

**FISCAL YEAR 2011
MONITORING REPORT
ON THE
ARKANSAS
DIVISION OF SERVICES FOR THE BLIND
VOCATIONAL REHABILITATION
PROGRAM**



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

AUGUST 5, 2011

TABLE OF CONTENTS

	Page
Section 1: Executive Summary	1
Section 2: Performance Analysis	4
Section 3: emerging practices	7
Section 4: Results of Prior Monitoring Activities.....	9
Section 5: focus areas.....	12
A. Organizational Structure Requirements of the Designated State Agency (DSA) and Designated State Unit (DSU)	12
B. Transition Services and Employment Outcomes for Youth with Disabilities	13
C. Fiscal Integrity of the Vocational Rehabilitation Program	16
Section 6: Compliance Findings and Corrective Actions	17
Appendix A: Agency Response	21
Appendix B: Legal Requirements.....	25

SECTION 1: EXECUTIVE SUMMARY

Background

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

Through its monitoring of the VR and SE programs administered by the Arkansas Division of Services for the Blind (DSB) in fiscal year (FY) 2011, RSA:

- reviewed the VR agency's progress toward implementing the performance goals and strategies identified during the prior monitoring cycle (FY 2007 through FY 2010);
- reviewed the VR agency's performance in assisting eligible individuals with disabilities to achieve high-quality employment outcomes;
- recommended strategies to improve performance and required corrective actions in response to compliance findings, when warranted, related to three focus areas, including:
 - organizational structure requirements of the designated state agency (DSA) and the designated state unit (DSU);
 - transition services and employment outcomes for youth with disabilities; and
 - the fiscal integrity of the VR program;
- identified emerging practices related to the three focus areas and other aspects of the VR agency's operations; and
- provided technical assistance to the VR agency to enable it to enhance its performance and to resolve findings of noncompliance.

The nature and scope of this review and the process by which RSA carried out its monitoring activities, including the conduct of an on-site visit from May 23 through 27, 2011, is described in detail in the FY 2011 Monitoring and Technical Assistance Guide for the Vocational Rehabilitation Program located at: www.ed.gov/rschstat/eval/rehab/107-reports/2011/monitoring-and-technical-assistance-guide.doc or, www.ed.gov/rschstat/eval/rehab/107-reports/2011/monitoring-and-technical-assistance-guide.pdf

Emerging Practices

Through the course of its review, RSA collaborated with DSB, the Independent Commission, the Technical Assistance and Continuing Education (TACE) center, and other stakeholders to identify the emerging practices below implemented by the agency to improve the performance and administration of the VR program.

- **Program Evaluation and Quality Assurance:** DSB has instituted a risk assessment rubric through which it maintains a system for ensuring the quality of internal fiscal controls.
- **Collaboration with WIA Partners:** In fulfilling its responsibility to participate in the one-stop system established under the Workforce Investment Act and to improve the services provided through the one-stops for individuals who are blind or visually impaired, DSB advocated for the acquisition of adaptive equipment and software by the Department of Human Services (DHS) for use in 17 of the state's 55 one-stop career centers. The agency further facilitates the provision of services to its consumers in the centers by delivering disability awareness training to center staff and to its consumers in the use of the equipment and software.

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

Summary of Observations

RSA's review of DSB resulted in the observation related to the focus area identified below. The entire observation and the recommendations made by RSA that the agency can undertake to improve its performance are contained in Section 5 of this report.

Transition Services and Employment Outcomes for Youth with Disabilities

- Staff turnover and training deficiencies contributed to significant decreases in the numbers of transition-age youth served and who achieved employment from FY 2009 to FY 2010.

Summary of Compliance Findings

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

- DSB is not in compliance with regulations at 34 CFR 80.21(f)(2), which require grantees to disburse program income prior to requesting additional cash payments.
- DSB is not in compliance with regulations at 34 CFR 361.12 and 34 CFR 80.20(a), which require recipients of federal funds to accurately report the financial results of all federally-assisted activities.

- DSB is not in compliance with the requirements of 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5, which specify that grantees must allocate the personnel costs associated with staff working on more than one program.
- DSB has not satisfied the requirements of 34 CFR 361.50(c)(1) because the agency has not developed or maintained written policies governing the rates of payment for contracted VR services.

Development of the Technical Assistance Plan

RSA will collaborate closely with DSB and the Region VI TACE center at the University of Arkansas to develop a plan to address the technical assistance (TA) needs identified by DSB in Appendix A of this report. RSA, DSB and the TACE will conduct a teleconference within 30 days following the publication of this report to discuss the details of the technical assistance needs, identify and assign specific responsibilities for implementing technical assistance and establish initial timeframes for the provision of the assistance. RSA, DSB and the TACE will participate in teleconferences at least semi-annually to gauge progress and revise the plan as necessary.

Review Team Participants

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

Acknowledgements

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

SECTION 2: PERFORMANCE ANALYSIS

This analysis is based on a review of the programmatic data contained in Table 2.1 below and is intended to serve as a broad overview of the VR program administered by DSB. It should not be construed as a definitive or exhaustive review of all available agency VR program data. As such, the analysis does not necessarily capture all possible programmatic trends. In addition, the data in Table 2.1 measure performance based on individuals who exited the VR program during FY 2006 through FY 2010. Consequently, the table and accompanying analysis do not provide information derived from DSB open service records including that related to current applicants, individuals who have been determined eligible and those who are receiving services. DSB may wish to conduct its own analysis, incorporating internal open caseload data, to substantiate or confirm any trends identified in the analysis.

VR Program Performance Analysis

ARKANSAS-B		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Change from FY 2006 to FY 2010	All Blind Agencies 2010
TOTAL CASES CLOSED	Number	515	514	503	578	503	-12	14,089
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	-2.3%	100.0%
Exited as an applicant	Number	68	71	76	93	106	38	2,980
	Percent	13.2%	13.8%	15.1%	16.1%	21.1%	55.9%	21.2%
Exited during or after trial work experience/extended employment	Number	0	0	0	0	0	0	124
	Percent	0.0%	0.0%	0.0%	0.0%	0.0%		0.9%
TOTAL NOT DETERMINED ELIGIBLE	Number	68	71	76	93	106	38	3,104
	Percent	13.2%	13.8%	15.1%	16.1%	21.1%	55.9%	22.0%
Exited without employment outcome after signed IPE	Number	3	0	0	4	2	-1	141
	Percent	0.6%	0.0%	0.0%	0.7%	0.4%	-33.3%	1.0%
Exited from order of selection waiting list	Number	0	0	0	0	0	0	43
	Percent	0.0%	0.0%	0.0%	0.0%	0.0%		0.3%
Exited without employment after eligibility	Number	19	13	4	11	5	-14	1,286
	Percent	3.7%	2.5%	0.8%	1.9%	1.0%	-73.7%	9.1%
TOTAL EXITED AFTER ELIGIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	22	13	4	15	7	-15	1,470
	Percent	4.3%	2.5%	0.8%	2.6%	1.4%	-68.2%	10.4%
Exited with employment	Number	344	347	347	350	278	-66	6,065
	Percent	66.8%	67.5%	69.0%	60.6%	55.3%	-19.2%	43.0%
Exited without employment	Number	81	83	76	120	112	31	3,450
	Percent	15.7%	16.1%	15.1%	20.8%	22.3%	38.3%	24.5%
TOTAL RECEIVING SERVICES	Number	425	430	423	470	390	-35	9,515
	Percent	82.5%	83.7%	84.1%	81.3%	77.5%	-8.2%	67.5%

Table 2.1 (Continued)

		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Change from FY 2006 to FY 2010	All Blind Agencies 2010
ARKANSAS-B								
EMPLOYMENT RATE		80.94%	80.70%	82.03%	74.47%	71.28%		63.74%
Transition- age youth	Number	63	69	50	71	56	-7	2,023
	Percent	12.2%	13.4%	9.9%	12.3%	11.1%	-11.1%	14.4%
Transition- age youth employment outcomes	Number	25	31	21	20	12	-13	551
	Percent	7.3%	8.9%	6.1%	5.7%	4.3%	-52.0%	9.1%
Competitive employment outcomes ¹	Number	264	276	266	269	210	-54	5,222
	Percent	76.7%	79.5%	76.7%	76.9%	75.5%	-20.5%	86.1%
Supported employment outcomes	Number	2	3	2	1	0	-2	153
	Percent	0.6%	0.9%	0.6%	0.3%	0.0%	-100.0%	2.5%
Average hourly wage for competitive employment outcomes	Average	\$9.19	\$10.65	\$10.68	\$10.59	\$12.61	\$3.42	\$14.26
Average hours worked for competitive employment outcomes	Average	34.7	35.4	33.9	34.4	35.2	0.5	31.1
Competitive employment outcomes at 35 or more hours per week ²	Number	182	186	161	161	136	-46	2,829
	Percent	52.9%	53.6%	46.4%	46.0%	48.9%	-25.3%	46.6%
Employment outcomes meeting SGA	Number	98	116	99	87	87	-11	2,198
	Percent	28.5%	33.4%	28.5%	24.9%	31.3%	-11.2%	36.2%
Employment outcomes with employer-provided medical insurance	Number	45	53	49	41	50	5	1,260
	Percent	13.1%	15.3%	14.1%	11.7%	18.0%	11.1%	20.8%

VR Performance Trends

Positive Trends

From FY 2006 through FY 2010, the total number of individuals who exited the VR program after being determined eligible for services, but before the development of an individualized plan for employment (IPE), decreased from 22 to 7, representing a decrease in the percentage of all individuals whose cases were closed from 4.3 percent to 1.4 percent, a difference of 68.2 percent. During the same period, the number of individuals who exited the VR program without employment after being determined eligible, but before receiving services, decreased from 19

¹ The number of competitive employment outcomes included in this table were adjusted to include closures below the federal minimum wage of \$6.55 and \$7.25, respectively, for FY 2009 and FY 2010, but at or above the state minimum wage of \$6.25. The number of competitive employment outcomes reported on the RSA-911 for FY 2009 and FY 2010 were 244 and 188, respectively.

² The number of competitive employment outcomes at 35 or more hours per week, included in this table were adjusted to include closures below the federal minimum wage of \$6.55 and \$7.25, respectively, for FY 2009 and FY 2010, but at or above the state minimum wage of \$6.25 for both years. The number of competitive employment outcomes at 35 or more hours per week reported on the RSA-911 for FY 2009 and FY 2010 were, respectively, 148 and 127.

to 5. This constitutes a 73.7 percent decline, from 3.7 percent of the individuals who exited before receiving services to one percent of the individuals who exited before receiving services.

Of the individuals who achieved competitive employment after receiving services during this same period, DSB experienced an 18 percent increase in the number of individuals who received employer-provided medical insurance, from 45 individuals (13.1 percent) in FY 2006 to 50 individuals (18 percent) in FY 2010.

Trends Indicating Potential Risk to the Performance of the VR program

From FY 2006 to FY 2010, the number of individuals served by DSB decreased from 425 to 390, a difference of 8.2 percent. In addition, although the number of individuals who exited the VR program with an employment outcome after receiving services increased slightly from 344 in FY 2006 to 350 in FY 2009, the number declined to 278 individuals in FY 2010, constituting a 20.6 percent decrease in employment outcomes during the course of a single year. The number of individuals who exited the VR system without an employment outcome after receiving services increased from 81 to 112, or from 15.7 percent to 22.3 percent. This was slightly below the national average for all agencies serving the blind of 24.5 percent in FY 2010. Furthermore, the trend was particularly significant in FY 2009, when 120 individuals exited the VR program after receiving services without achieving an employment outcome, an increase from 76 in FY 2008. As a result of this decreased level of performance, DSB's rehabilitation rate (of all individuals who exited the VR program after receiving services, the percentage who achieved an employment outcome) declined from 80.94 percent in FY 2006, to 71.28 percent in FY 2010, though remaining above the national average for blind agencies of 63.74 percent for that same year.

The number of transition-age youth served by DSB and who achieved employment also declined, consistent with the decreased numbers of total individuals served by the agency and who achieved employment as described above. The number of transition-age youth served by DSB declined from 63 in FY 2006, to 56 in FY 2010, a difference of 11.1 percent. The number of transition-age youth who exited the VR program with an employment outcome after receiving services decreased from 20 in FY 2009, to 12 in FY 2010. Finally, from FY 2006 to FY 2010, the number of individuals who achieved SE ranged from zero in FY 2010 to three in FY 2007.

RSA reviewed these performance trends with DSB management during the course of the monitoring. DSB indicated that the decline in the numbers of individuals served and who achieve employment, including transition-age youth, is due in part to a significant turnover in counseling staff, especially from FY 2009 to FY 2010. DSB reported that new staff are not able to provide a comparable level of service as do experienced staff, both because of their lack of familiarity with the types of consumers served and agency VR processes, as well as their need to receive extensive on-the-job guidance. See Section 5.B for more information related to the turnover of staff and its impact on services and outcomes for transition-age youth. Likewise, the agency indicated that it has experienced significant difficulty in providing SE services to its consumers due to the lack of community rehabilitation programs (CRP) that provide such services in the state, as well as CRP staff skilled in the provision of services to individuals who are blind and visually impaired.

SECTION 3: EMERGING PRACTICES

While conducting the monitoring of the VR program, the review team collaborated with DSB, the Independent Commission, the TACE, and agency stakeholders to identify emerging practices in the following areas:

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

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

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

Program Evaluation and Quality Assurance

DSB has instituted a risk assessment rubric through which it maintains an effective system for ensuring the quality of internal fiscal controls. The risk assessment provides the agency with a tool that measures fiscal internal controls and establishes a uniform process for assessing financial transactions. It is designed to provide the agency with reasonable assurances that it is in compliance with all applicable laws and regulations, as well as to assess the efficiency and effectiveness of fiscal operations. For example, DSB includes in its risk assessment an objective to “[e]nsure case services funds (Voc Rehab, Independent Living Services, Older Blind and Supportive Employment) are used appropriately,” with a corresponding level of risk identified as “[e]quipment or service purchased does not match rehab goal.” To control for this risk, the agency performs a random audit of case service expenditures, independent of field services, documents audit findings, and develops and monitors a corrective action and training plan.

Collaboration with WIA Partners

DSB plays an active role in the statewide workforce development system. Its director has served on the state’s workforce investment board since its inception, and chaired various disability-related committees as well as past and present governors' committees on employment of individuals with disabilities. Through its leadership on these boards and committees, DSB

advocated for the purchase of adaptive equipment and software by DHS at 17 one-stop career centers. To further facilitate the provision of job search and other services to its consumers at these centers, DSB implemented specialized blindness and visual impairment awareness training and orientation to specialized equipment and software, for one-stop staff, and offered hands-on training for its consumers in the use of the equipment and software.

The descriptions of these practices can be found on the RSA website at <http://rsa.ed.gov/emerging-practices.cfm>.

SECTION 4: RESULTS OF PRIOR MONITORING ACTIVITIES

During its review of the VR and SE programs in FY 2011, RSA assessed progress toward the implementation of performance goals and strategies that DSB agreed to address during the prior monitoring cycle in FY 2007. The additional technical assistance requested by the agency to enable it to implement these goals is contained in Appendix A of this report, titled “Agency Response.”

Performance Goals and Strategies

In response to RSA’s monitoring report dated September 7, 2007, for the federal fiscal year 2007, DSB agreed to implement the performance goals and strategies below. A summary of the agency’s progress toward implementation of the strategies and the achievement of each goal appears below.

1. Analyze financial requirements of DSB’s VR program with specific consideration given to using accumulated carryover funds to meet individualized VR needs of eligible consumers.

- 1.1 evaluate and analyze the need for financial resources;
- 1.2 determine need for program expansion;
- 1.3 if appropriate, release funds to RSA reallocation process; and
- 1.4 assess long-term spending practices, budget reporting and funds available for consumers.

Status: The amount of VR program funds carried forward continued to increase yearly during the period under review. In FY 2010, this amount was \$3,852,271, more than 60 percent of DSB’s annual federal award. According to DSB staff, the availability of VR funds under the *American Recovery and Reinvestment Act of 2009* resulted in a larger carryover of annual VR funds than anticipated. DSB is currently considering the use of establishment projects as a method to meet program needs and use carryover funds, without having to incur substantial long-term recurring costs. The agency is aware of the reallocation process and will release funds if unable to use them within the required timelines.

According to VR program data for the period under review, the agency provided fewer services, such as job assessment, job readiness, job search, placement and occupational and vocational training. However, the agency indicated that the reported data most likely reflects only those services that it purchased and not all services provided to its consumers.

2. Reduce the number of homemaker outcomes that DSB achieves using Title I funds.

- 2.1 implement counselor performance standards, which limits the percentage of homemaker Outcomes; and
- 2.2 refer individuals needing Older Individuals who are Blind (OIB) services to appropriate programs.

Status: In FY 2007, DSB implemented a placement standard for all caseload-carrying counselors requiring that no more than 20 percent of the individuals whose cases they closed were to have achieved homemaker outcomes. DSB also implemented a practice of excluding consumers of its independent living services for older individuals who are blind (OIB) program, who are not seeking employment outcomes, from making a VR application and serving them in the independent living program. As a result, the percentage of homemaker closures was maintained at or below 20 percent during the review period, though the actual number of homemaker closures trended upward.

3. Identify strategies and resources to fully operate the SE program as funded and authorized by Title VI of the Act.

- 3.1 convene meeting with key players to identify strategies to improve SE program;
- 3.2 senior leadership will reach out to others to learn more about SE options and outcomes;
- 3.3 senior leadership will study current Medicaid system to improve SE service provision;
- 3.4 DSB will identify appropriate individuals to be served in a SE service delivery system; and
- 3.5 senior leadership will analyze information and develop a plan for SE program improvement.

Status: From FY 2006 through FY 2010, the number of SE outcomes achieved by DSB consumers fell from two to zero. Despite implementation of the strategies identified in the FY 2007 monitoring report, these strategies did not result in the establishment of a fully operational SE program. Though funds were expended in FY 2010 for consumers utilizing an SE benchmark payment approach, none of those individuals were able to achieve a successful SE outcome. Rather, those consumers that received SE services were referred back to DSB after assessment. The agency cited the primary barrier to achieving this goal as the lack of CRP staff trained in working with individuals who are blind and visually impaired.

Technical Assistance

During the course of its FY 2011 monitoring activities, RSA provided TA to enable DSB to implement recommendations and resolve findings identified through the FY 2007 review.

Use of Carryover:

RSA provided technical assistance to DSB to enable the agency to expend the high level of VR program funds currently being carried over each fiscal year and to expand the services delivered to its consumers. In so doing, RSA provided guidance concerning the statutory and regulatory requirements for the implementation of establishment projects, particularly as they related to the provision of job placement services and the improvement of SE services for individuals who are blind and also have other significant disabilities.

Reporting of Services Provided

RSA discussed with DSB the data concerning the number of individuals receiving a variety of VR program services that indicated that the level of service provision was much lower than that for all other agencies serving individuals who are blind and visually impaired. Through this

discussion, DSB determined that in some instances errors had occurred, with counselors only reporting those services which the agency had purchased from vendors or other providers. RSA then provided technical assistance regarding the methods for the proper reporting of services provided, including those services delivered directly by agency counselors and staff.

Supported Employment Services

During the on-site visit, RSA organized a meeting to foster development of a workgroup on SE in partnership with the Region VI TACE. This work group would be comprised of representatives from DSB, the TACE, the state's Medicaid Infrastructure and Money Follows the Person grants, CRPs and advocacy groups for the blind, and would focus on educating CRPs on the service needs of blind and visually impaired individuals, along with related implications for employment, training, placement, and long-term supports.

SECTION 5: FOCUS AREAS

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

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

- compliance with statutory and regulatory provisions governing the organization of the Department of Human Services (DHS) and DSB under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which DSB exercises responsibility over the expenditure and allocation of VR program funds, including procurement processes related to the development of contracts and agreements;
- procedures and practices related to the management of personnel, including the hiring, supervision and evaluation of staff; and
- the manner in which DSB participates in the state's workforce investment system.

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

- DHS and DSB directors and senior managers;
- DHS and DSB staff members responsible for the fiscal management of the VR program;
- Members of the Independent Commission;
- Client Assistance Program staff members; and
- TACE center representatives.

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

- a diagram illustrating the DSU's position as an independent Commission within the Department, designated as both the DSU and the DSA, and the character of reporting within that structure;
- a diagram identifying all programs from all funding sources that fall under the administrative purview of the DSU, illustrating the number of full-time equivalent (FTE) staff working on each program;
- the number of FTEs in each program, identifying the specific programs on which they work and the individuals to whom they report, specifically including:
 - individuals who spend 100 percent of their time working on the rehabilitation work of DSB;
 - individuals who work on rehabilitation work of the DSB and one or more additional programs/cost objectives (e.g., one-stop career centers);

- individuals under DSB that do not work on rehabilitation projects of the DSU;
- sample memoranda of understanding (MOUs) and/or cost allocation plans with one-stop career centers; and
- documents describing Arkansas procurement requirements and processes.

Overview

DSB is an independent commission organizationally situated within DHS. DHS employs over 7,000 employees and houses ten divisions, including DSB. A deputy director of DHS provides management support, but no oversight for the DSB director. The director of DSB reports to the independent commission, which recruits, hires and retains the director.

DSB employs 75 staff, including the director. DSB reported that it currently employs 14 administrative staff, with two vacancies; 37 field staff, with two vacancies; eight support staff, with two vacancies; and two other staff. DSB uses the DHS Office of Human Resources for human resources support and the DHS Office of Finance and Administration for fiscal oversight.

RSA’s review of the organizational structure of the DSB did not result in the identification of observations and recommendations.

B. Transition Services and Employment Outcomes for Youth with Disabilities

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

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

In the course of implementing this focus area, RSA identified and assessed the variety of transition services provided in the state, including community-based work experiences and other in-school activities, and post-secondary education and training, as well as the strategies used to provide these services. RSA utilized five-year trend data to assess the degree to which youth with disabilities achieved quality employment with competitive wages. In addition, RSA gathered information related to the coordination of state and local resources through required

agreements developed pursuant to the Individuals with Disabilities Education Improvement Act of 2004 (IDEA) and the Rehabilitation Act, and communities of practice. RSA also gathered information regarding emerging practices initiated by the VR agency in the area of services to youth with disabilities, as well as technical assistance and continuing education needs of VR agency staff.

To implement this focus area, RSA reviewed:

- formal interagency agreements between DSB and the state education agency (SEA);
- transition service policies and procedures; and
- VR agency resources and collaborative efforts with other federal, state and local entities.

In support of its monitoring activities, RSA reviewed the following documents:

- the agreement between the VR agency and the SEA;
- sample agreements between the VR agency and local education agencies (LEA); and
- VR policies and procedures for the provision of transition services.

To assess the agency's performance related to the provision of transition services and the outcomes achieved by youth with disabilities, RSA reviewed DSB's relevant data from FY 2006 through FY 2010, describing:

- the number and percentage of transition-age youth who exited the VR program at various stages of the process;
- the amount of time these individuals were engaged in the various stages of the VR process, including eligibility determination, development of the individualized plan for employment (IPE) and the provision of services;
- the number and percentage of transition-age youth receiving services, including assessment, university and vocational training, rehabilitation technology and job placement; and
- the quantity, quality and types of employment outcomes achieved by transition-age youth.

RSA also compared the performance of DSB with national averages for other blind VR agencies.

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

- the DSB director;
- DSB VR counselors and transition staff;
- DSB staff serving as liaisons with the SEA and other agencies;
- Arkansas School for the Blind and Visually Impaired administrators and staff;
- State and local school personnel, including teachers for the blind/visually impaired, orientation and mobility specialists and guidance counselors;
- Arkansas Transition Services (ATS), Educational Services for the Visually Impaired (ESVI), Lions World Services for the Blind and Arkansas Lighthouse for the Blind administrators, consultants, teachers and counselors; and

- blind and visually impaired youth receiving or applying for VR services.

RSA’s review of transition services and employment outcomes achieved by youth with disabilities resulted in the identification of the following observation and recommendations. The technical assistance requested by DSB to enable it to carry out these recommendations is contained in Appendix A of this report titled “Agency Response.”

Observations and Recommendations

5.B.1. Transition Performance and Staff Turnover

Observation: Staff turnover and training deficiencies contributed to significant decreases in the numbers of transition-age youth served and who achieved employment from FY 2009 to FY 2010. DSB management attributes this decline in performance, in part, to the significant turnover in counseling positions and the resulting staff training needs.

- From FY 2006 through FY 2010, DSB experienced similar declines in performance with respect to the number of transition-age youth served and those who achieved employment as it did for all of its consumers (see Section 2 of this report). According to Table 2.1, the number of transition-age youth served by DSB declined from 63 in FY 2006, to 56 in FY 2010, a difference of 11.1 percent.
- Also as demonstrated in Table 2.1, the number of transition-age youth who exited the VR system with an employment outcome after receiving services decreased from 25 in FY 2006, to 20 in FY 2009. In FY 2010, this figure sharply declined to 12.
- At the time of the review, of the 13 VR counselors employed by DSB, two had served as counselors for five years or more, and four had served as counselors for less than two years. DSB indicated that few of these employees had prior training or notable experience upon hire related to rehabilitation, blindness or youth services, and only three were certified rehabilitation counselors. During the period under review, at least two of the VR counseling positions turned over three times.
- The agency stated that its new counseling staff tended to provide assistance to fewer individuals while in their first few years of employment than did more senior counselors, particularly those with no prior VR experience or prior experience working with individuals who are blind. The agency indicated its belief that this may have contributed to the decline in the numbers of transition-age youth served and who achieved employment from FY 2009 to FY 2010, a time when the agency had hired many new staff. In addition, the agency indicated that its lack of trained and experienced counselors directly affected its performance.

Recommendation: RSA recommends that DSB:

- 5.B.1.1 analyze its data related to the provision of services and the outcomes achieved by transition-age youth to determine what factors, if any, other than its lack of trained and experienced counseling staff contributed to its performance during the period under review and if these performance trends are ongoing;
- 5.B.1.2 based on this analysis, develop measurable goals to improve the number of transition-age youth served and the outcomes they achieve, along with strategies to achieve these goals;

- 5.B.1.3 assess and address the barriers to recruiting, hiring and maintaining VR counselors with sufficient experience in VR, blindness and youth services;
- 5.B.1.4 assess and address the training needs of VR counselors and related staff, including data reporting, case management, job development and transition planning; and
- 5.B.1.5 develop quality assurance processes to verify that VR counselors receive the requisite training and ongoing supports needed to offer quality VR services for its consumers.

C. Fiscal Integrity of the Vocational Rehabilitation Program

The purpose of this focus area was to assess fiscal performance related to the VR program and to determine compliance with pertinent federal statutory and regulatory requirements, including OMB circulars. For purposes of the VR program, fiscal integrity is broadly defined as the proper and effective management of VR program funds to ensure that they are spent solely on allowable expenditures and activities. Through the implementation of this focus area, RSA reviewed: VR Agency Resource Management; the management of Match and Maintenance of Effort (MOE); Internal and External Monitoring and Oversight; and Allowable and Allocable Costs.

RSA used a variety of resources and documents in the course of this monitoring, including data maintained on RSA's MIS generated from reports submitted by the VR agency, e.g., Financial Status Report (SF-269/SF-425) and the Annual VR Program/Cost Report (RSA-2). The review covered fiscal data from FY 2006 thru FY 2010, along with other fiscal reports as necessary, to identify areas for improvement and potential areas of noncompliance.

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

- the FY 2007 monitoring report issued pursuant to Section 107 of the Rehabilitation Act (see Section 4 above for a report of the agency's progress toward implementation of recommendations and resolution of findings);
- A-133 audit findings and corrective actions;
- state/agency allotment/budget documents and annual fiscal reports; and
- grant award, match, MOE, and program income documentation.

In addition RSA reviewed the following as part of the monitoring process to ensure compliance:

- service provider contracts;
- VR agency policies, procedures, and forms (e.g., monitoring, personnel certifications and personnel activity reports), as needed;
- internal agency fiscal reports and other fiscal supporting documentation, as needed; and
- VR agency cost benefit analysis reports.

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

In addition, the compliance findings identified by RSA through the implementation of this focus area are contained in Section 6 of this report.

SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS

RSA identified the following compliance findings and corrective actions that DSB is required to undertake. The technical assistance requested by the agency to enable it to carry out the corrective actions is contained in Appendix A to this report titled “Agency Response.” The full text of the legal requirements pertaining to each finding is contained in Appendix B.

DSB must develop a corrective action plan for RSA’s review and approval that includes specific steps the agency will take to complete the corrective actions, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance findings have 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 DSB to develop the plan and undertake the corrective actions.

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

1. Program Income Disbursement

Legal Requirement:

- EDGAR - 34 CFR 80.21(f)(2)

Finding:

DSB is not in compliance with 34 CFR 80.21(f)(2) which requires grantees to disburse program income prior to requesting additional cash payments. This means that DSB must disburse all program income prior to requesting a drawdown of additional federal VR funds. DSB budgeted a portion of the program income received to case services through the electronic case management system. These funds were budgeted, but not expended, prior to the subsequent drawdown of additional federal VR funds. As a result, DSB drew down additional federal VR funds to cover expenditures while program income remained available for disbursement.

To verify this finding, RSA staff compared the amount of funds drawn down by DSB, through the Department of Education’s G5 Grant’s Management System, with the amount of program income funds available for expenditure through the VR counselor’s case service budget. The results of the comparison clearly showed that DSB, on multiple occasions, had drawn down additional federal VR funds while there was a positive balance of undisbursed program income available. For example, the Case Service Allotment Expenditure Report for March 2011 showed that \$62,302.69 was expended in VR Social Security Reimbursement (program income) between 3/1/11 and 3/31/11. During the first week of March 2011, DSB drew down \$165,310 in cash payments through G5, the Department of Education’s Grant Management System. At the time of the drawdown, there was allotted program income that had not been expended.

Corrective Action 1: DSB must:

- 1.1 cease drawing down federal VR funds prior to disbursing all available program income and provide a written assurance to RSA, within 10 days of the final monitoring report, that it will disburse all program income before drawing down any federal VR funds as required by 34 CFR 80.21(f)(2). In addition, DSB must take the necessary steps to ensure that program income will be available for use across all VR budget categories, in accordance with the requirements in 34 CFR 80.21(f)(2).

2. Financial Reporting

Legal Requirements:

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

Finding:

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

- The FY 2009 fourth quarter SF-269 indicated that DSB had earned \$2,542,777 in program income. The FY 2009 Final SF-269 reported this amount as \$0. Program income is considered earned in the fiscal year in which the funds are actually received by the grantee (34 CFR 361.63; 34 CFR 80.25). Therefore, the amount of program income reported should not change after the grantee submits its fourth quarter (September 30th) report for any fiscal year. Additionally, DSB did not have supporting documentation that \$2,542,777 in program income had been received during FY 2009.
- The SF-269 report indicates that no program income was received between FYs 2006 and 2008.
- DSB's documentation for FYs 2006 through 2010 indicated that VR program income was being transferred and expended through VR counselor budgets to support the independent living (IL) program. However, the transferred program income was not being reported on the IL SF-269/SF-425 forms submitted by DHS. The state may choose to use Social Security reimbursements earned by the VR program for other formula grant programs funded under the Rehabilitation Act (section 108 of Rehabilitation Act and 34 CFR 361.63(c)(2)). However, each program earning or receiving the Social Security reimbursements for its use must report the funds earned or received as program income.
- DSB did not report any of the indirect costs charged to VR awards for FY 2009.

Corrective Action 2: DSB must:

- 2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will report program income and indirect costs completely and accurately on the SF-269/SF-425 reports as required by 34 CFR 361.12 and 34 CFR 80.20;
- 2.2 correct the following reports, as applicable:
 - a) Enter the correct amount of program income received and disbursed for FYs 2006 through 2010 for the fourth quarter and Final VR and IL SF-269/SF-425 reports; and,
 - b) Enter the amount of indirect costs paid by the VR program for FYs 2006 through 2010 for the fourth quarter and Final SF-269/SF-425 reports.

3. Assigning Personnel Costs

Legal Requirements:

- OMB Circulars - 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5

Finding:

DSB is not in compliance with 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5, which require grantees to allocate the personnel costs associated with staff working on more than one program. The personnel costs associated with some DSB administrative personnel (e.g., Director of DSB and Fiscal Manager) are not allocated to all benefitting programs using personnel activity reports. As a result, the VR program bears a disproportionate share of the personnel costs that arise under other programs administered by DSB, including the IL and OIB programs.

Corrective Action 3: DSB must:

- 3.1 cease using Title I VR funds for personnel costs that do not arise under the administration of the VR program and that are not supported by documentation, such as personnel activity reports, pursuant to 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5; and,
- 3.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5, by requiring staff who work on multiple programs to submit personnel activity reports to support the time spent on each program.

4. Policies to Govern Rate of Payment

Legal Requirements:

- VR Program Regulations - 34 CFR 361.12 and 361.50(c)(1)
- OMB Circular - 2 CFR Part 225, Appendix A, Paragraph C.1 and 3a

Finding:

DSB has not satisfied the requirements of 34 CFR 361.50(c)(1), because the agency has not developed or maintained written policies governing the rates of payment for contracted VR

services. As a result, DSB cannot ensure that expenditures made for purchased VR services are consistent with the requirements of 34 CFR 361.12 and the federal cost principles at 2 CFR Part 225.

DSB contracts with four non-profit faith-based organizations to complete at least two structured exploratory meetings per month. The contracts are referred to as the Faith Based Bridge for Consumer Employment contracts. The contract objective is to coordinate the provision of job-related training to representatives of at least two different faith-based groups per month. The contractors coordinate the presentation of information to the faith-based group representatives on job-related benefits available to persons with vision problems that might supplement and enhance the faith-based volunteer activities and jointly design a job-related group training activity customized to the needs of the faith-based group. The contractors are paid \$830 per visit. DSB was not able to provide documentation supporting how the rate was developed. DHS exempted the contracts from the State's competitive bid requirements without determining a reasonable rate for the contracted services.

Federal regulations require DSB to establish procedures that enable it to administer the VR program in an efficient manner that ensures it can carry out all functions and account for the expenditure of VR funds properly (34 CFR 361.12). DSB 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.). DSB is not in compliance with 34 CFR 361.12 and 34 CFR 361.50(c)(1) because the agency does not have a uniform system for developing fees for the Faith Based Bridge for Consumer Employment contracts. Without policies in place to set payments, DSB cannot be sure that the amounts charged by the vendors are reasonable and thus allowable and allocable to the VR program in accordance with the federal cost principles.

Corrective Action 4: DSB must:

- 4.1 submit a written assurance to RSA within 10 days of the final monitoring report that DSB will comply with 34 CFR 361.12, 34 CFR 361.50(c)(1), and 2 CFR Part 225; and
- 4.2 establish and maintain written policies to govern the rates of payment for all purchased VR services, as required by 34 CFR 361.50(c)(1).

APPENDIX A: AGENCY RESPONSE

Section 4: Results of Prior Monitoring Activities

DSB requests additional technical assistance to develop strategies to further address and carry out the goals listed below which were identified in the FY 2007 monitoring report.

Goals

1. Develop a plan to use carryover funds to meet VR program needs which doesn't necessitate substantial long-term recurring costs.
2. Develop a strategy to further reduce the number of homemaker outcomes achieved using Title I funds.
3. Develop strategies and secure resources to operate an effective SE program.

Additional TA Requested: DSB requests the TA of RSA via Region VI TACE in developing strategies to establish a network of resources to operate an effective SE program. The initial meeting with TACE is scheduled September 2, 2011.

Section 5: Focus Areas

B. Transition Services and Employment Outcomes for Youth with Disabilities

Observation 5.B.1.: Transition Performance and Staff Turnover

Recommendation 1: RSA recommends that DSB:

- 5.B.1.1 analyze its data related to the provision of services and the outcomes achieved by transition-age youth to determine what factors, if any, other than its lack of trained and experienced counseling staff contributed to its performance during the period under review and if these performance trends are ongoing;
- 5.B.1.2 based on this analysis, develop measurable goals to improve the number of transition-age youth served and the outcomes they achieve, along with strategies to achieve these goals;
- 5.B.1.3 assess and address the barriers to recruiting, hiring and maintaining VR counselors with sufficient experience in VR, blindness and youth services;
- 5.B.1.4 assess and address the training needs of VR counselors and related staff, including data reporting, case management, job development and transition planning; and
- 5.B.1.5 develop quality assurance processes to verify that VR counselors receive the requisite training and ongoing supports needed to offer quality VR services for its consumers.

Agency Response:

- 5.B.1.1 DSB will analyze its data, related to the provision of services and the outcomes achieved by transition-age youth with vision impairment, to determine what factors, other than its lack of trained and experienced counseling staff, contributed to its

performance during the period under review and if these performance trends are ongoing. The division will specifically address the definition of what constitutes a transition case and how that data is captured and tracked.

- 5.B.1.2 Based on the above analysis, DSB will develop measurable goals to improve the number of transition-age youth with severe vision problems served and the outcomes they achieve, along with strategies to achieve these goals.
- 5.B.1.3 DSB will assess and address the internal and external barriers to recruiting, hiring and maintaining VR counselors with sufficient experience in VR, blindness and youth services.
- 5.B.1.4 DSB will assess and address the training needs of VR counselors and related staff, including data reporting, case management, job development and transition planning, and
- 5.B.1.5 The division will develop quality assurance processes to verify that VR counselors receive the requisite training and ongoing supports needed to offer quality VR services for its consumers.

Technical Assistance: DSB does not request TA.

Section 6: Compliance Findings and Corrective Actions

1. Program Income Disbursement

Corrective Action 1.1: DSB must cease drawing down federal VR funds prior to disbursing all available program income and provide a written assurance to RSA, within 10 days of the final monitoring report, that it will disburse all program income before drawing down any federal VR funds as required by 34 CFR 80.21(f)(2). In addition, DSB must take the necessary steps to ensure that program income will be available for use across all VR budget categories, in accordance with the requirements in 34 CFR 80.21(f)(2).

Agency Response:

Corrective Action 1.1: In accordance with 34 CFR 80.21(f)(2), DSB will cease drawing down federal VR funds prior to disbursing all available program income. Further DSB will provide a written assurance to RSA, within 10 days of the final monitoring report, that it will disburse all program income, per definition within the above citation, before drawing down any federal VR funds for expenditure across all VR budget categories.

Technical Assistance: DSB does not request TA.

2. Financial Reporting

Corrective Action 2: DSB must:

- 2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will report program income and indirect costs completely and accurately on the SF-269/FFR-425 reports as required by 34 CFR 361.12 and 34 CFR 80.20.

- 2.2 correct the following reports, as applicable:
- a) Enter the correct amount of program income received and disbursed for FYs 2006 through 2010 for the fourth quarter and Final VR and IL SF-269/SF-425 reports; and,
 - b) Enter the amount of indirect costs paid by the VR program for FYs 2006 through 2010 for the fourth quarter and Final SF-269/SF-425 reports.

Agency Response:

Corrective Action 2: DSB will:

- 2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will report program income and indirect costs completely and accurately on the SF-269/FFR-425 reports as required by 34 CFR 361.12 and 34 CFR 80.20; and,
- 2.2 correct the following reports, as applicable:
 - a) Enter the correct amount of program income received and disbursed for FYs 2006 through 2010 for the fourth quarter and Final VR and IL SF-269/SF-425 reports; and,
 - b) Enter the amount of indirect costs paid by the VR program for FYs 2006 through 2010 for the fourth quarter and Final SF-269/SF-425 reports.

Technical Assistance: DSB does not request TA.

3. Assigning Personnel Costs

Corrective Action 3: DSB must:

- 3.1 cease using Title I VR funds for personnel costs that do not arise under the administration of the VR program and that are not supported by documentation, such as personnel activity reports, pursuant to 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5; and,
- 3.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5, by requiring staff who work on multiple programs to submit personnel activity reports to support the time spent on each program.

Agency Response:

DSB will:

- 3.1 cease using Title I VR funds for personnel costs that do not arise under the administration of the VR program and that are not supported by documentation, such as personnel activity reports, pursuant to 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5; and,
- 3.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5, by requiring staff who work on multiple programs to submit personnel activity reports to support the time spent on each program.

Technical Assistance: DSB does not request TA.

4. Policies to Govern Rate of Payment

Corrective Action 4: DSB must:

- 4.1 submit a written assurance to RSA within 10 days of the final monitoring report that DSB will comply with 34 CFR 361.12, 34 CFR 361.50(c)(1), and 2 CFR Part 225; and,
- 4.2 establish and maintain written policies to govern the rates of payment for all purchased VR services, as required by 34 CFR 361.50(c)(1).

Agency Response:

Corrective Action 4: DSB will:

- 4.1 submit a written assurance to RSA within 10 days of the final monitoring report that DSB will comply with 34 CFR 361.12, 34 CFR 361.50(c)(1), and 2 CFR Part 225; and,
- 4.2 establish and maintain written policies to govern the rates of payment for all purchased VR services, as required by 34 CFR 361.50(c)(1).

Technical Assistance: DSB does not request TA.

APPENDIX B: LEGAL REQUIREMENTS

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

Rehabilitation Act of 1973, As Amended

Sec. 108. Expenditure of Certain Amounts

(a) Expenditure

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

(b) Amounts

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

Vocational Rehabilitation Program Regulations

34 CFR 361.12

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 VR program]. These methods must include procedures to ensure accurate data collection and financial accountability.

34 CFR 361.50(c)(1)

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

34 CFR 361.63(c)(2)

(c) Use of program income.

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

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

Education Department General Administrative Regulations

34 CFR 80.20(a)

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

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

34 CFR 80.21(f)(2)

(f) *Effect of program income, refunds, and audit recoveries on payment.* Grantees and subgrantees shall disburse repayments to and interest earned on a revolving fund before requesting additional cash payments for the same activity.

(2) Except as provided in paragraph (f)(1) of this section, grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

34 CFR 80.25

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

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

34 CFR 80.40(a)

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 or activity.

OMB Circulars

2 CFR Part 225, Appendix A, C.1. & 3.a.

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 consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- 3.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.

2 CFR Part 225, Appendix B, 8.h.4 and 8.h.5

- 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.