rating of the RFPs that were submitted. The DSU was the authorizing agency, responsible for the contracting and oversight of the final award of grant funds related to this project. One grant, in the amount of $32,654, was awarded to Independent Lifestyles CIL located in St. Cloud. The SILC and DSU, on a quarterly basis, reviewed the grant activities of this project.

Historically, the resource plan under previous State Plans for IL, did not appropriately distinguish resource plan expenses related to the 705 activities, from the other activities funded under the SPIL. The resource plan that was in the approved 2008-2010 SPIL, included ALL of the activities of the SILC, including funds for Emergency Preparedness planning. It is now the understanding of the DSU and SILC that this activity should not have been included in the resource plan, but such an activity is not prohibited under Title VII Part B. This understanding is reflected in the recently approved 2011-2013 SPIL.

Technical Assistance: VRS, SSB, and the SILC do not request TA.

Fiscal Management Compliance Findings and Corrective Actions

1. Internal Controls

Corrective Action 1: VRS must:

1.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will implement internal controls sufficient to ensure the validity of expenditures under the IL program as required by 34 CFR 364.34 and, 34 CFR 80.20(a)(2),. and that VRS will monitor all grant-supported activities, as required by 34 CFR 80.40(a), to ensure that VRS uses IL funds to pay only those expenditures that are allowable under and allocable to the IL program and consistent with the terms of the actual contracts; and

1.2 develop and implement policies/procedures to ensure that:
   a) fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
   b) internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
   c) VRS monitors all grant-supported activities, as required by 34 CFR 80.40(a).

Agency Response: VRS accepts this finding and asserts that the DSU has initiated discussions with DEED Financial Services Division to increase the level of specificity in contract budgets and invoices.

Technical Assistance: VRS requests TA to enable it to carry out the above corrective action.

APPENDIX D: EXPLANATIONS OF DATA TABLES

VR and SE Program Highlights

- Total funds expended on VR and SE – RSA-2 line 1.4
- Individuals whose cases were closed with employment outcomes - RSA-113 line D1
- Individuals whose cases were closed without employment outcomes - RSA-113 line D2
- Total number of individuals whose cases were closed after receiving services – RSA-113 line D1+D2
- Employment rate – RSA-113 line D1 divided by sum of RSA-113 line D1+D2, multiplied by 100
- Individuals whose cases were closed with SE outcomes – Total number of individuals whose employment status at closure (record position 161) = 7 in the RSA-911 report
- New applicants per million state population – RSA-113 line A2 divided by the result of the estimated state population divided by 1 million. The estimated state population is found on the following website: http://www.census.gov/popest/states/NST-ann-est.html
- Average cost per employment outcome – Sum of individuals' cost of purchased services from the RSA-911 (record position 104-109) for individuals who achieved an employment outcome (record position 198 =3) divided by the total number of these individuals
- Average cost per unsuccessful employment outcome – Sum of individuals' cost of purchased services from the RSA-911 (record position 104-109) for individuals who did not achieve an employment outcome (record position 198 = 4) divided by the total number of these individuals
- Average hourly earnings for competitive employment outcomes - Sum of individuals' weekly earnings at closure (record position 163-166) divided by the total hours worked in a week at closure (record position 167-168) for individuals where weekly earnings at closure > 0, where the type of closure (record position 198) = 3, and where competitive employment (record position 162) = 1
- Average state hourly earnings – Using the most relevant available data from the Bureau of Labor Statistics Report (http://www.bls.gov), state average annual earnings divided by 2,080 hours
- Percent average hourly earnings for competitive employment outcomes to state average hourly earnings – Average hourly earnings for competitive employment outcomes (above) divided by the Average state hourly earnings (above) multiplied by 100
- Average hours worked per week for competitive employment outcomes - Average hours worked in a week at closure (record position 167-168) for individuals where weekly earnings at closure (record position 163-166) > 0 and where the type of closure (record position 198) = 3 and competitive employment (record position 162) = 1
- Percent of transition age served to total served – Total number of individuals whose age at application is 14-24 and whose type of closure (record position 198) is 3 or 4 divided by all individuals of any age whose type of closure (record position 198) is 3 or 4

- Employment rate for transition population served – Total number of individuals whose age at application is 14-24 and whose type of closure (record position 198) = 3 divided by the number of individuals whose age at application is 14-24 and whose type of closure (record position 198) is 3 or 4 multiplied, the result of which is multiplied by 100
- Average time between application and closure (in months) for individuals with competitive employment outcomes - Average of individuals date of closure (record position 201-208) minus date of application (record position 15-22) in months where type of closure (record position 198) = 3 and competitive employment (record position 162) =1
- Standard 1 – To achieve successful performance on Evaluation Standard 1 the DSU must meet or exceed the performance levels established for four of the six performance indicators in the evaluation standard, including meeting or exceeding the performance levels for two of the three primary indicators (Performance Indicators 1.3, 1.4, and 1.5).
- Standard 2 – To achieve successful performance on Evaluation Standard 2, the DSU must meet or exceed the performance level established for Performance Indicator 2.1 (.80) or if a DSU's performance does not meet or exceed the performance level required for Performance Indicator 2.1, or if fewer than 100 individuals from a minority population have exited the VR program during the reporting period, the DSU must describe the policies it has adopted or will adopt and the steps it has taken or will take to ensure that individuals with disabilities from minority backgrounds have equal access to VR services.

IL Program Highlights (From RSA 704 report)

- Title VII, Chapter 1, Part B Funds – Subpart I, Administrative Data, Section A, Item 1(A)
- Total Resources (including Part B funds) – Subpart I, Administrative Data, Section A, Item 4
- Total Served - Subpart II, Number and Types of Individuals with Significant Disabilities Receiving Services, Section A(3)
- Total Consumer Service Records Closed - Subpart II, Number and Types of Individuals with Significant Disabilities Receiving Services, Section B(6)
- Cases Closed - Completed All Goals - Subpart II, Number and Types of Individuals with Significant Disabilities Receiving Services, Section B(4)
- Total Goals Set - Subpart III, Section B, Item 1, sum of (A) + (B) + (C) + (D) + (E) + (F) + (G) + (H) + (I) + (J) + (K) + (L)
- Total Goals Met - Subpart III, Section B, Item 1, sum of (A) + (B) + (C) + (D) + (E) + (F) + (G) + (H) + (I) + (J) + (K) + (L)
- Total individuals accessing previously unavailable transportation, health care, and assistive technology - Subpart III, Section B, Item 2, sum of (A) + (B) + (C)
- Total FTEs - Subpart I, Section F, sum of Item 2 for the column
- Total FTEs with Disabilities - Subpart I, Section F, sum of Item 2 for the column

OIB Program Highlights (From RSA 7-OB Form)

- Title VII, Chapter 2, Expenditures - Part I-Sources and Amounts of Funding, (A)(1)
- Total Expenditures (including Chapter 2) - Part I-Sources and Amounts of Funding, (A)(6)
- Total Served Older Individuals who are Blind - Part III-Data on Individuals Served During This Fiscal Year, (B)-Gender, sum of (1) + (2)
- Total FTEs - Part II-Staffing, sum of (1) + (2) + (3) + (4) for the column
- Total FTEs with Disabilities - Part II-Staffing, sum of (1) + (2) + (3) + (4) for the column

APPENDIX E: EXPLANATIONS APPLICABLE TO FISCAL PROFILE TABLES

Grant Amount:

The amounts shown represent the final award for each fiscal year, and reflect any adjustments for MOE penalties, reductions for grant funds voluntarily relinquished through the reallotment process, or additional grant funds received through the reallotment process.

Match (Non-Federal Expenditures):

The non-federal share of expenditures in the Basic Support Program, other than for the construction of a facility related to a community rehabilitation program, was established in the 1992 amendments to the Rehabilitation Act at 21.3 percent. As such, a *minimum* of 21.3 percent of the total allowable program costs charged to each year's grant must come from non-federal expenditures from allowable sources as defined in program and administrative regulations governing the VR Program. (34 CFR 361.60(a) and (b); 34 CFR 80.24)

In reviewing compliance with this requirement, RSA examined the appropriateness of the sources of funds used as match in the VR program, the amount of funds used as match from appropriate sources, and the projected amount of state appropriated funds available for match in each federal fiscal year. RSA also reviewed the accuracy of expenditure information previously reported in financial and program reports submitted to RSA.

Carryover:

Federal funds appropriated for a fiscal year remain available for obligation in the succeeding fiscal year only to the extent that the VR agency met the matching requirement for those federal funds by September 30 of the year of appropriation (34 CFR 361.64(b)). Either expending or obligating the non-federal share of program expenditures by this deadline may meet this carryover requirement.

In reviewing compliance with the carryover requirement, RSA examined documentation supporting expenditure and unliquidated obligation information previously reported to RSA to substantiate the extent to which the state was entitled to use any federal funds remaining at the end of the fiscal year for which the funds were appropriated.

Program Income:

Program income means gross income received by the state that is directly generated by an activity supported under a federal grant program. Sources of state VR program income include, but are not limited to, payments from the Social Security Administration for rehabilitating Social Security beneficiaries, payments received from workers' compensation funds, fees for services to defray part or all of the costs of services provided to particular individuals, and income generated by a state-operated community rehabilitation program. Program income earned (received) in one fiscal year can be carried over and obligated in the following fiscal year regardless of whether the agency carries over federal grant funds. Grantees may also transfer program income received from the Social Security Administration for rehabilitating Social Security beneficiaries to other formula programs funded under the Act to expand services under these programs.

In reviewing program income, RSA analyzed the total amount (as compared to the total percentage of income earned by all VR agencies and comparable/like VR agencies), sources and use of generated income.

Maintenance of Effort (MOE):

The 1992 amendments revised the requirements in section 111(a)(2)(B)(ii) of the Act with respect to maintenance of effort provisions. Effective federal FY 1993 and each federal fiscal year thereafter, the maintenance of effort level is based on state expenditures under the title I State plan from non-federal sources for the federal fiscal year two years earlier. States must meet this prior year expenditure level to avoid monetary sanctions outlined in 34 CFR 361.62(a)(1). The match and maintenance of effort requirements are two separate requirements. Each must be met by the state.

In reviewing compliance with this requirement, RSA examined documentation supporting fiscal year-end and final non-federal expenditures previously reported for each grant year.

Administrative Costs:

Administrative costs means expenditures incurred in the performance of administrative functions including expenses related to program planning, development, monitoring and evaluation. Details related to expenditures that should be classified as administrative costs are found in VR Program regulations at 34 CFR 361.5(b)(2).

APPENDIX F: VRS VALUE PROPOSITION

Vocational Rehabilitation Services Value Proposition

Vocational Rehabilitation Services is uniquely positioned to provide statewide and community leadership that results in employment and greater independence for people with disabilities. As the designated steward of public resources, Vocational Rehabilitation Services is the primary facilitator of a broad stakeholder coalition that promotes choice, equal opportunity, self-sufficiency and full community integration for people with disabilities.

Framework for Use

1. The Vocational Rehabilitation Services value proposition asserts the unique set of qualities, characteristics and values that define the entire organization and encompasses all three constituent parts of Vocational Rehabilitation Services: independent living, extended employment, and vocational rehabilitation.

2. The Vocational Rehabilitation Services value proposition articulates the qualities, characteristics and values that are unique to the state organization and distinguish it among all other similar and related, public and private, nonprofit and for-profit organizations. The value proposition positions Vocational Rehabilitation Services within the context of that very broad rehabilitation services community.

3. The value proposition clearly asserts and justifies the unique leadership role of the statewide Vocational Rehabilitation Services organization: a role that implies great privilege and enormous responsibility.

4. The value proposition is a set of assertions that stand up empirically; it is seen to be true both internally within Vocational Rehabilitation Services, and externally among consumers and within the broad coalition of advocates, service providers, community partners and funding partners. It is not a statement of goals or aspirations about what we would like to be, but a statement of what we are believed and known actually to be.

5. The value proposition neither supplants the Vocational Rehabilitation Services mission statement nor obscures the organizational vision. Rather, it defines how the mission and vision stand relative to the mission, vision and values of all other related organizations. It is an inherently comparative statement.

6. The value proposition supplies the foundation upon which to build a strategic communications plan. It is not an advertising slogan or marketing tagline, but a vocabulary that helps to define the Vocational Rehabilitation Services brand.