

**FISCAL YEAR 2011  
MONITORING REPORT  
ON THE  
ARKANSAS REHABILITATION SERVICES  
VOCATIONAL REHABILITATION  
PROGRAM**



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

**SEPTEMBER 26, 2011**

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# SECTION 1: EXECUTIVE SUMMARY

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## 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 Arkansas Rehabilitation Services (ARS) in fiscal year (FY) 2011, RSA:

- reviewed the VR agency's progress toward implementing 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:
  - the 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 (TA) 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 June 20, 2011 through June 24, 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](http://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](http://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 ARS, the State Rehabilitation Council (SRC), 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.

- **Job Retention:** Through the Retaining a Valued Employee program, ARS advises both employers and their employees who experience occupational injury or illness, so that the employees can return to work.
- **Transition Services:** Through the Arkansas Transition Program (ATP), ARS houses VR counselors in ten high schools located in empowerment zones or rural areas of the state. These counselors provide an enhanced level of transition services to students with disabilities who also face additional barriers to employment, including teen pregnancy, homelessness and substance abuse.
- **Community Outreach to Underserved Individuals in a Rural State:** ARS implemented outreach activities to underserved individuals that resulted in a significant increase in referrals.

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

## **Summary of Observations**

RSA's review of ARS resulted in the observations related to the focus areas identified below. The entire observations 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**

- ARS assisted half as many transition-age youth to achieve SE outcomes in FY 2010 than it did in FY 2006 and one-thirteenth the average for all general agencies in FY 2010.

### **Fiscal Integrity of the VR Program**

- Although ARS engages in monitoring activities for external CRPs, the agency does not evaluate the quality of the services provided by these external CRPs. The monitoring activities do not allow for comparison between the cost and quality of services provided by these external CRPs and ARS's in-house service delivery at Arkansas Career Training Institute (ACTI). Thus, ARS cannot effectively evaluate its financial and programmatic performance on an ongoing basis.

## **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 ARS must undertake to bring itself into compliance with pertinent legal requirements are contained in Section 6 of this report.

- ARS has not established and maintained written policies governing the manner in which the agency will set fees for purchased VR services.
- ARS does not maintain personnel activity reports or equivalent documentation that reflects an after-the-fact distribution of the actual activity of each employee.

- ARS does not manage daily operations of grant-supported activities and does not have procedures in place that ensure financial accountability.
- A federal Social Service Block Grant directed to ARS by the Arkansas Department of Human Services is incorrectly categorized as VR program income.

## **Development of the Technical Assistance Plan**

RSA will collaborate closely with ARS and the Region V TACE to develop a plan to address the TA needs identified by ARS in Appendix A of this report. RSA, ARS and the TACE will conduct a teleconference within 30 days following the publication of this report to discuss the details of the TA needs, identify and assign specific responsibilities for implementing technical assistance and establish initial timeframes for the provision of the assistance. RSA, ARS 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); Craig McManus (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 ARS for the cooperation and assistance extended throughout the monitoring process. RSA also appreciates the participation of the SRC, 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 ARS. 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 ARS open service records including that related to current applicants, individuals who have been determined eligible and those who are receiving services. ARS may wish to conduct its own analysis, incorporating internal open caseload data, to substantiate or confirm any trends identified in the analysis.

### Performance Analysis VR Program Analysis

**Table 2.1  
ARS Program Performance Data for FY 2006 - FY2010**

Arkansas Rehabilitation Services		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Change from FY 2006 to FY 2010	All General Agencies 2010
<b>TOTAL CASES CLOSED</b>	<b>Number</b>	6,664	6,495	7,446	7,791	7,718	1,054	317,162
	<b>Percent</b>	100.0%	100.0%	100.0%	100.0%	100.0%	15.8%	100.0%
Exited as an applicant	Number	1,361	1,396	1,442	1,937	1,550	189	49,928
	Percent	20.4%	21.5%	19.4%	24.9%	20.1%	13.9%	15.7%
Exited during or after trial work experience/extended employment	Number	168	163	184	298	371	203	2,738
	Percent	2.5%	2.5%	2.5%	3.8%	4.8%	120.8%	0.9%
<b>TOTAL NOT DETERMINED ELIGIBLE</b>	<b>Number</b>	1,529	1,559	1,626	2,235	1,921	392	52,666
	<b>Percent</b>	22.9%	24.0%	21.8%	28.7%	24.9%	25.6%	16.6%
Exited without employment outcome after signed IPE	Number	208	206	256	299	208	0	4,268
	Percent	3.1%	3.2%	3.4%	3.8%	2.7%	0.0%	1.3%
Exited from order of selection waiting list	Number	3	3	23	11	2	-1	6,587
	Percent	0.0%	0.0%	0.3%	0.1%	0.0%	-33.3%	2.1%
Exited without employment after eligibility	Number	689	729	686	1,100	876	187	88,031
	Percent	10.3%	11.2%	9.2%	14.1%	11.4%	27.1%	27.8%
<b>TOTAL EXITED AFTER ELIGIBILITY, BUT PRIOR TO RECEIVING SERVICES</b>	<b>Number</b>	900	938	965	1,410	1,086	186	98,886
	<b>Percent</b>	13.5%	14.4%	13.0%	18.1%	14.1%	20.7%	31.2%
Exited with employment	Number	2,502	2,309	2,447	2,361	2,670	168	87,039
	Percent	37.5%	35.6%	32.9%	30.3%	34.6%	6.7%	27.4%
Exited without employment	Number	1,733	1,689	2,408	1,785	2,041	308	78,571
	Percent	26.0%	26.0%	32.3%	22.9%	26.4%	17.8%	24.8%

**Table 2.1 (Continued)**

Arkansas Rehabilitation Services		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Change from FY 2006 to FY 2010	All General Agencies 2010
<b>TOTAL RECEIVING SERVICES</b>	<b>Number</b>	4,235	3,998	4,855	4,146	4,711	476	165,610
	<b>Percent</b>	63.6%	61.6%	65.2%	53.2%	61.0%	11.2%	52.2%
<b>REHABILITATION RATE</b>		59.08%	57.75%	50.40%	56.95%	56.68%		52.56%
<b>Transition aged youth</b>	<b>Number</b>	2,769	2,798	3,316	3,409	3,289	520	107,377
	<b>Percent</b>	41.6%	43.1%	44.5%	43.8%	42.6%	18.8%	33.9%
<b>Transition aged youth employment outcomes</b>	<b>Number</b>	1,071	982	1,096	939	1,033	-38	27,618
	<b>Percent</b>	42.8%	42.5%	44.8%	39.8%	38.7%	-3.5%	31.7%
<b>Competitive employment outcomes</b>	<b>Number</b>	2,496	2,309	2,446	2,359	2,656	160	85,263
	<b>Percent</b>	99.8%	100.0%	100.0%	99.9%	99.5%	6.4%	98.0%
<b>Supported employment outcomes</b>	<b>Number</b>	68	44	33	48	43	-25	11,214
	<b>Percent</b>	2.7%	1.9%	1.3%	2.0%	1.6%	-36.8%	12.9%
<b>Average hourly wage for competitive employment outcomes</b>	<b>Average</b>	\$9.84	\$10.54	\$10.83	\$10.84	\$10.91		\$11.14
<b>Average hours worked for competitive employment outcomes</b>	<b>Average</b>	35.7	35.7	35.5	34.6	34.3		30.9
<b>Competitive employment outcomes at 35 or more hours per week</b>	<b>Number</b>	1,863	1,710	1,781	1,598	1,755	-108	42,997
	<b>Percent</b>	67.3%	61.1%	53.7%	46.9%	53.4%	-5.8%	49.4%
<b>Employment outcomes meeting SGA</b>	<b>Number</b>	2,059	1,904	1,998	1,832	2,074	15	56,039
	<b>Percent</b>	82.3%	82.5%	81.7%	77.6%	77.7%	0.7%	64.4%
<b>Employment outcomes with employer-provided medical insurance</b>	<b>Number</b>	816	753	735	639	702	-114	19,288
	<b>Percent</b>	32.6%	32.6%	30.0%	27.1%	26.3%	-14.0%	22.2%

**Positive trends**

The number of individuals with disabilities receiving services from ARS increased from 4,235 in FY 2006, to 4,711 in FY 2010. This represents an increase of 476 individuals served, or 11.2 percent, during the period covered by the review. ARS also increased the number of transition-age youth who received VR services by 520 individuals (an increase of 18.8 percent), from 2,769 in FY 2006, to 3,289 in FY 2010. During FY 2010, 42.6 percent of all individuals who received services were of transition age while the percentage for all general agencies was 33.9 percent.

In addition, the number of individuals who ARS assisted to achieve employment increased during the period. The number of individuals who exited the VR program with an employment outcome after receiving services increased by 168 individuals, or 6.7 percent, from 2,502 individuals in FY 2006, to 2,670 individuals in FY 2010. ARS's rehabilitation rate (the

percentage of all individuals who exited the VR program after receiving services who achieved an employment outcome) was 56.8 percent in FY 2010. This was eight percent above the rate for all general agencies of 52.56 percent that same year.

With respect to the quality of the employment outcomes achieved, the average hourly wage earned by individuals who achieved employment rose consistently throughout the review period, increasing from \$9.84 in FY 2006, to \$10.91 in FY 2010, an increase of 10.87 percent. These individuals worked an average of 34.3 hours per week, compared to 30.9 hours per week for the individuals served by all general agencies. Likewise in FY 2010, the percentage of individuals who achieved employment with earnings equal to or exceeding the level of substantial gainful activity (SGA) was 20.7 percent above the percentage for all general agencies of 64.4 percent. Finally, of the individuals who achieved competitive employment after receiving services from ARS during that year, 26.3 percent received employer provided medical insurance, 18.47 percent above the percentage for all general agencies of 22.2 percent.

### **Trends indicating potential risk to the performance of the VR program**

As described in the preceding paragraphs, the performance of ARS with respect to the number and quality of employment outcomes generally remained above that of all other general agencies in FY 2010. However, the analysis of the data contained in Table 2.1 also demonstrates that the agency has experienced a decline in its own performance in a few areas. Though comparing favorably to the performance of all general agencies in FY 2010, ARS's rehabilitation rate during the last four years of the review period was below its FY 2006 rate of 59.08 percent, ranging from a low of 50.4 percent in FY 2008, to a high of 57.75 percent in FY 2007. The percentage of individuals who achieved employment with earnings equal to the level of SGA declined from a high of 82.5 percent in FY 2007, to 77.7 percent in FY 2010. Lastly, the percentage of individuals who achieved employment with employer-provided medical insurance declined, from a high of 32.6 percent in both FY 2006 and FY 2007, to 26.3 percent in FY 2010.

During the current review cycle, the number of supported employment outcomes ranged from a low of 33, or 1.3 percent of all employment outcomes achieved in FY 2008, to a high of 68, or 2.7 percent, in FY 2006. In FY 2010, ARS reported 43 SE outcomes, or 1.6 percent. ARS's SE rate in FY 2010 was approximately one-eighth of the rate for all general agencies of 12.9 percent.

RSA discussed both those trends showing improvement in ARS performance and those demonstrating a decline with agency management and personnel. The agency attributed its improved performance, in significant part, to its extensive outreach with numerous partners throughout the state and its dual client model (consumer and industry/business).

In addition, ARS management attributed the low numbers of individuals who achieved SE prior to and during the review period to the underreporting of the number of those receiving SE services and related outcomes by VR counselors. ARS management also stated that its SE service delivery problems were exacerbated by a lack of CRPs that offer SE services in the state, vendors that propose on-site SE placements that do not qualify as competitive outcomes in an integrated setting, and a tendency for consumers evaluated by CRPs to be subsequently enrolled in sheltered employment programs. See Sections 4 and 5.B for further information related to SE.

## SECTION 3: EMERGING PRACTICES

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While conducting the monitoring of the VR program, the review team collaborated with the ARS, the SRC, 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 SRC;
- 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.

### **Job Retention**

Retaining a Valued Employee (RAVE), a pilot program implemented in February 2010, is designed to provide support to employers when assisting employees that experience injury or illness resulting in disability to remain at or to return to work. RAVE was developed to take advantage of the expertise of certified rehabilitation counselors within the ARS Field Program, occupational therapists with the Assistive Technology @ Work program, and business relation representatives within the Business Relations section. Services offered fall into two primary categories, employee counseling/case management and employer consultation. Counseling/case management services focus on assisting an employee to remain productive at work at his/her current job or return to work at that job as quickly and safely as possible. Consultation services are designed to assist the employer in developing, implementing, and evaluating an employee early return to work program as well as addressing accommodation questions related to the Americans with Disabilities Act and the Americans with Disabilities Amendments Act. Thus far, ARS has served 19 individuals through RAVE, 14 of whom either returned to their former or different jobs with the same employer. Hence, RAVE's success rate was 74 percent during this initial period.

## **Transition Services**

The Arkansas Transition Program (ATP) commenced in FY 2007, through which a partnership was developed among ARS, Arkansas Transition Service (ATS) and ten high schools located within empowerment zones in predominately rural areas. Transition services provided by ATP are in addition to the array of services offered to transition-age youth through each of the agency's district offices and the corresponding school districts. To better equip high school students with disabilities with the skills, knowledge, and attitudes necessary to both stay in school, and to achieve a successful transition from high school to adult life, ARS assigns VR transition counselors (VRTCs) to the respective school districts. The goal of ATP is to facilitate active engagement by students with disabilities with the resources available to them through their respective schools, civic organizations, faith-based communities and extended families. Likewise, ATP seeks to establish opportunities for VR counselors, local high schools, families and community groups, to develop partnerships in their shared goal of helping transition-age youth with disabilities to develop the skills, tools, knowledge, attitudes and the experiential activities needed to transition to either competitive employment or post-secondary educational and training opportunities. ATP counselors are housed at local schools and work with students aged 16 or above that have individualized education plans or 504 plans and, in many instances, are encumbered with additional barriers to employment, i.e., secondary mental health issues, teen parenting responsibilities, poverty, lack of reliable transportation, homelessness, substance abuse, or the presence of gang activity within their communities.

The VRTCs reported that being housed within their host high schools enables them to function as a more integral part of the school and community environment than ARS' general VR counselors. In FY 2010, ATP provided specialized VR services to 317 high school students with disabilities at the designated schools. Based on preliminary feedback from the VRTCs, personnel from the host school districts, transition-age consumers and their families, several of ARS's district offices have already, or are in the process of, creating similar transition initiatives with local schools.

## **Community Outreach to Underserved Individuals in a Rural State**

During the period from FY 2006 through FY 2010, ARS experienced a 20 percent growth in the number of consumers deemed eligible for VR services. ARS attributes this growth, in significant part, to providing extensive community outreach, informal transportation networks and education throughout the state at both times and locations that were selected with consideration to the scheduling and transportation barriers typically faced by the working poor. For example, since October 2010, current and potential ARS consumers of all ages have had opportunities to connect with local resources and employers at several Arkansas Department of Career Education (ACE) expos, including, in some instances, transporting consumers to the expos who, in turn, applied for and secured existing jobs. Job fairs for local residents are combined with service education to create a unique mix of basic community services, informal transportation networks and employment opportunities; particularly in empowerment zones with heightened unemployment levels. The ACE expos events resulted in 350 Arkansans served by ARS and 211 new referrals for VR services in FY 2011. Additionally, ATP and ATS partner in numerous regional school-to-work transition fairs organized in conjunction with approximately two-thirds

of the state's school districts, students with disabilities, parents, employers and other partner agencies. During the 2010/2011 school year, ATP and ATS organized 30 transition fairs, parent nights and other transition related activities with an aggregate total of approximately 4,500 students. As most of these events were in rural or remote areas that lack public transportation, ARS arranged for transportation on an as-needed basis through various family and community networks, including numerous faith based partners. As a result of addressing the infrastructure and scheduling limitation faced by largely disadvantaged families, these initiatives resulted in approximately 990 new referrals to ARS.

A description of the above practices can be found on the RSA website at <http://rsa.ed.gov/emerging-practices.cfm>.

## **SECTION 4: RESULTS OF PRIOR MONITORING ACTIVITIES**

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During its review of the VR and SE programs in FY 2011, RSA assessed progress toward the implementation of performance goals and strategies that ARS 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, ARS agreed to implement the performance goals and strategies below. A summary of the agency’s progress toward implementation of each goal appears below.

- 1. To increase the number of individuals with significant and most significant disabilities who receive VR services**
  - 1.1 In conjunction with the results of the ARS statewide comprehensive needs assessment and other relevant data sources; ARS will assess the numbers of individuals with significant and most significant disabilities to determine their potential needs for VR services.
  - 1.2 ARS will develop and implement an outreach plan to build referral relationships with developmental disability (DD) and mental health (MH) service providers.
  - 1.3 ARS will review the Association of Rehabilitation in Industry and Business (ARIB) placement contract to determine if this is still a viable and preferred way of delivering placement services.
  - 1.4 ARS will include in discussions with CRPs and SE service vendors the possibility of developing job placement services for all individuals with disabilities.
  - 1.5 ARS will carry out strategies identified, such as hiring a statewide transition coordinator and increased ARS staff participation in transition conferences, to support the transition initiative. These strategies will also support this goal by finding individuals from the underserved disability groups who are likely to also have significant or most significant disabilities.
  - 1.6 ARS will carry out strategies related to the development of a system of SE, as this program obtains employment outcomes for individuals who are most significantly disabled.

**Status:** There has been little change in the disability distribution served by ARS since 2007. The agency continues to serve a disproportionately high percentage of individuals with physical disabilities especially amongst transition-age youth, and a low proportion of individuals with cognitive, psychosocial and other mental impairments when compared to the average for all general agencies. ARS management indicated that its data may not be capturing the secondary disabilities of the individuals served, such as mental impairments. ARS continues to provide a high percentage of physical restoration services and continues to provide medical inpatient and outpatient services at the Arkansas Career Training Institute (ACTI), the agency’s

comprehensive rehabilitation center. ARS continues to operate under an order of selection. The agency, however, serves all individuals assigned to Priority Categories I and II.

ARS management indicated that the continuing emphasis on separate service provision by the agencies for behavioral health services and developmental disabilities, which offer day treatment and sheltered employment programs, poses a barrier to its ability to assist greater numbers of individuals to achieve competitive employment. However, the Governor's Task force on Employment of People with Disabilities Employability Project has prioritized work and may allow for greater sharing of eligible consumers. ARS has a designated statewide transition coordinator. In addition to the agency's statewide transition program, which is staffed by general VR counselors from each of the agency's district offices, ARS utilizes ATP, the transition pilot project detailed in Section 3 of this report.

## **2. To identify strategies and resources to fully operate the ARS SE program as funded and authorized by Title VI of the Rehabilitation Act**

ARS will convene a meeting of CRPs, SE service providers and other appropriate partners to discuss strategies and issues around provision of SE services and job placement services.

- 2.1 ARS senior leadership will reach out to the state DD and MH agencies to discuss the current employment activities carried out by those agencies and study the possibility of developing options for more SE services and outcomes.
- 2.2 ARS senior leadership will study the current use of Medicaid waivers and/or Medicaid buy-in provisions in the provision and support of employment services.
- 2.3 ARS senior leadership will then analyze information provided through the meetings and information gathered in Strategies 1-3 above and develops a plan for improvement of SE services.

**Status:** The number of SE outcomes reported by ARS decreased from 55 in FY 2005 (the last fiscal year considered during the prior review) to 43 in FY 2010, despite the agency's implementation of all of the strategies agreed to in the FY 2007 monitoring report. Likewise, 1.6 percent of the individuals ARS assisted to achieve employment in FY 2010 obtained SE outcomes, well below the performance of all general agencies that year and demonstrating some decrease against its own performance during the current review cycle. See section 5.B for further information related to SE.

## **3. To improve the quality of service provision through resource allocation**

- 3.1 ARS will conduct a thorough review of all expenditures, with a heightened level of scrutiny at ACTI, to determine what resources are being appropriately used, which resources should be made available for alternative field service programming and services, and what those alternative uses should be.

**Status:** ARS made significant progress in balancing its resources across the state. Notably, ARS increased its expenditures for field service operations throughout the current review cycle. ARS increased its field service regions from 8 to 10, with a corresponding increase in district

managers from 8 to 10. In addition, the agency increased the number of caseload carrying VR counselors by 30 percent, from 70 to 90. This appears to have resulted in more active and targeted leadership by ARS within smaller geographic areas that have distinct regional differences and employment barriers, enabling the agency to improve its visible presence within these local communities. Accordingly, while 50 percent of the district managers oversaw three field offices prior to ARS' regional restructuring, each of the district managers now oversees only one or two field offices and caseload sizes have decreased in most instances. ARS attributes its 11.2 percent increase in the number of individuals served during the review cycle and its 6.7 percent increase in the number of individuals who exited the VR program with an employment outcome after receiving services, in part, to these changes in resource allocation.

Despite ARS's significant improvement in resource allocation for field services' programming and some positive movement regarding reducing ACTI's expenditures and program design, the agency's expenditures at ACTI continued to represent nearly one-third of the agency's total expenditures throughout the current review period. In FY 2008, ARS established a cap on ACTI's annual operating costs that prohibited these expenditures to exceed \$15 million. See Sections 5.C and 6 for further information regarding ACTI's performance monitoring and resource allocation. Although the cap was exceeded in FY 2010 due to the use of funds under the American Recovery and Reinvestment Act of 2009 (ARRA) for infrastructure improvements, the overall percentage of ARS's budget spent at ACTI (excluding ARRA funds) has decreased slightly.

#### **4. To develop the SRC's ability to carry out its mandated functions in an effective and independent manner**

- 4.1 Submit a SRC membership list with contact information to RSA by September 30, 2007, to inform RSA of the SRC's current membership composition.
- 4.2 Provide a pool of SRC nominees to the Governor's office.
- 4.3 Work with the Governor's office to ensure that appointments are current and in compliance with the composition requirements under Section 105 of the Act.
- 4.4 Implement a committee structure to carry out the required SRC functions.
- 4.5 Independently and promptly develop the FY 2005 and FY 2006 SRC progress reports and submit to RSA, and ensure that all other reports will be submitted on time.

**Status:** The SRC is fully constituted and engages in a positive working relationship with ARS, while maintaining its independence.

#### **Technical Assistance**

During the course of its FY 2011 monitoring activities, RSA provided TA to enable ARS to implement goals and strategies identified through the FY 2007 review.

#### **Order of Selection**

ARS operates under an order of selection, though it was not actively used during the 5-year review period. RSA TA discussion focused on exploration of the continued need for the order.

The agency has in place fiscal safeguards including case spending thresholds requiring supervisory review, exploration of similar benefits and consumer financial need assessments. RSA encouraged ARS to contact other VR agencies that have rescinded their orders to understand the potential impact on referrals and service delivery.

### **Outreach to Individuals with Mental Impairments and Cognitive Disabilities**

ARS has been challenged in balancing its services and outreach to individuals with mental impairments and cognitive disabilities. RSA provided TA to ARS to consider targeted outreach strategies to increase access for these consumers. Those strategies included specialty mental health caseloads, tasking senior counselors to serve as mental health conduits or facilitators, and developing targeted referral relationships with mental health facilities. Furthermore, RSA discussed the need to balance caseloads to allow for counselors to meet successful employment production goals while working with longer term mental health consumers. RSA discussed the use of psychological and psychiatric consultation to assist counselors in understanding the psychosocial impact of the disability on employment. Finally, TA addressed the need for support services for consumers with mental impairment and strategies to develop a more effective and cohesive SE program as further delineated in Section 5.B of this report, and an array of services that will support the vocational assessment, employment and retention of all consumers.

### **SRC Roles and Functions**

RSA provided TA to the SRC regarding the regulatory provisions governing the functions of the Council found at 34 CFR 361.16 - Establishment of an independent commission or a State Rehabilitation Council and 34 CFR 361.17 - Requirements for a State Rehabilitation Council, instructions on accessing the SRC Online Training Series modules, and information on the National Coalition of State Rehabilitation Councils.

## **SECTION 5: FOCUS AREAS**

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### **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 ARS with the federal requirements related to its organization within the Arkansas Department of Career Education (ACE) and the ability of ARS 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 ACE and ARS under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which ARS 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 ARS 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:

- ACE and ARS directors and senior managers;
- ACE and ARS staff members responsible for the fiscal management of the VR program;
- SRC Chairpersons and members;
- 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 in relation to the DSA, its relationship and position to other agencies that fall under the DSA, and the direction of supervisory reporting between agencies;
- 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 full-time employees (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 ARS;

- individuals who work on rehabilitation work of the ARS and one or more additional programs/cost objectives (e.g., one-stop career centers); and
- individuals under ARS 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**

ARS is the designated state agency and unit organizationally situated within ACE. ACE employs 677 employees and houses three divisions including ARS. The Director of ACE provides management support and oversight for the ARS Commissioner. The Commissioner of ARS reports to the ACE Director who recruits, hires and retains the Commissioner. ARS employs 464 employees including the Commissioner. ARS reported 39 administrative staff, 89 counseling staff, and 336 support staff supporting counselor activities during the review period. ARS utilizes the ACE departments of Communications, Finance and Human Resources and Development for support.

RSA's review of the organizational structure of the ARS did not result in the identification of observations and recommendations. In addition, the implementation of this focus area did not result in the identification of compliance findings.

## **B. Transition Services and Employment Outcomes for Youth with Disabilities**

The purpose of this focus area was to assess ARS'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 comprehensive rehabilitation services at ACTI, 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 TA and continuing education needs of VR agency staff.

To implement this focus area, RSA reviewed:

- the ARS's progress toward the implementation of recommendations and the resolution of findings related to the provision of transition services identified in the prior monitoring report from FY 2007 (see Section 4 above);
- formal interagency agreements between the VR agency and the state educational agency (SEA);
- transition service policies and procedures;
- VR agency resources and collaborative efforts with other federal, state and local entities; and
- third-party cooperative arrangements and other cooperative agreements.

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

- the agreement between the VR agency and the state education agency (SEA);
- sample agreements between the VR agency and local education agencies (LEA), if applicable;
- samples of signed and implemented third-party cooperative agreements;
- samples of other cooperative agreements, if applicable; and
- VR policies and procedures for the provision of transition services.

To assess the performance related to the provision of transition services and the outcomes achieved by youth with disabilities, RSA reviewed ARS' 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 ARS with peer agencies during the same period, as well as with national averages for other general VR agencies.

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

- ARS commissioner and ACE director;
- ARS’s Transition Services Director and VRTC’s assigned to ATP;
- ARS district managers and VR counselors;
- ARS’s SE coordinator, SE vendors and CRPs;
- ACTI director, management, instructors and other professional staff;
- ARS transition coordinators serving as liaisons with the SEA and other agencies;
- state and local school personnel, including special education teachers, guidance counselors and ATS staff;
- youth with disabilities receiving or applying for VR services; and
- parents and guardians of youth with disabilities 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 TA requested by ARS to enable it to carry out these recommendations is contained in Appendix A of this report titled “Agency Response.” In addition, the implementation of this focus area did not result in the identification of compliance findings.

## Observations and Recommendations

### 5.B.1 Supported Employment Outcomes for Transition-Age Youth

**Observation:** ARS assisted half as many transition-age youth to achieve SE outcomes in FY 2010 as it did in FY 2006 and one-thirteenth the average for all general agencies in FY 2010.

- Only 13, or 1.3 percent, of the 1,028 competitive employment outcomes reported by ARS in FY 2010 for transition-age youth were SE outcomes; compared to 16.7 percent for all general agencies that year.

**Table 5.B.1**  
**SE Closure Performance for Transition Youth for FY 2006 through FY 2010**

Arkansas Rehabilitation Services		Transition age (2006)	Transition age (2007)	Transition age (2008)	Transition age (2009)	Transition age (2010)	Change from FY 2006 to FY 2010	Agency Type Transition age (2010)
Competitive employment outcomes	Number	1,069	982	1,095	938	1,028	-41	27,247
	Percent	99.8%	100.0%	99.9%	99.9%	99.5%	-3.8%	98.7%
Supported employment outcomes	Number	26	17	10	24	13	-13	4,623
	Percent	2.4%	1.7%	0.9%	2.6%	1.3%	-50.0%	16.7%

- The total number of SE outcomes reported by ARS for transition-age youth decreased by 50 percent between FY 2006 and FY 2010, from 26 to 13 (see Section 2 of this report).
- ARS's SE service delivery deficiencies are longstanding; particularly for consumers with mental health issues (see Section 4 of this report).
- ARS management and others reported that there are few vendors available to provide SE services and that the connection of most vendors to sheltered workshops creates disincentives to follow through to SE outcomes. RSA met with a number of SE vendors that demonstrated the knowledge, commitment and capacity to provide high quality SE services.
- Vendors reported during the review that ARS's SE fee structure is confusing and heavily front-weighted; hence, it offers little financial incentive to vendors to secure SE outcomes after they complete the vocational assessment.
- CRPs reported that eligibility determination processing delays results in diverting many SE eligible consumers to workshop-based training.
- There is no long term support funding available to provide paid support services.

**Recommendation:** RSA recommends that ARS:

- 5.B.1.1 analyze its data related to SE service provision to determine which factors contribute to ARS's lower percentage of SE employment outcomes for transition-age youth compared to transition-age youth served by other VR agencies;
- 5.B.1.2 based on this analysis, develop measurable goals to improve the number of SE outcomes achieved for transition-age youth, along with strategies to achieve these goals;
- 5.B.1.3 consider developing and implementing SE service delivery strategies through the TACE, which is working with the Division of Services for the Blind to address similar issues;
- 5.B.1.4 revise the SE fee schedule so that it is consistent for all SE service providers, and so that it extends a smaller proportion of the payments on the vocational assessment, and increases the percentages, respectively, for job placement, on-the-job supports and job retention;
- 5.B.1.5 take into consideration the Department of Health and Human Services' Money Follows the Person demonstration project as a means of providing long term support funding; and
- 5.B.1.6 develop a quality assurance process to verify that CRPs are appropriately staffed and otherwise capable of delivering quality SE services in integrated settings for youth with the full spectrum of disabilities, including mental impairments and developmental disabilities.

## **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 ARS resulted in the identification of the following observation and recommendations. The TA requested by ARS to enable it to carry out these recommendations is contained in Appendix A to this report titled "Agency Response." In addition, the compliance findings identified by RSA through the implementation of this focus area are contained in Section 6 of this report.

## **Observations and Recommendations**

### **5.C.1 Performance Monitoring and Resource Allocation**

**Observation:** Although ARS engages in monitoring activities for external CRPs, the agency does not evaluate the quality of the services provided by these external CRPs. The monitoring activities do not allow for comparison between the cost and quality of services provided by these external CRPs and ARS's in-house service delivery at ACTI. Thus, ARS cannot effectively evaluate its financial and programmatic performance on an ongoing basis.

- The Community Program Development Section (CPDS) of ARS has developed procedures to certify and annually recertify CRPs to ensure the timely provision of rehabilitation services to ARS consumers.
- ARS's certification process yields reports that include benchmarks and guidelines that track the number served by each CRP and the funds spent on them without including any quality indicator measures for the services offered and reported employment outcomes.

- The agency does not employ a quality assurance system to compare the cost of purchased services with those ACTI provides; consequently, ARS could not explain why it spent 31.6 percent of its total FY 2010 expenditures to fund ACTI, though only 94, or 3.52 percent, of the 2,670 consumers who achieved employment in FY 2010 received any hospital-based, vocational, educational or other VR support services at ACTI.
- Discussions with ACTI staff revealed that ACTI does not establish performance goals for the services provided at the center.
- Training programs offered at ACTI have not been assessed in relation to local or regional labor markets, and there is no system in place for analyzing business needs, nor to design training opportunities, based on these assessments. Thus, ARS has no way of establishing and monitoring quality performance indicators at ACTI. Without the inclusion of performance-related assessment at ACTI, or when evaluating external CRPs, ARS cannot effectively monitor its programs and adjust to inefficiencies in service delivery.

**Recommendations:** RSA recommends that ARS:

- 5.C.1.1 improve existing CRP monitoring processes within ARS to integrate agency performance and financial systems efficiently and effectively, so that ARS can effectively evaluate its internal service delivery and the external services provided by CRPs on an on-going basis; and
- 5.C.1.2 develop methods to evaluate the quality of internal and external VR service delivery, including ACTI services.

## **Technical Assistance**

RSA provided TA to ARS related to the fiscal integrity of the VR program while on-site in Arkansas.

Establishment: RSA provided TA related to the establishment, improvement or development of a CRP, since ARS expressed a need to expand or improve its current CRP network to ensure needed services are available in all sections of the state, particularly in rural areas.

Webinars: RSA provided ARS with information related to accessing archived webinars RSA conducted regarding various programmatic and fiscal topics through the National Clearinghouse of Rehabilitation Training Materials, at [www.ncrtm.org/moodle](http://www.ncrtm.org/moodle).

Program income: RSA provided ARS information about the proper reporting of program income, and to ensure program income reported on the VR financial reports is generated directly from activities of the VR program.

## **SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS**

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RSA identified the following compliance findings and corrective actions that ARS is required to undertake. The TA 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.

ARS 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 TA to assist ARS 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. Written Policies Governing Payment of VR Services**

#### **Legal Requirements:**

- VR Regulations – 34 CFR 361.12 and 50(c)(1)
- OMB Circulars – 2 CFR 225, Appendix A, paragraph C

#### **Finding:**

ARS is not in compliance with 34 CFR 361.12, 34 CFR 361.50(c)(c)(1), and 2 CFR 225, Appendix A, paragraph C because ARS has not established and maintained written policies governing the manner in which the agency will set fees for purchased VR services.

During the on-site visit, discussions with ARS and a review of Appendix I of the agency’s policy manual revealed that the agency has established a fee schedule for VR services provided to VR consumers through CRPs, vendors and ACTI. However, the agency has not established the written policies necessary to determine the rates for services, including whether the services are necessary and reasonable.

Federal regulations require ARS 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). ARS 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 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.). ARS has not complied with 34 CFR 361.12 and 34 CFR 361.50(c)(1) by not having a written policy in place for determining rates of payments for purchased VR services. By not maintaining these written policies, ARS cannot ensure that the costs of purchased services are reasonable and necessary and, thus, allocable to the VR program. ARS, therefore, has not complied with the requirements set forth at 34 CFR 361.12, 34 CFR 361.50(c)(1), and the cost principles set forth in 2 CFR 225, Appendix A, paragraph C.

**Corrective Action 1:** ARS must:

- 1.1 submit a written assurance to RSA within 10 days of the issuance of the final monitoring report that ARS will develop written policies governing the payment of purchased VR services, as required by 34 CFR 361.50(c)(1), and that these policies will comply with 34 CFR 361.12 and 2 CFR 225, Appendix A, paragraph C;
- 1.2 establish and maintain written policies governing the rates of payment for all purchased VR services; and
- 1.3 submit copies of policies and procedures developed pursuant to this corrective action to RSA to ensure completion of that action.

**2. Assigning Personnel Costs**

**Legal Requirements:**

- VR Program Regulations - 34 CFR 361.3 and 361.12
- EDGAR - 34 CFR 80.20(a)
- OMB Circulars - 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5

**Finding:**

ARS is not in compliance with federal regulations at 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a) that require VR funds to be used solely for the provision of VR services or for the administration of the VR program, that state agencies are responsible for financial accountability, and that procedures must be in place to ensure expenditures are traceable and compliant with federal statutes. Additionally, ARS has not complied with 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5 that require employees working on multiple cost objectives to maintain personnel activity reports (PAR) or equivalent documentation that reflect an after-the-fact distribution of the actual activity of each employee.

While on-site, RSA learned that a portion of ARS employees budget 80 percent of their time to the VR program and 20 percent of their time to the Office of Deaf and Hearing Impaired program (ODHI). A request for supporting documentation revealed the time split is recorded on time sheets not sufficient for PARs for employees to track their time in a manner that demonstrates to which cost objective staff are charging their time. Additionally, further review of the documentation indicated staff time is recorded to meet the budgeted estimates, rather than reflect an actual, after-the-fact, distribution of the employees' activity in all programs. To constitute an administrative cost under the VR program, expenditures 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 related to other programs do not constitute VR administrative costs because they do not arise from the performance of administrative functions for the VR program. Therefore, non-VR staff expenditures are not allowable under the VR program, pursuant to 34 CFR 361.3, and may not be paid for with VR funds.

To the extent ARS has staff that work on multiple programs, ARS must maintain PARs to account for the time staff work on each program pursuant to 2 CFR 225, Appendix B, paragraph 8. The practice of assigning personnel costs to programs ARS administers based upon pre-determined levels and not an after-the-fact distribution of the actual activity of each employee, or charging personnel costs to the VR program due to insufficient funds in other programs, is not in accordance with the cost principles outlined in 2 CFR 225, 34 CFR 361.3, 34 CFR 361.12, and 34 CFR 80.20(a). Furthermore, ARS has not complied 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 non-VR programs, ARS has not ensured proper administration and fiscal accountability under the VR program.

**Corrective Action 2:** ARS must:

- 2.1 cease using Title I funds for personnel costs that are incurred in the administration of other programs, including other federal and non-federal programs, and indirect cost and a direct cost activities;
- 2.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 2.3 submit a plan, including timelines, describing the corrective actions that will be taken, as required by 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5, to ensure:
  - a) PARs are maintained 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 ICBVI pursuant to federal program requirements.

### 3. Monitoring of Grant Activities

#### Legal Requirements:

- VR Program Regulations - 34 CFR 361.12
- EDGAR - 34 CFR 80.20(a) and 80.40(a)

#### Finding:

ARS is not in compliance with federal regulations at 34 CFR 80.40(a) that require grantees to be responsible for managing daily operations of grant supported activities, and 34 CFR 361.12 and 34 CFR 80.20(a) that require states to have procedures that ensure financial accountability. Services provided through ACTI, the state operated CRP, constitute grant supported activities and must be monitored by ARS to ensure compliance with applicable federal requirements and that performance goals are achieved.

CPDS has developed procedures to conduct an annual recertification of CRPs to promote the timely provision of rehabilitation services to ARS consumers. ARS Facility Specialists conduct quarterly on-site visits and annual certification reviews to ensure compliance with certification standards. While ARS conducts these activities for external CRPs, the agency does not monitor the grant-supported activities at ACTI. ACTI is not funded on a fee-for-service basis. Instead, operating costs are based upon facility and personnel costs. Since VR counselors do not send authorizations over for services provided by the center, ACTI has not established performance standards for the training programs or services provided through ACTI. ARS does not conduct fiscal monitoring of grant activities at ACTI to ensure that services received are compliant with federal requirements, or that performance goals are being achieved, as required by 34 CFR 80.40(a).

Since ARS is the grantee and the recipient of the federal funds, it is the party responsible for conducting the monitoring of grant supported activities. 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 ACTI staff, and analysis of outcomes against established standards and indicators that the agency expects. 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, ARS has not satisfied the requirements of 34 CFR 80.40(a) and cannot ensure the financial accountability of ACTI-provided services, pursuant to 34 CFR 361.12 and 34 CFR 80.20(a).

**Corrective Action 3:** ARS must submit a written assurance to RSA within ten days of receipt of the final monitoring report that it will comply with 34 CFR 80.40(a), to monitor all grant supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved, including services provided by ACTI.

## 4. Program Income Reporting

### Legal Requirements:

- VR Program Regulations - 34 CFR 361.12 and 361.63(a)
- EDGAR - 34 CFR 80.20(a) and 34 CFR 80.25(b)

### Finding:

ARS is not in compliance with VR regulations at 34 CFR 361.63(a) and 34 CFR 80.25(b) because the agency reports money as program income despite the fact that the income was not directly generated by activities funded under the VR program. In addition, ARS has not complied with 34 CFR 361.12 and 34 CFR 80.20(a) by not submitting accurate financial reports to RSA.

ARS receives a federal Social Services Block Grant (SSBG), which it uses to benefit consumers of several of its programs. In FY 2010, ARS received \$862,287 in federal SSBG funds. Of this amount, ARS reported \$210,972 as program income on its FY 2010 SF-425 for the VR program. During the monitoring process, ARS informed RSA that it has historically reported a portion of its federal SSBG funds as VR program income.

In order for income to constitute program income under the VR program, the income must be generated directly by an activity paid for with federal VR funds (34 CFR 361.63(a) and 34 CFR 80.25(b)). In this case, ARS receives the funds under another funding stream -- the federal SSBG grant. These funds are not the result of income earned from an activity paid for with title I VR funds. As such, these funds or any portion of these funds do not constitute program income under the VR program. Given that the funds are not program income, ARS must not report the funds as such on its SF-425s for the VR program, pursuant to 34 CFR 361.12 and 34 CFR 80.20(a).

### Corrective Action 4: ARS must:

- 4.1 cease reporting SSBG funds as program income on the SF-425 financial reports;
- 4.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.63, 34 CFR 361.12, 34 CFR 80.20(a), and 34 CFR 80.25 regarding the proper reporting of VR program income on the SF-269 and SF-425 reports; and
- 4.3 review the VR SF-269 and SF-425 reports for FYs 2006 – 2010 regarding the proper reporting of program income and revise the reports as necessary.

## APPENDIX A: AGENCY RESPONSE

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### Section 4: Results of Prior Monitoring Activities

ARS may request 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.

#### Performance Goals

1. Develop a plan to increase the number of individuals with significant and most significant disabilities.
2. Develop strategies and secure resources to operate an effective SE program.
3. Develop strategies to further enhance the role of the SRC through further training.

**Additional TA Requested:** ARS did not request additional TA.

### Section 5: Focus Areas

#### Observation 5.B.1. Supported Employment Outcomes for Transition-Age Youth

**Recommendation 5.B.1:** RSA recommends that ARS:

- 5.B.1.1 analyze its data related to SE service provision to determine which factors contribute to ARS' lower percentage of SE employment outcomes for transition-age youth compared to transition-age youth served by other VR agencies;
- 5.B.1.2 based on this analysis, develop measurable goals to improve the number of SE outcomes achieved for transition-age youth, along with strategies to achieve these goals;
- 5.B.1.3 consider developing and implementing SE service delivery strategies with the TACE, which is working with the Division of Services for the Blind to address similar issues;
- 5.B.1.4 revise the SE fee schedule so that it is consistent for all SE service providers, and so that it extends a smaller proportion of the payments on the vocational assessment, and increases the percentages, respectively, for job placement, on-the-job supports and job retention;
- 5.B.1.5 take into consideration the Department of Health and Human Services' Money Follows the Person demonstration project as a means of providing long-term support funding;
- 5.B.1.6 develop a quality assurance process to verify that CRPs are appropriately staffed and otherwise capable of delivering quality SE services in integrated settings for youth with the full spectrum of disabilities, including mental impairments and developmental disabilities.

**Agency Response:** ARS reviewed and conducted follow up actions for its supported employment (SE) program as it relates to transition-age youth and older consumers in response to the Monitoring Report from 2007. In addition, ARS has initiated the process of analyzing data to determine why SE employment outcomes are lower than that of other VR agencies. However, ARS requests removal of this observation because it addressed these issues with follow-up

actions from the previous report. The focus areas of this monitoring visit are transition services, fiscal management, organizational structure and follow-up from previous monitoring reports. Citing an observation related to SE in the review of Transitional Services is inconsistent with the focus of monitoring plan and will reinstitute an observation ARS previously addressed with follow-up from the 2007 monitoring report.

**RSA Response:** In consideration of the agency's comments, RSA has modified the observation and recommendations to focus on the achievement of SE outcomes by transition-age youth, eliminating reference to the achievement of these outcomes by older individuals with disabilities served by ARS.

**Technical Assistance:** ARS does not request technical assistance.

### **5.C.1 Performance Monitoring**

**Recommendations:** RSA recommends that ARS:

5.C.1.1 improve existing CRP monitoring processes within ARS to integrate agency performance and financial systems efficiently and effectively so that ARS can effectively evaluate its internal service delivery and the external services provided by CRPs on an on-going basis; and

5.C.1.2 develop methods to evaluate the quality of internal and external VR service delivery, including ACTI services.

**Agency Response:** ARS substantially agrees with the notion that the agency can improve its existing monitoring and evaluation process to reflect strong performance and financial systems outcomes related to service delivery. Concomitantly, ARS has implemented a new accounting system that strengthens its ability to control costs and evaluate the quality of services delivered at ACTI in addition to requiring all services offered to receive national and professional certification. Therefore, ARS agrees to improve agency systems for internal and external service delivery related to recommendations in 5.C.1.1 and 5.C.1.2 respectively.

**Technical Assistance:** ARS does not request technical assistance.

## **Section 6: Compliance Findings and Corrective Actions**

### **1. Written Policies Governing Payment of VR Services**

**Corrective Action 1:** ARS must:

1.1 submit a written assurance to RSA within 10 days of the issuance of the final monitoring report that ARS will develop written policies governing the payment of purchased VR services, as required by 34 CFR 361.50(c)(1), and that these policies will comply with 34 CFR 361.12 and 2 CFR 225, Appendix A, paragraph C;

1.2 establish and maintain written policies governing the rates of payment for all purchased VR services; and

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

**Agency Response:** ARS is in partial agreement with Finding 1. ARS agrees to submit a written assurance, establish and maintain written policies governing rates of payment, and submit copies to RSA. ARS agrees to establish equitable fees for purchased services provided to agency consumers that are reasonable and necessary to achieve a positive employment outcome. Whenever possible, ARS will take advantage of established fee schedule models that are currently utilized by vendors that provide the service being purchased. In instances where a model does not exist, ARS will work with vendors to establish fees for service that are market driven and relative to the benefit received. While Appendix I was reviewed during the RSA monitoring visit, the additional fee schedules available on the ARS network P-Drive were not and thus creates an inaccurate and incomplete agency fee structure profile. Additionally, ARS medical related services are based on 80 percent of Blue Cross/Blue Shield, Medicare, and Medicaid rates and are updated periodically.

**RSA Response:** During the on-site visit RSA learned about the fee schedules that ARS utilizes for procuring services from external CRPs/vendors. VR regulations at 34 CFR 361.50(c)(2) permit ARS to implement a fee schedule to ensure reasonable costs to the VR program. However, the implementation of fee schedules does not fulfill the requirement at 34 CFR 361.50(c)(1) that ARS must establish and maintain written policies to govern the rates of payment for all purchased VR services. ARS must comply with these corrective actions.

**Technical Assistance:** ARS does not request technical assistance.

## 2. Assigning Personnel Costs

**Corrective Action 2:** ARS must:

- 2.1 cease using Title I funds for personnel costs that are incurred in the administration of other programs, including other federal and non-federal programs, and indirect cost and a direct cost activities;
- 2.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.3, 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 2.3 submit a plan, including timelines, describing the corrective actions that will be taken, as required by 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5, to ensure:
  - a) personnel activity reports are maintained 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 ICBVI pursuant to federal program requirements.

**Agency Response:** ARS is in agreement with Finding 2. ARS will cease using Title I funds as described above; provide a written assurance; and, submit a plan with timelines that includes PARs and equitable allocation of costs.

**Technical Assistance:** ARS does not request technical assistance.

### **3. Monitoring of Grant Activities**

**Corrective Action 3:** ARS must submit a written assurance to RSA within ten days of receipt of the final monitoring report that it will comply with 34 CFR 80.40(a), to monitor all grant supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved, including services provided by ACTI.

**Agency Response:** ARS respectfully disagrees with the basis for this finding. ARS also asserts that Finding 3 is substantially a restatement of 5.C.1.2 and should be integrated into ARS's corrective action response therein. ARS requests the following considerations serve as the foundation for removing Finding 3.

ACTI has never been defined as a CRP since the campus was designated part of ARS on April 1, 1960. Furthermore, ARS has not received any previous notice that ACTI would be legally considered a "state operated CRP" for purposes of monitoring evaluation and therefore contends that we have not had the benefit of either proper notice or the opportunity to appeal a decision with a substantial impact to ARS operations. RSA's position unfairly and adversely impacts the collaborative spirit of our state plan agreement.

The Arkansas General Assembly does not consider ACTI a separate legal entity external to the DSU. Indeed, its employees are VR agency staff and its budget is purposely integrated into the General VR agency funding each biennium. As a work unit of ARS, ACTI is monitored using the same measures as the rest of the ARS. ACTI performance goals and objectives are established by the ARS Senior Management Team and are reflected the agency's state plan.

ARS presents the points below in opposition to the proposed finding number three in the preliminary report, and the bulleted support items detailed in the same report.

- ACTI is not funded on a fee-for-service basis; however, 34 CFR 80.40(a), and 34 CFR 12 do not require grant awards be administered on a fee-for-service basis.
- VR counselors in the field and at ACTI, along with the admissions staff, work collaboratively to define individual written center plan. This defines training goals and objectives, as well as timelines for services provided at ACTI. These goals and objectives are monitored by the counselors at ACTI, tracked electronically, and communicated to the field VR counselors.
- ARS does conduct fiscal monitoring of grant activities to ensure services provided are compliant with federal requirements. It also ensures the performance goals outlined in the State plan and required by 34 CFR 80.40(a). In conjunction with performance measures indicated and monitored as required in State Plan, the fiscal integrity of ACTI and the rest of ARS are monitored yearly through legislative audit.

It is the opinion of ARS that citing this as a finding lacks merit based on the criteria below.

1. The finding is inconsistent with the regulations cited.
2. RSA failed to provide adequate notice to ARS regarding its interpretation of ACTI's legal status.
3. The finding is in direct contrast with the spirit of the new evaluation model presented to ARS staff by RSA prior to the evaluation.

ARS has conscientiously provided VR services to the citizens of Arkansas through the years with oversight from RSA and has exercised due diligence in operation of the VR program, including ACTI, with a record of excellence. ARS objects to this finding and requests Finding 3 to be removed as a Finding and accept the agency's response to 5.C.1.2 as sufficient.

**RSA Response:** RSA has not made a determination regarding the legal categorization of ACTI's status. However, for reporting purposes, ACTI is considered a CRP operated by the VR agency. A review of RSA PD-06-08 describes the instructions for agencies to report costs expended at an agency operated CRP on Schedule I, lines 2.A.1.a and 2.A.1.b of the RSA-2 report. A review of ARS's RSA-2 reports demonstrates that ARS entered expenditure amounts in line 2.A.1.a and/or 2.A.1.b for every year from FY 2000 through FY 2010, indicating ARS reported costs for ACTI as an agency operated CRP.

Regardless of ACTI's classification, VR funds expended at ACTI constitute grant-supported activities per the EDGAR regulations at 34 CFR 80.40(a). Therefore, since ARS is responsible for managing the day-to-day operations of grant supported activities it must also monitor all ACTI activities supported by VR funds. Furthermore, ARS spends over 30 percent of its expenditures at ACTI, and ACTI staff indicated onsite that there are no performance goals established for ACTI and agency staff do not monitor its performance. The fact that ACTI is not fee-for-service provides all the more incentive for the agency to assess whether funds expended at ACTI meet all federal requirements, and whether its performance is adequate for the resources put into it, since there is no direct expenditure trail for services per individual through a fee-for-service mechanism.

Additionally, review of ACTI through legislative audit is required through A-133 single audit requirements, but does not constitute grantee monitoring of VR grant-supported activities. While individual written center plans provide a way for individual case services to be tracked, they do not comprise agency monitoring of grant-supported activities, rather VR Counselors and ACTI staff reviewing individual case goals. While individual goals are important, without established performance goals for the ACTI overall, the agency is unable to monitor its performance and must comply with the corrective actions.

**Technical Assistance:** ARS does not request technical assistance.

#### **4. Program Income Reporting**

**Corrective Action 4:** ARS must:

- 4.1 cease reporting SSBG funds as program income on the SF-425 financial reports;
- 4.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.63, 34 CFR 361.12 and 34 CFR 80.20(a) regarding the proper reporting of VR program income on the SF-269 and SF-425 reports; and
- 4.3 review the VR SF-269 and SF-425 reports for FYs 2006 – 2010 regarding the proper reporting of program income and revise the reports as necessary.

**Agency Response:** ARS agrees with Finding 4. ARS will cease reporting SSBG funds as program income. ARS agrees to submit a written assurance within 10 days as stipulated above. ARS requests RSA to accept the revision of the annual reports to meet the requirements of Finding 4.

**Technical Assistance:** ARS does not request technical assistance.

## APPENDIX B: LEGAL REQUIREMENTS

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

### Vocational Rehabilitation Program Regulations

34 CFR 361.3

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

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(a)

For purposes of this section, *program income* means gross income received by the State that is directly generated by an activity supported under this part.

### 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 80.40(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 225, Appendix A, C.1 and 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 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, (b) A Federal award and a non-Federal award, and (c) An indirect cost activity and a direct cost activity.
- 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.