

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



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

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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 Arizona Rehabilitation Services Administration (AZRSA) in fiscal year (FY) 2011, RSA:

- reviewed the VR agency's progress toward implementing recommendations and resolving findings 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 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 9 through 12, 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 AZRSA, 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.

- **Strategic Planning:** AZRSA implemented an order of selection (OOS) forecasting model to improve management of the movement of eligible individuals from the waiting list into active status.
- **Program Evaluation and Quality Assurance:** AZRSA's payment processing unit verifies and cross-checks invoices using scanning equipment. AZRSA uses a Contract Monitoring Risk Management Model that involves a desk review of community rehabilitation program (CRP) contracts to assess risk level and, based upon this review, AZRSA targets selected CRPs for site visits to ensure contract compliance. AZRSA publishes and distributes a monthly newsletter that highlights key field policy issues, profiles service delivery challenges and provides actual strategies used by VR staff to address them.
- **Improvement of Employment Outcomes, including Supported Employment and Self-employment:** AZRSA initiated a performance-based model of CRP service delivery that involves a modified milestone contract system integrated with a fee schedule payment system to improve employment outcomes, including a Performance-Based Contracting (PBC) pilot project to improve CRP performance by establishing performance goals for acceptance of 80 percent of referrals and successful placement in employment of 60 percent of those accepted for services.
- **Outreach to Unserved and Underserved Consumers:** AZRSA implemented a Transition Pilot Program for blind and visually impaired youth with disabilities, developed in CRPs and consumer advocacy groups, which provides enhanced services to unserved and underserved populations, such as Native Americans residing on reservations. The summer program yields high satisfaction rates from participants, consumer groups, and parents of blind children.

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

Summary of Observations

RSA's review of AZRSA 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.

Organizational Structure of the DSA and DSU

- Administrative rules currently codified by the DSA are out of date and often at variance with updates in the service policies developed by AZRSA to account for changes in federal laws and regulations.

Transition Services and Employment Outcomes for Youth with Disabilities

- Performance outcomes have declined significantly for individuals receiving transition services from FY 2006 through FY 2010. The agency attributes this decline in performance to the implementation of an OOS and the training needs of new counselors serving youth with disabilities.

Summary of Compliance Findings

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

- The placement of the Designated State Unit (DSU) within the currently identified Designated State Agency is not in compliance with the requirements found at Section 101(a)(2) of the Rehabilitation Act and 34 CFR 361.13(b).
- AZRSA is not in compliance with the federal requirements found at Section 101(a)(2) of the Rehabilitation Act and 34 CFR 361.13(b) that at least 90 percent of the DSU staff work full time on the provision of VR or other rehabilitation services.
- The definition of employment contained in AZRSA's current policy manual requiring full time work at 35 hours or more per week for the purpose of identifying a vocational goal in the individual plan for employment (IPE) is not consistent with the federal regulatory definition of the term "employment outcome" for purposes of the VR program.
- AZRSA, in conjunction with staff of the Department of Economic Security (DES), does not properly report program income through required federal financial status reports.
- AZRSA lacks written policies and procedures for the charging of DES staff directly to the VR program.
- AZRA lacks internal controls through which it can ensure appropriate expenditures in its third-party cooperative arrangements.
- The reimbursements made to the Child Care Assistance program for services provided to VR consumers are not allowable expenditures and cannot be used as a source of non-federal match.
- The use of VR funds to support the operations and activities of the Arizona Industries for the Blind is not allowable and cannot be used as a source of non-federal match.

Development of the Technical Assistance Plan

RSA will collaborate closely with AZRSA and the Region IX TACE center at San Diego State University (SDSU) to develop a plan to address the technical assistance (TA) needs identified by AZRSA in Appendix A of this report. RSA, AZRSA, and the Region IX 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, AZRSA, and the Region IX TACE center 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 Carol Dobak and Brian Miller (Vocational Rehabilitation Unit); Fred Isbister (Technical Assistance Unit); David Steele and Katherine Courtnage-Clay (Fiscal Unit); and Steven Zwillinger (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 the Arizona Department of Economic Security (DES) and AZRSA for the cooperation and assistance extended throughout the monitoring process. RSA also wishes to recognize 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 VR programmatic data contained in Table 2.1 below and is intended to serve as a broad overview of the VR program administered by AZRSA. 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 VR 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 AZRSA open service records including that related to current applicants, individuals who have been determined eligible and those who are receiving services. AZRSA 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

**Table 2.1
AZRSA Program Performance Data for FY 2006 through FY 2010**

Program Performance Data for FY 2006 - FY2010								
Arizona Rehabilitation Services Administration		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Change from FY 2006 to FY 2010	All Combined Agencies 2010
TOTAL CASES CLOSED	Number	7,798	7,660	7,638	5,259	4,965	-2,833	281,286
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	-36.3%	100.0%
Exited as an applicant	Number	908	864	1,009	792	571	-337	47,487
	Percent	11.6%	11.3%	13.2%	15.1%	11.5%	-37.1%	16.9%
Exited during or after trial work experience/extended employment	Number	47	74	73	56	28	-19	1,708
	Percent	0.6%	1.0%	1.0%	1.1%	0.6%	-40.4%	0.6%
TOTAL NOT DETERMINED ELIGIBLE	Number	955	938	1,082	848	599	-356	49,195
	Percent	12.2%	12.2%	14.2%	16.1%	12.1%	-37.3%	17.5%
Exited without employment outcome after signed IPE	Number	1	2	1	0	7	6	5,824
	Percent	0.0%	0.0%	0.0%	0.0%	0.1%	600.0%	2.1%
Exited from order of selection waiting list	Number	221	232	0	275	46	-175	1,390
	Percent	2.8%	3.0%	0.0%	5.2%	0.9%	-79.2%	0.5%
Exited without employment after eligibility	Number	2,369	2,511	2,212	1,251	1,375	-994	68,696
	Percent	30.4%	32.8%	29.0%	23.8%	27.7%	-42.0%	24.4%
TOTAL EXITED AFTER ELIGIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	2,591	2,745	2,213	1,526	1,428	-1,163	75,910
	Percent	33.2%	35.8%	29.0%	29.0%	28.8%	-44.9%	27.0%
Exited with employment	Number	2,005	2,096	1,925	1,372	1,131	-874	78,860
	Percent	25.7%	27.4%	25.2%	26.1%	22.8%	-43.6%	28.0%

Exited without employment	Number	2,247	1,881	2,418	1,513	1,807	-440	77,321
	Percent	28.8%	24.6%	31.7%	28.8%	36.4%	-19.6%	27.5%
TOTAL RECEIVING SERVICES	Number	4,252	3,977	4,343	2,885	2,938	-1,314	156,181
	Percent	54.5%	51.9%	56.9%	54.9%	59.2%	-30.9%	55.5%
EMPLOYMENT RATE		47.15%	52.70%	44.32%	47.56%	38.50%		50.49%
Transition aged youth closed	Number	2,841	2,938	2,877	1,951	1,783	-1,058	100,116
	Percent	36.4%	38.4%	37.7%	37.1%	35.9%	-37.2%	35.6%
Transition aged youth employment outcomes	Number	706	826	678	469	416	-290	27,745
	Percent	35.2%	39.4%	35.2%	34.2%	36.8%	-41.1%	35.2%
Competitive employment outcomes	Number	1,854	1,996	1,852	1,342	1,124	-730	73,995
	Percent	92.5%	95.2%	96.2%	97.8%	99.4%	-39.4%	93.8%
Supported employment outcomes	Number	220	224	199	153	126	-94	7,004
	Percent	11.0%	10.7%	10.3%	11.2%	11.1%	-42.7%	8.9%
Average hourly wage for competitive employment outcomes	Average	\$10.13	\$10.65	\$11.45	\$11.25	\$11.44		\$11.33
Average hours worked for competitive employment outcomes	Average	33.2	33.3	33.0	31.8	32.4		31.4
Competitive employment outcomes at 35 or more hours per week	Number	1,147	1,234	1,133	748	648	-499	38,784
	Percent	57.2%	58.9%	58.9%	54.5%	57.3%	-43.5%	49.2%
Employment outcomes meeting SGA	Number	1,388	1,471	1,351	904	792	-596	48,900
	Percent	69.2%	70.2%	70.2%	65.9%	70.0%	-42.9%	62.0%
Employment outcomes with employer-provided medical insurance	Number	768	794	777	528	410	-358	18,791
	Percent	38.3%	37.9%	40.4%	38.5%	36.3%	-46.6%	23.8%

VR Performance Trends

Positive Trends

Some positive trends in the agency's VR performance include the increase in the percent of individuals who achieved a competitive employment outcome from 92.5 percent in FY 2006 to 99.4 percent in FY 2010 compared to the national average for combined agencies of 93.8 percent in that year. The percent of individuals with competitive employment working more than 35 hours a week remained constant at 57.3 percent, well above the national average of 49.2 percent in FY 2010, though this performance may be driven in part by AZRSA's VR policies. Again, see Section 6 of this report for a more detailed discussion of this issue. Additionally, the percent of those whose earnings were above the threshold of substantial gainful activity, as defined by the Social Security Administration, was 70 percent in FY 2010, well above the national average of 62 percent. The percentage of individuals who received employer-provided medical benefits held relatively steady at 36.3 percent, while the national average was 23.8 percent in FY 2010.

The average VR wage rose from \$10.13 in FY 2006 to \$11.44 in FY 2010, an increase of \$1.31, just above the national average of \$11.33. In summary, AZRSA performed better than the national average on most of the indicators RSA generally uses to measure the quality of employment outcomes.

Trends Indicating Potential Risk to the Performance of the VR Program

AZRSA experienced a significantly steady and sharp decline in the number of individuals who achieved an employment outcome in the five years charted in Table 2.1. Total employment outcomes decreased from 2,005 in FY 2006, to 1,131 in FY 2010, a decline of 43 percent in absolute numbers. In line with the overall decline in employment outcomes, the total number of individuals who achieved competitive employment fell by 700, though the percentage of individuals with significant disabilities who achieve competitive employment remains high as described above. However, the percentage of individuals who were determined eligible and exited the VR program with employment declined less precipitously, decreasing from 25.7 percent in FY 2006, to 22.8 percent in FY 2010. The national average for combined agencies in FY 2010 was 28 percent of those individuals determined eligible achieving an employment outcome.

The total number of individuals who received VR services from AZRSA under an IPE also decreased significantly over the five years, from 4,252 to 2,938, a reduction of 1,314, or 30.9 percent. In comparison, the national average for combined VR agencies declined 4.5 percent during the same period.

Also, as demonstrated in Table 2.1, AZRSA's performance related to the employment rate, i.e., the ratio of those individuals who received services under an IPE who exited with employment compared to those who exited without employment, declined from 47.1 percent in FY 2006 to 38.5 percent in FY 2010, after a five year trend of fluctuating performance. This is significantly below the national average of 50.4 percent and is indicative of expending agency time and funds without commensurate improvement in outcome performance, further taxing both the agency's available fiscal and human resources.

The percentage of individuals who achieved supported employment (SE) remained steady across the five years at approximately 11 percent of all employment outcomes. Nonetheless, the total number of individuals who achieved an SE outcome dropped from 220 to 126, a decline of 42.3 percent. While this decline is commensurate with the overall reduction in employment outcomes for all VR consumers, it may seem contrary to what would otherwise be expected for an agency operating on an OOS and serving only those individuals with the most significant disabilities. However, AZRSA is challenged to provide timely and effective SE services due to significant funding cuts to other state agencies that typically provide SE services to this population, including the Division of Developmental Disabilities and behavioral and mental health.

The percentage of transition-age youth with disabilities who received services remained constant at 36 percent with the national average of 35 percent in FY 2010, although the total number of

youth with disabilities who achieved an employment outcome dropped by 260, for a decline of 41.9 percent. More details regarding performance in the area of transition can be found in Section 5.B of this report.

AZRSA was fully aware of the trends described above and throughout the course of the review, discussed with RSA possible factors contributing to the contraction of the VR program in terms of the number of individuals served and the employment outcomes achieved. According to the agency, the primary factor contributing to these trends is the OOS under which it operated during the period, including the need to close all priority categories in FY 2009 as a result of a severe shortage of fiscal and human resources. Other key contributing factors stemmed from the economic recession and collapse of Arizona's housing market in 2008 that created one of the highest state unemployment rates in the region.

Additionally, AZRSA has consistently experienced a low rehabilitation rate extending well beyond the five years covered by this analysis and is keenly aware that this is one of its most persistent challenges. AZRSA believes that high VR counselor turnover is a leading cause of the agency's continually low performance in this area. Furthermore, social, political, and economic factors result in a population that is highly mobile. Consequently, maintaining regular contact with VR consumers is a significant challenge. AZRSA believes that some individuals whose service records are closed without their having achieved employment may in fact be working, but VR counselors are unable to locate them to verify this fact. It is also possible that the rehabilitation rate is being affected by AZRSA's current policy on IPE development and case closure procedures. See Section 6 of this report for more details on this issue.

Despite the challenges of operating on an OOS and those stemming from economic and social factors described above, AZRSA cannot avoid taking aggressive action to address those aspects of the VR process that can mitigate the negative effects of these factors and begin to reverse the decline in performance.

SECTION 3: EMERGING PRACTICES

While conducting the monitoring of the VR program, the review team collaborated with AZRSA, 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.

Strategic Planning

AZRSA developed a forecasting model to transfer eligible individuals from its OOS waiting list into the receipt of services while ensuring it is maximizing its available resources. The major points that this model incorporates are:

- the projected number of counselors by office;
- forecasted caseload sizes (based upon retirements and resignations);
- case drop off rates;
- average duration of active cases;
- average yearly service costs; and
- the number of service records that historically have been closed by counselors, broken down by status and month, in conjunction with the forecasted annual dollars broken down by disability type and funding source.

Program Evaluation and Quality Assurance Practices

- AZRSA implemented a centralized client electronic payment system that has resulted in more timely and improved service provision. This process begins with vendors submitting invoices and supporting documentation (electronically or by mail) to the AZRSA centralized payment unit. The invoices are scanned and uploaded into the electronic client case file (ECF) system. The VR counselor is notified via e-mail by the scanning unit that the invoice is ready for review. The counselor then enters the electronic payment approval in the system. The electronic payment approval subsequently loads into a “ready for payments” queue that is accessed by the centralized AZRSA Payment Unit. The centralized client electronic payment system has resulted in improved accuracy and efficiency of payment processing.
- In response to the loss of contract monitoring positions within AZRSA, the Contracts Unit developed a risk assessment module to identify the frequency and intensity for the review of service providers. Through this method, the contracts unit assesses pre-established criteria for each contract type, which include type of service and its impact on AZRSA program and consumers, number of consumers receiving a service, expenditure levels, any prior audit findings or corrective actions, number of years in contract, and key organizational changes.
- AZRSA publishes and distributes an internal monthly newsletter titled “Policy Predicaments” that highlights key field policy issues, profiles service delivery challenges and includes a section titled “Policy Myths Debunked” to ensure staff are kept current on policy. The agency staff has reacted positively to the process.

Improvement of Employment Outcomes, Including Supported Employment and Self-employment

AZRSA initiated a Performance-Based Contracting (PBC) pilot project to improve CRP performance by establishing performance goals for acceptance of 80 percent of referrals for services and successful placement in employment of 60 percent of those accepted for services. Contractors self-selected and had a choice regarding participation in the pilot (23 of approximately 70 employment service contractors participated). Throughout the initial contracting process, it was made clear that a pilot contractor would be part of a “learning-system” and that there were both risks and rewards to participating. The PBC pilot pricing and compensation structure consisted of four tracks with four to six milestone (outcome) payments. Track rates were designed to accommodate different levels of client need and case complexity. The total rate paid to the contractor included job readiness, placement, stabilization, retention, and successful rehabilitation milestones. The contractor was paid a percentage of the overall rate at the successful achievement of each milestone.

PBC pilot rates were negotiated individually with each contractor. A “co-learning” approach was applied to pilot management and oversight. Monthly meetings were convened with

contractors for the purpose of joint issue identification and resolution. The PBC pilot results were carefully monitored and evaluated and included the use of independent outside evaluators. Overall, pilot contractors achieved 99 percent, 98 percent and 96 percent acceptance rates in Years 1, 2 and 3 respectively. The PBC pilot also demonstrated that the outcome-based contracts did improve client outcomes and overall rehabilitation rates with a more balanced financial risk-sharing.

Outreach to Unserved and Underserved Individuals

AZRSA initiated a Blind Transition Pilot project that provides comprehensive adjustment services to blind individuals, including Native Americans, at an early age with the intent to substantially reduce their functional limitations and to improve success as they enter adult life. The Services Comprehensive Adjustment program is available starting the summer after freshman year of high school, based upon consumer need, and includes: orientation and adjustment to blindness and visual impairment, self-advocacy, mobility, communication, personal and home management, assistive technology, career exploration, job readiness, college sampling, and assistive technology. Satisfaction surveys were obtained from the transition students, families, service providers, and RCBs and long term data on student progress is being developed.

A complete description of the practices described above 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 recommendations that AZRSA agreed to address during the prior monitoring cycle in FY 2008 and the resolution of findings from that review.

Recommendations

In response to RSA's monitoring report dated September 12, 2008, for the federal fiscal year 2008, AZRSA agreed to implement the recommendations below. A summary of the agency's progress toward implementation of each recommendation appears below after each recommendation.

1. Employment Outcomes

Recommendation: RSA recommends that AZRSA:

- 1.1 develop strategies to improve the agency's employment rate or the percent with employment outcomes compared to the cases that are closed without an employment outcome after an individual receives services;

Status: As discussed in Section 2 of this report, AZRSA was not able to improve its performance in this area subsequent to FY 2008, and in fact it has declined further. Due to the hiring freeze of the past two years coupled with the closing of multiple AZRSA offices due to the significant budget reductions Arizona has experienced, a large number of records were transferred to new counselors. Some records were transferred multiple times. At the same time, other systems, particularly those serving individuals with severe mental illness, experienced significant reductions in available services. Finally the OOS reduced the number of individuals served and effectively screened out those individuals with disabilities (regardless of priority status for severe disability) who are likely to obtain employment in a relatively short period of time. These issues caused an increase in the number of individuals exiting the VR program without employment after receiving services and prior to the receipt of services following the determination of eligibility, reducing the employment rate significantly, particularly in District 1, the state's largest district. A task force has been developed, coordinated by the Region 1 office and consisting primarily of Rehabilitation Techs from across District 1. The members meet monthly to identify records of individuals that appear to have lost contact with AZRSA to re-establish communication. A number of consumers have been located and found to be working through this process.

- 1.2 develop strategies to establish, expand or improve CRPs within the community to increase the employment rate for persons with psychosocial and other mental impairments to be at least equal to the employment rate of other disability populations;

Status: The Behavioral Health Project continues to strive toward this goal through regional quarterly meetings, cross trainings, job fairs and partnerships with CRPs. Due to the significant Title XIX budget cuts, CRPs have a larger consumer base with multiple and complex needs that surpass those with a serious mental illness and who are Title XIX eligible. Additionally, over the course of the last year, many consumers have been switched to formulary medication only and lost their case management, housing and counseling services. This has made consumer stability issues difficult. Despite these changes, AZRSA, in partnership with the CRPs, continues to employ individuals with serious mental illness, but the rate has reduced as the needs of each individual has become more complex and involved.

1.3 develop goals and strategies to increase employment outcomes and the employment rate for persons with psychosocial impairments;

Status: AZRSA and the Behavioral Health Project have made the commitment to follow the SAMSHA evidenced-based practice model. This model stresses the need to expedite services for individuals with serious mental illness. Consequently, eligibility decisions are being made within a 25 day average. In addition, those factors that have affected the ability of AZRSA to implement Recommendation 1.2 also are applicable to Recommendation 1.3.

1.4 develop strategies to increase wage levels for the disability populations served by the agency, explore relevant training and education to increase wages, and expand relationships with employers throughout the state.

Status: AZRSA's efforts toward implementing this recommendation resulted in an increase of the average VR wage for this population from \$9.64 in FY 2006 to \$11.44 in FY 2010.

2. Case Closures during the Service Delivery Process

Recommendation: RSA recommends that AZRSA:

2.1 conduct a comprehensive analysis of the reasons individuals are exiting the system prior to the development of the IPE, with a particular focus on the number of individuals closed from eligibility status; and

2.2 develop strategies based on the analysis in 2.1 to improve communication and the successful closure of cases, after services have been provided, to reduce the number of individuals exiting the VR program due to the inability to contact or locate them.

Status: AZRSA implemented a strategy of quarterly monitoring of caseloads to identify "loss of contact," VR consumers who are in need of amendments to their IPE, or VR services to assist them to achieve their employment goal. VR counselors are also being trained to identify consumers who have achieved their employment goal and for whom a proper closure procedure can be conducted.

3. CRPs

Recommendation: RSA recommends that AZRSA:

3.1 evaluate the effectiveness of the pilot project and develop statewide strategies to monitor, evaluate, and hold accountable the CRPs in order to improve the number and quality of the outcomes achieved;

Status: AZRSA has concluded that due to the increased rate of successful rehabilitations associated with the Pilot Performance Based Contracts for Employment Services, all employment services contracts for job development/placement and supported employment will transition into a similar contracting model. AZRSA has developed a Fee Schedule contract to be used as of July 1, 2011 that combines elements of the hourly service contracts with the Pilot method of paying for outcomes. Performance standards remain intact, with emphasis placed on the contractor's responsibility to reach successful rehabilitation on 60 percent of the consumer referrals served by the contractor. Annual monitoring of the performance standards will be conducted and action will be taken to address CRPs who do not meet the standards.

3.2 develop strategies to improve communication with the CRPs on issues related to contracting, monitoring, and accountability.

Status: AZRSA has assigned a Contractor Liaison to be accessed by CRPs in order to improve communication related to contracting and accountability. The Contractor Liaison position is a single point of contact that provides VR policy direction on the provision of services and guidance related to CRP performance standards. An increased emphasis has been made on the "partnership" between AZRSA and CRPs in an effort to further develop the understanding that CRPs share the risk with AZRSA in reaching successful rehabilitation for VR consumers. CRP quarterly meetings are occurring, and an increased effort has been made to ensure that relevant and timely information is shared with contractors in a public forum. CRPs are encouraged to actively participate.

4. Staff Development and Training

Recommendation: RSA recommends that AZRSA develop a plan for and training on policies and procedures to all staff involved in their implementation.

Status: AZRSA provided a series of mini-core trainings periodically over the last few years to strengthen the understanding of staff regarding the proper implementation of AZRSA policy and procedures. The Policy and Training unit also conducted policy roundtables to provide an opportunity for AZRSA staff to discuss a variety of issues. The Policy and Training unit now issues an e-mail newsletter to all staff that highlights noted problem areas or important questions in relation to policy. A centralized e-mail box has also been put in place to ensure that policy questions are directed to the appropriate senior staff. All changes and updates to the policy manual are disseminated to the field via e-mail. Substantive policy or procedural changes are

followed up by notification and training in a variety of media, including video conference training, e-mails, and iLinc electronic training.

5. Management of Staff Resources and Allocation

Recommendation: RSA recommends that AZRSA:

5.1 evaluate the current system of using purchasing and payment technicians (PPTs) in each office to identify the strengths and challenges to increase the overall efficiency and timeliness of services;

Status: AZRSA completed a thorough assessment and produced a report identifying various issues that were contributing to assumed job dissatisfaction and duplication of duty in one AZRSA district. The observations made by the consultant revealed the need to develop a processing method that was more efficient, accurate and improved the tracking of invoices. Many of the identified issues were addressed by the system change that centralized the process of receipt of invoice to payment and clearly defined roles and responsibilities in those procedures.

5.2 develop strategies to replicate proficient practices and collaboration between PPTs and counselors;

Status: By using a team approach, a system was developed to centralize the receipt of invoices, reports and evaluations. The payment function of the PPT was also centralized into a completely electronic method to process invoices into payments. This system was implemented on February 1, 2011, and has given the PPTs time to focus on the purchasing function of the job. The system has also clearly defined roles and responsibilities among all of the team members. The Purchasing Tech provides valuable technical assistance throughout the process. AZRSA has assigned a Statewide PPT Coordinator that oversees a help desk that will answer questions or direct the staff to subject experts. These improvements have received very positive feedback from staff at all levels.

5.3 provide joint training for PPTs, supervisors and counselors on policies, procedures for the purchase of services, and job duties (This training should include the involvement of field office staff and PPTs with productive working relationships to share best practices.);

Status: AZRSA now offers training every three months to PPTs, supervisors and counselors. The agenda always has a financial module, procurement module and offers an open forum for questions to the experts in the room. This training provides an environment for staff to share issues that they have encountered and affords an opportunity to consider solutions that solve the issues through discussion.

5.4 establish goals for the timely purchase and payment for VR services by PPTs.

Status: The Centralization Project was implemented in the spring of 2011. AZRSA has received positive feedback from vendors regarding the processing of invoices. PPTs are able to concentrate on accurate and timely purchases for services and goods.

6. Transition Services

Recommendation: RSA recommends that AZRSA:

6.1 utilize data to monitor the performance of the agency's transition initiatives, including the Youth Transition Program (YTP) and the IDEA partnership, and the impact of these programs on the number and quality of employment outcomes achieved by transition-age youths served through each;

Status: AZRSA now conducts a periodic review of data for successful and unsuccessful closures of youth with disabilities receiving transition services.

6.2 develop mechanisms through which staff from AZRSA and the school districts can exchange information about effective transition practices in areas of the state.

Status: The AZRSA Statewide Transition Coordinator participates in providing interagency transition training with the Arizona Community of Practice on Transition at the annual State Transition Conference, and routinely visits schools to provide direct technical assistance.

7. Case Management System

Recommendation: RSA recommends that AZRSA:

7.1 plan and develop additional training modules on how the new case management system's reports can be used to increase successful outcomes;

7.2 going beyond identifying available reports, this training should demonstrate the information that is available on each report (and through reminders), how this information can be used, why it should be used, and how often each report should be monitored;

7.3 develop training for counselors to include reports used to manage the flow of caseloads and reminders for service delivery milestones and communication with individuals they serve;

7.4 develop training for supervisors, program managers and other administrative staff to include the following areas:

- utilization of the reports in the electronic case management system to monitor timely case management and provide guidance and oversight to counselors for quality assurance;
- maintenance of reports to evaluate the effectiveness of all CRP's; and
- quantitative and qualitative information used to evaluate each counselor's performance.

- 7.5 utilize the new case management system to increase quality employment outcomes through methods such as:
- reports used by staff to identify individuals who are job ready; and
 - reports that would serve as a repository of employers who have hired AZRSA's consumers in the past.
- 7.6 develop a system to verify the reliability and validity of data after the agency converts to the new electronic case management system; and compare the data elements for the cases used during the pilot conversion from its current to the new case management system.

Status: AZRSA continues to devote significant resources to the testing and implementation of its new case management system. The complete implementation of all the new system's modules and reporting functions is expected by spring 2012. Training is an integral part of implementation and in the ongoing use of the system. AZRSA continues to set requirements and specifications for the availability, quality and timeliness of the data needed to address program issues. Ongoing training and staff development is comprehensive, including input, reporting and application, and is tailored to specific staff roles and functions.

8. Strategic Planning: Systemic Approach to State Plan Development

Recommendation: RSA recommends that AZRSA:

- 8.1 implement a strategic planning process that includes the development of strategies to ensure the plan clearly communicates how the agency will improve its performance;
- 8.2 include in the State Plan measures, targets and data sources that allow for a determination of success in meeting agency goals and objectives;
- 8.3 present information in the State Plan using a more quantitative approach, with contextual information, baseline data and data sources, and a clear distinction between interim performance targets and final performance targets;
increase the collection, analysis and use of data to help provide a basis for data-driven decision-making;
- 8.5 include a focus on data and data analysis into all levels of the plan as well as for program evaluation activities to assess program performance over time and against desired levels of performance;
- 8.6 involve fiscal staff as partners in both the strategic planning process and the development of the State Plan;
integrate fiscal data and program data in planning, policy development, and evaluation activities to avoid an incomplete perspective in planning; and
- 8.7 include fiscal perspectives and program perspectives when developing a comprehensive plan, identifying measures to assess performance and planning for evaluations of agency outcomes.

Status: AZRSA is utilizing the results of the most recent Comprehensive Statewide Needs Assessment (CSNA) to more effectively address overall program performance. The CSNA results are being used in strategic planning with other data sources as well as recommendations

from the FY 2008 RSA monitoring review. The strategic planning process is now facilitated by an outside consultant. AZRSA's biggest challenge to completing a comprehensive and collaborative strategic planning process is the fluctuating economic conditions effecting state and national economies. In this context, the agency seeks to develop strategies that can be implemented in an environment of reduced fiscal and human resources and competing state priorities. Since the FY 2008 RSA monitoring review, AZRSA's State Plans are more quantitatively based, contain more direct links between goals, strategies and targets, and reflect a more systemic planning process.

9. Strategic Planning: Agency Communications

Recommendations: RSA recommends that AZRSA:

- 9.1 develop a staff communication plan regarding priorities, policy goals, activities, vision and agency direction that employs multiple communication channels (e.g., intranet, newsletter, e-mail); and
- 9.2 develop strategies to improve communication with the CAP so that the agency can more effectively plan activities designed to address systemic issues, such as the clarification of existing or the development of new policies and procedures and the provision of staff training on the appropriate interpretation and implementation of such policies and procedures.

Status: The need for better communication is addressed in AZRSA's strategic plan and the agency's planning processes.

10. Quality Assurance

Recommendation: RSA recommends that AZRSA:

- 10.1 establish a quality assurance team or unit to collect and analyze data addressing the timeliness, quality, efficiency and effectiveness of services delivered to individuals with disabilities and to provide recommendations to the Administrator on improving service delivery. A quality assurance function would address contract monitoring, case reviews, federally required financial and performance reports, client and employee satisfaction surveys, case management system functionality, training and implementation of strategic goals and priorities;

Status: According to the agency, the implementation of the new case management system since the FY 2008 monitoring review has substantially enhanced its QA system. The agency is developing a dedicated QA program or unit as its budget permits.

- 10.2 establish performance benchmarks and compare AZRSA results against these benchmarks;
- 10.3 identify areas in which performance needs to be improved, identify root causes, and focus.

Status: These recommendations are being addressed through AZRSA's strategic planning processes.

10.4 develop strategies, such as a "report card" system, to enable the agency to better assess the performance of the CRPs and hold them accountable; and

10.5 review data and other information related to the agency's current contracting methods to determine which method promotes greater performance and accountability among CRPs.

Status: AZRSA continues to explore the development of a report card system. Some of the issues the agency is clarifying include: the outcome measures on which to base a reporting system; the users of the report card; the format of the report card; sources of data; how to ensure the reliability of data collected; and identifying staff resources to support the project.

Compliance Findings and Corrective Actions

As the result of the monitoring conducted during FY 2008, AZRSA developed a corrective action plan (CAP) that included the steps AZRSA was required to take to resolve the compliance findings identified in the monitoring report dated September 12, 2008, timelines for the implementation of the steps and the methods by which the agency and RSA would evaluate the agency's progress toward the resolution of the findings. A summary of AZRSA's progress toward the resolution of each finding appears below.

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

1. Third-Party Cooperative Arrangements

Status: The written third-party cooperative arrangements (TCPA) for the provision of transition services were amended to specify that VR applicants, as well as those receiving services, are permitted to receive services through the TPCAs. AZRSA has not successfully resolved compliance findings related to the following areas, and continues to work toward their resolution.

2. Composition of the State Rehabilitation Council (SRC)

Status: AZRSA has submitted a slate of proposed candidates to fill all vacant positions of the SRC to the governor's office of boards and commissions and awaits the appointment of these candidates to the council. AZRSA has submitted an assurance along with its VR State Plan that it will comply with the requirements that there be a fully constituted SRC. RSA will continue to track the agency's progress toward meeting this requirement through the State Plan process.

3. Certification of Staff Who Work On One Grant or Cost Objective

Status: AZRSA continues to refine its processes for the proper certification of individuals working either 100 percent on one grant, or across multiple grants. This issue will be tracked through the development and implementation of a new corrective action plan as a result of the FY 2011 monitoring. See Section 6, finding 5 below for more details regarding this issue.

Technical Assistance

During the course of its FY 2011 monitoring activities, RSA provided technical assistance to enable AZRSA to implement recommendations and resolve findings identified through the FY 2008 review.

Use of Data

Since the prior federal RSA monitoring review in FY 2007, AZRSA purchased and implemented a new case management system that has greatly expanded the agency's ability to generate data reports to facilitate the use of data to track progress toward meeting the agency's goals and priorities. A full time systems administrator assists in the preparation and modification of queries and reports from the case management system. The VR administrator receives more than 25 reports a month but this number does not include a high-level management summary that addresses key operational or programmatic goals in a summary form.

The on-site TA discussions focused on possible next steps for the improvement and systematizing of data management. This may include:

- identifying an inventory of data reports needed by the VR administrator;
- developing a taxonomy or classification of reports by subject area; and
- establishing requirements for data reports after an inventory and a classification schema are identified, including:
 - frequency of reports -- monthly, quarterly or as needed;
 - number of years for which prior year data is reported;
 - the preference for the use of graphs, figures, tables, or charts;
 - the source of data – standardized, ad-hoc, the case management system, or federal data reports;
 - standardized reporting requirements which may include table numbers, date prepared, data sources, contact for further information, and word/bullet summary of what the table depicts;
 - a standard distribution list and report distribution procedures, including contingency and succession planning for long term stability of the system;
 - opportunities for integrating fiscal and performance data in individual reports so that all relevant information is available to decision makers.

Report Cards for CRPs

Through the provision of TA in this area, RSA discussed with AZRSA differing approaches with respect to how to implement a report card system, what the system would measure, and how the reports would result in actionable information to improve services to individual VR consumers. RSA stressed the importance of integrating report card measures into a data base that VR counselors could utilize to better inform VR consumers about the quality of services provided by CRPs. Report card data could also serve to provide feedback directly to the CRPs to assist them in improving the quality of their services.

On-site TA focused on the internal component of a report card system, involving counselors early in the development process, and options and methods for converting raw data to an accessible and searchable database.

RSA discussed with AZRSA staff the types of specifications to be considered when developing the report card, including:

- the audience (i.e., for whom is the report card intended);
- the number of services to be included in the first phase of the effort;
- dividing the development process into phases focusing on a few key services, rather than seeking to cover all services in a prototype;
- the sources of data;
- setting performance specifications with key stakeholders;
- rapid prototyping;
- planning for the Integration of additional data in later phases;
- the timing of reporting (federal versus state fiscal year); and
- assessing the quality and reliability of data.

Quality Assurance

TA focused on developing a process by which all the independent and un-cataloged QA processes could be converted into a QA system. Different QA activities are implemented in a variety of modalities and methods, and not in a coherent holistic manner.

QA activities can be identified in a number of areas within the VR program, including: supervisor oversight of VR counselors; the approval of invoices; the alignment of the State Plan with other strategic planning processes; the involvement of agency staff in the development of State Plan goals and priorities; reviewing the criteria for the closure of an individual service record; improving the quality of the comprehensive statewide needs assessment; the implementation of performance based contracts with CRPs; staff training for the data modules of the new case management system, and the designation of ‘super users’ to assist other staff; and the increased use of data reports and regular reports to managers. There is a much greater organization of these disparate QA components than is immediately apparent. Developing an identifiable QA structure and common vocabulary should enhance AZRSA’s efforts in this area.

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 AZRSA with the federal requirements related to its organization within the Arizona Department of Economic Security (DES) and the ability of AZRSA 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 DES and AZRSA under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which AZRSA 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 AZRSA 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:

- DES and AZRSA directors and senior managers;
- DES and AZRSA staff members responsible for the fiscal management of the VR program;
- SRC chairperson and council members;
- Representatives from the Governor's Council on Blindness and Visual Impairment (GCBVI);
- Representatives from the Governor's Council on Spinal-cord and Head Injuries (GCSHI);
- 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 AZRSA;
 - individuals who work on rehabilitation work of AZRSA and one or more additional programs/cost objectives (e.g., one-stop career centers); and
 - individuals under AZRSA 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 Arizona procurement requirements and processes.

Overview

AZRSA is a program component within the Division of Employment and Rehabilitative Services (DERS), one division among several under the DES, the DSA. The VR administrator reports to the assistant deputy director of DERS, who in turn reports to the deputy director of programs who oversees the other program divisions within the DSA.

At the time of the on-site review, there were a total of 484 full time employees of AZRSA under the direction of the VR administrator. The position of deputy administrator was vacant at the time of this review. The DSU consists of a number of program and support units with managers reporting to the VR administrator, including: the Personnel Unit; the Services to Blind and Deaf Unit; the Policy and Training Unit; the Budget and Finance Unit; the Current Contracts Unit; the Information Technology Unit; and, the Arizona Industries for the Blind (AIB). There are other coordinators and support staff, including an IT coordinator for VR consumers, and the support manager for the case management system.

Several governor-appointed councils are organized under AZRSA, including the SRC, the Governor's Council for the Blind and Visually Impaired (GCBVI), and the Governor's Council on Spinal-cord and Head Injuries (GCSHI).

AZRSA has a total of 484 filled FTEs. The largest unit of AZRSA, the VR services unit, currently has a total of 369, or 76 percent, of these filled FTEs; AIB, the second largest component, has 104, or 21 percent. With nearly 400 current vacancies, including 186 in the VR unit and 205 in AIB, AZRSA is experiencing record lows in filled FTE positions. In addition, the agency typically has a substantial number of staff on family and medical leave, numbering 30 at the time of the on-site review, further taxing the agency's staff resources.

Other program components within DERS include Child Care, Employment (which houses the workforce investment program) and Unemployment Insurance. There are approximately 1,700 full-time employees within the division.

RSA's review of the organizational structure of AZRSA resulted in the identification of the following observations and recommendations. The TA requested by AZRSA 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.A.1: Administrative Rules of the DSA

Observation: Administrative rules currently codified by the DSA, DES, are out of date and often at variance with updates in the VR service policies developed by AZRSA to account for changes in federal laws and regulations. This affects the VR agency in the ways described below.

- Subsequent to previous RSA monitoring in FYs 2004 and 2008, AZRSA undertook a revision to its VR service policy manual consistent with revisions in the 1998 Rehabilitation Act amendments and the 2001 implementing regulations. This manual was finalized and implemented in March 2010 and is used by VR staff and made available to VR consumers. AZRSA has the latitude to make revisions to its manual as necessary. However, the administrative rules of DES, which contain program policies for all its program units, including VR policies, were codified in 1977 and have not been substantially updated since 1990. Therefore, VR policies contained in these rules are not current and are not consistent with those in the recently revised VR policy manual. Although the DES director instructed the AZRSA VR administrator to revise the administrative rules related to the VR program, at the time of the review, DES had not yet completed the process of codifying the rules and there was no indication of a timeline for completion of this process. As a result, there are differences in AZRSA's policies and those VR policies in the DES' administrative rules.
- When questions surfaced related to which policies take precedence, the Arizona Attorney General's office determined that the DES' administrative rules were the official rules for the VR program unit. This ruling impacts decisions made by administrative law judges and mediators who are identified as part of the informal and formal administrative review proceedings related to the due process procedures for the VR program. Thus, disputes between the AZRSA and VR consumers are assessed on the basis of DES' administrative rules that may be outdated and inconsistent with AZRSA VR policy. The disparity between VR program-level policies and department-level administrative rules may result in administrative hearings that reflect inaccurate or inappropriate decisions with potentially negative consequences both for the VR agency and VR consumers.

Recommendation: RSA recommends that AZRSA:

- 5.A.1.1 develop and implement a training module for the benefit of administrative law judges and other appropriate DSA staff involved with fair hearings and administrative reviews

- on AZRSA's current VR service policies and procedure, highlighting the areas where current AZRSA policy diverges from administrative rules;
5. A.1.2 work with appropriate DSA managers and staff to develop and implement a more flexible and timely process for the revision of administrative rules to reflect changes in the laws and regulations that govern the VR program; and
 - 5.A.1.3 provide training to the client assistance program and protection and advocacy grant representatives to enhance their understanding of AZRSA's VR service policies and procedures, highlighting areas where administrative rules may vary with current law.

Technical Assistance

RSA provided technical assistance to AZRSA related to this focus area during the course of its monitoring activities. Specifically, RSA provided explanation to AZRSA concerning the requirement that at least 90 percent of the DSU's staff must work full-time on the provision of VR or other rehabilitation services. This particular requirement was of significant interest to AZRSA given the long-standing connection between the agency and AIB, and the possible challenges this organizational relationship may pose for compliance.

B. Transition Services and Employment Outcomes for Youth with Disabilities

The purpose of this focus area was to assess AZRSA'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:

- AZRSA'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 2008 (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 SEA;
- sample agreements between the VR agency and local education agencies (LEA);
- samples of signed and implemented third-party cooperative agreements;
- samples of other cooperative agreements; 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 AZRSA 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 AZRSA with peer agencies during the same period, as well as with national averages for other combined VR agencies. For purposes of this review, the peer agencies selected were the Georgia, Tennessee, and Indiana combined VR agencies.

As part of its review activities, RSA met with DSA and DSU staff and stakeholders to discuss the provision of services to youth with disabilities, including: the AZRSA administrator, the two regional managers, district supervisors, the transition coordinator, VR counselors with only transition caseloads and those with mixed caseloads, state and local school personnel, the SRC, and the governors councils on blindness and visual impairment (GCBVI) and spinal-cord and head injuries (GCSHI).

RSA's review of transition services and employment outcomes achieved by youth with disabilities resulted in the identification of the following observations and recommendations. The TA requested by AZRSA to enable it to carry out these recommendations is contained in Appendix A of 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.B.1: Order of Selection, Training of VR counselors and Staff and Impact on Services and Outcomes for Youth with Disabilities

Observation: AZRSA has experienced a decline in the total number of youth with disabilities who achieved an employment outcome from FY 2006 through FY 2010. AZRSA attributes this trend, in part, to the implementation of an OOS during the period under review. In addition, the agency experienced a significant turn-over in the number of VR counselor positions in the past several years. Some transition counselors reported that new staff would benefit from more focused training on transition issues and by the establishment of a communications network for all transition staff to assist them to better serve this population.

- As shown in Table 5.B.1 below, the total number of youth with disabilities served by AZRSA declined during the period beginning in FY 2006 and ending in FY 2010, from 1,557 to 1,109 individuals, a decrease of 28.8 percent.
- Also, as shown in the table, the total number of youth with disabilities who achieved employment during the period decreased from 706 to 416, a total of 290 fewer outcomes. However, the percentage of youth with disabilities who achieved employment in comparison to the total number of all employment outcomes remained relatively constant during the period, ranging from 35.2 percent to 36.8 percent. This performance was commensurate with the performance of all combined agencies at 35.2 percent in FY 2010.
- The total number of youth with disabilities who exited the VR program without employment after receiving services declined during the period from 851 to 693 individuals. However, the percentage of youth with disabilities who exited the VR program without employment after receiving services increased during the period from 30 percent to 38.9 percent.
- The above performance trends contributed to a decline in the rehabilitation rate for youth with disabilities from FY 2006 to FY 2010, from 45.3 percent to 37.5 percent, compared to the national average for all combined agencies of 55.8 percent in FY 2010.

Table 5.B.1 - Types of Closure for Transition Youth for Service Records Closed for FY 2006 through FY 2010

Arizona Rehabilitation Services Administration		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)
TOTAL TRANSITION AGE YOUTH CASES CLOSED	Number	2,841	2,938	2,877	1,951	1,783	-1,058	100,116
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	-37.2%	100.0%
Exited as an applicant	Number	312	314	393	273	204	-108	15,291
	Percent	11.0%	10.7%	13.7%	14.0%	11.4%	-34.6%	15.3%
Exited during or after trial work experience/extended employment	Number	11	14	13	13	11	0	513
	Percent	0.4%	0.5%	0.5%	0.7%	0.6%	0.0%	0.5%
TOTAL NOT DETERMINED ELIGIBLE	Number	323	328	406	286	215	-108	15,804
	Percent	11.4%	11.2%	14.1%	14.7%	12.1%	-33.4%	15.8%
Exited without employment outcome after signed IPE	Number	1	0	1	0	3	2	2,503
	Percent	0.0%	0.0%	0.0%	0.0%	0.2%	200.0%	2.5%
Exited from order of selection waiting list	Number	101	127	0	86	9	-92	378
	Percent	3.6%	4.3%	0.0%	4.4%	0.5%	-91.1%	0.4%
Exited without employment after eligibility	Number	859	973	875	489	447	-412	24,476
	Percent	30.2%	33.1%	30.4%	25.1%	25.1%	-48.0%	24.4%
TOTAL EXITED AFTER ELIGIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	961	1,100	876	575	459	-502	25,501
	Percent	33.8%	37.4%	30.4%	29.5%	25.7%	-52.2%	25.5%
Exited with employment	Number	706	826	678	469	416	-290	27,745
	Percent	24.9%	28.1%	23.6%	24.0%	23.3%	-41.1%	27.7%
Exited without employment	Number	851	684	917	621	693	-158	29,210
	Percent	30.0%	23.3%	31.9%	31.8%	38.9%	-18.6%	29.2%
TOTAL RECEIVING SERVICES	Number	1,557	1,510	1,595	1,090	1,109	-448	49,649
	Percent	54.8%	51.4%	55.4%	55.9%	62.2%	-28.8%	49.6%
EMPLOYMENT RATE		45.34%	54.70%	42.51%	43.03%	37.51%		55.88%

- Due to the significant reduction of fiscal and staff resources during the period, AZRSA was required to close all priority categories under its OOS beginning in FY 2009. All categories remain closed at the issuance of this report. The agency reported that as of March 2011, 2,314 individuals were on a waiting list for services in Category 1, 2,043 in Category 2 and 363 in Category 3. In April 2011, the agency was able to remove 1,000 individuals from the waiting list for Category 1 into active status.
- Because the waiting lists for services include youth with disabilities, AZRSA reported, that as a result of the implementation of the OOS, one of its 22 third-party cooperative arrangements for the provision of transition services was terminated by the school district in FY 2010, with the expectation that additional arrangements may be jeopardized if this circumstance continues.
- During the on-site review, VR counselors reported that, although the agency has mentors working with new transition staff, there is still a need for additional training on how to better serve this population. In addition, they indicated transition counselors do not fully understand how the agency's third-party cooperative arrangements are developed or how they should function.
- Although there are quarterly transition meetings held by the statewide transition coordinator, transition counselors stated that they would benefit by the establishment of a mechanism to expand day-to-day interactions to discuss available resources as well as successful approaches to problem solving and the sharing of best practices.

Recommendation: To improve the performance of AZRSA and the outcomes of youth with disabilities, RSA recommends that AZRSA:

- 5.B.1.1 utilize data to monitor the performance of the agency's transition initiatives to assess levels of performance throughout the state and use this information to refine agency goals related to the provision of transition services, as well as implement targeting training based upon this data;
- 5.B.1.2 develop mechanisms through which AZRSA staff and the school districts can exchange information about effective transition practices throughout the state; and
- 5.B.1.3 develop a website for transition counselors to post resources and solutions to service delivery challenges to expand communications on how to improve services to this population.

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 Web site 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 2008 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:

- third-party cooperative arrangements;
- 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 AZRSA did not result in the identification of observations or recommendations. The compliance findings identified by RSA through the implementation of this focus area are contained in Section 6 of this report.

Technical Assistance

RSA provided TA below to AZRSA related to the fiscal integrity of the VR program while on-site in Arizona.

- The RSA-2 reporting requirement related to services to groups: Through discussion, the agency realized that expenses related to its third-party cooperative arrangements for the provision of transition services, known as TSW, are incorrectly being reported as services to groups. Expenses directly attributable to IPEs should not be included in the services to groups category.
- The federal requirements for ensuring funds used as match are directly related to services provided to VR consumers: RSA compared the federal requirements with the agency's current match sources and provided guidance regarding supporting documentation necessary to ensure VR costs are allowable and allocable.

- Sources of program income, reporting and tracking requirements: RSA compared the SF-425s submitted by the agency with the SF-425 instructions for reporting program income and provided guidance related to the transferring of program income to another program.
- Options related to classification and disposition of equipment purchased with federal funds: RSA provided guidance regarding requirements related to inventory control, securing, and disposing of equipment and compared them to current agency practices.
- Personnel Activity Reporting: RSA provided guidance related on the streamlining of recordkeeping associated with personnel activity reporting to avoid duplication while meeting federal requirements.

SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS

RSA identified the following compliance findings and corrective actions that AZRSA 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.

AZRSA must develop a corrective action plan for RSA’s review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and RSA is available to provide technical assistance to assist AZRSA 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. DSU Organizational Structure

Legal Requirements:

- Rehabilitation Act of 1973, as amended (Rehabilitation Act) – Section 101(a)(2)(B)(ii)(IV)
- VR Program Regulations - 34 CFR 361.13(b)(1)(iv)
- Subregulatory Guidance - Program Instruction (PI)-75-31 (June 3, 1975), page 5

Finding:

AZRSA has not satisfied the organizational requirements for a designated state unit (DSU), as required by section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

According to the current approved FY 2011 VR State plan, AZRSA is the DSU in Arizona for providing VR services to individuals with disabilities. The DSA for the VR program is the state’s DES, under the administration of a director. Within the director’s office, one deputy director oversees the program offices housed within DES, and a second deputy director is responsible for the department’s operational offices. Reporting to the deputy director of programs are the assistant directors of the following divisions: Child Support; Benefits and Medical Eligibility; Developmental Disabilities; Aging and Adult Services; Children, Youth and Families; and Employment and Rehabilitative Services. Reporting to the deputy director of operations are the assistant directors of the following divisions: Financial Services Administration; Business and Finance; Technology Services; Employee Services; and

Development and Management. It is these programmatic and operational divisions that comprise the major components of DES, the DSA.

The Division of Employment and Rehabilitative Services (DERS) is further organized into four program offices: Child Care; Employment, Unemployment Insurance; and the Rehabilitation Services Administration (AZRSA), the DSU for the VR program. Each of these offices, including AZRSA, is overseen by an administrator who reports to the deputy assistant director under the purview of the assistant director of DERS.

Section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv) require the DSU to be located at an organizational level and have an organizational status within the DSA that is comparable with other major organizational units of the DSA. The determination as to what constitutes a “major organizational unit” within the DSA depends largely on the organizational structure of the DSA. It has been the long-standing policy of RSA that an evaluation of whether the DSU is located at an organizational level comparable to other major organizational units within the DSA is based on, among other factors, the directness of the reporting line from the VR director to the chief officer of the DSA, as compared with that of the heads of other major organizational units within the DSA (PI-75-31 (June 3, 1975)).

As described above, in Arizona, DES (the DSA) is comprised of six programmatic and five operational divisions, each of which has an assistant director who reports to either of the two deputy directors of programs or operations located within the office of the director of DES, and each of whom administers a number of programs within his/her division. Program administrators within each of the divisions, including the administrator of AZRSA, report to the appropriate division assistant director through a deputy assistant director. Because the administrator of AZRSA reports through a deputy assistant director to the assistant director of DERS - not the DES director or to the deputy director of programs, the AZRSA administrator does not have a direct reporting line to the director of DES, the DSA. Therefore, AZRSA is not located at a comparable level with the 11 major organizational units within DES. For these reasons, AZRSA is not in compliance with the organizational requirement set forth at section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and 34 CFR 361.13(b)(1)(iv).

Corrective Action 1: AZRSA must:

- 1.1 work with the director of DES to ensure that revisions will be made to the Department’s organizational structure that will enable AZRSA to comply with federal requirements for the DSU of the VR program, such that the revised organizational structure ensures that:
 - a) the AZRSA administrator reports directly to the head of the DSA with no intervening organizational or administrative level; and
 - b) AZRSA has a status equal to other major organizational units within the DSA.
- 1.2 submit an assurance within 10 days of the issuance of the final monitoring report that it will comply with the requirements of the Rehabilitation Act Section 101(a)(2)(B)(ii)(IV), and 34 CFR 361.13(b)(1)(iv); and

1.3 develop a corrective action plan, within 45 days of the issuance of this final report, that specifies the steps it will take to resolve the finding, timelines for completion of those steps, and methods for evaluating that the steps taken have resolved the finding.

2. Percentage of DSU Staff Working Full-Time on the VR Program and other Rehabilitation Services

Legal Requirements:

- Rehabilitation Act - Section 101(a)(2)(B)(ii)(III)
- VR Program Regulations - 34 CFR 361.13(b)(1)(iii)
- Preamble to 1997 VR program regulations at 62 Fed. Reg. 6308, 6316 (Feb. 11, 1997).

Finding:

AZRSA is not in compliance with the organizational requirement that 90 percent of the staff of the DSU work full-time on VR or other rehabilitation services.

At the time of this review, a number of program units were organized under the DSU in Arizona with managers and directors reporting directly to the VR administrator, including: policy and training; personnel; services for the blind and deaf; current contracts; budget and finance; information technology; and the Arizona Industries for the Blind (AIB).

At the time of this review, AZRSA employed 484 full-time staff -- 369, or 76 percent, of whom work in what the agency's full time employee (FTE) chart describes as "VR services," while 104, or 21 percent, are employed by AIB. An additional three percent provide independent living services or work for one of the governor's advisory councils.

AIB was established by Arizona state statute 41-1971, which asserts: "The state department of economic security may establish and maintain within its rehabilitation services section for the blind and visually impaired a program of industries for the blind, the activities of which, as authorized by this article, shall be known as "Arizona industries for the blind."

Currently AIB consists of a number of production units that provide full-time work at market wages for individuals who are blind or visually impaired. AIB has a number of contracts with the U. S. Department of Defense, as well as with Arizona state and local government agencies. AIB's IRS 990 disclosure form for 2009 states that AIB is self-sustaining through the sale of products and services and does not receive state funding. In that year, according to the disclosure form, VR program funds provided \$721,715 to support AIB activities.

AIB provides work adjustment training to VR consumers on referral from AZRSA VR counselors. A work adjustment coordinator works with AIB managers to assess progress and training needs of VR clients who are blind or visually impaired. Work adjustment consumers do not earn wages. Therefore, most of the 104 individuals who are employed by AIB are working

full-time for wages and are not engaged in AZRSA-sponsored work adjustment or employment training.

Table 6.1 below shows the total number as well as percent of FTEs for each of the major program areas of AZRSA.

Table 6.1
AZRSA Total Number of Filled Positions as of May 11, 2011

Program	Total Filled FTEs	% to Program
AZ Industries for the Blind	104	21.49%
Independent Living	6	1.24%
Spinal Head Injury	5	1.03%
Vocational Rehabilitation	369	76.24%
Total	484	100.00%

As the above table shows, 21 percent of the total FTEs for the DSU work for AIB under its director, who in turn reports to the VR administrator.

While the work of the DSU can encompass activities that extend beyond VR and other rehabilitation, as described above, the Rehabilitation Act and the VR implementing regulations prescribe that "all or substantially all staff " of the DSU must devote their full time to the rehabilitation work of the unit, i.e., VR or vocational and other rehabilitation work of the unit. The VR regulations at 34 CFR 361.13(b)(1)(iii) require that at least 90 percent of the DSU's staff must be employed full time on the VR program or vocational and other rehabilitation work of the DSU, meaning that no more than 10 percent of the DSU staff can devote any portion of their time to other programs and activities carried out by the DSU.

The provision of the Rehabilitation Act that at least 90 percent of the designated state unit staff shall work full-time on the rehabilitation work of the organizational unit means that if the organizational unit provides other rehabilitation services, in addition to vocational rehabilitation, the 90 percent staffing requirement applies to all unit staff providing rehabilitation services, not to just the vocational rehabilitation staff...The Secretary believes that this requirement is consistent with the statutory requirement in Section 101(a)(2)(A)(iii) of the Rehabilitation Act that "substantially all" of the DSU's staff shall work on rehabilitation and with RSA's longstanding interpretation of "substantially all" to mean 90 percent.

RSA recognizes that some of the administrative and operational staff of AIB are involved with the provision of VR services to individuals who are receiving training at the AIB facility. This makes it likely that the actual percentage of AZRSA FTEs working on VR or other rehabilitation is somewhat higher than the 79 percent shown in the table above, but the lack of specific documentation or job descriptions does not allow for the exact percentage to be calculated. Furthermore, at least 52 of the 104 FTEs at AIB would need to be working full time on VR or other rehabilitation in order to meet the 90 percent threshold for the agency. Given the scale of

the production at AIB, it is unlikely that half of the AIB FTEs would not be engaged in the work that results in the significant revenue-generating production output of the facility.

Therefore, as less than 90 percent of AZRSA staff work full time on VR or other rehabilitation, AZRSA is not in compliance with this organizational requirement found in the federal statutes or regulations governing the VR program organizational structure.

Corrective Action 2: AZRSA must:

- 2.1 modify its organizational structure or adjust its staffing levels so that 90 percent of all staff are employed full time on the rehabilitation work, including both VR and “other rehabilitation,” of the DSU for the VR program, as required by 34 CFR 361.13(b)(1)(iii);
- 2.2 submit an assurance within 10 days of the issuance of the final report that it will comply with the requirements of 34 CFR 361.13(b)(1); and
- 2.3 develop a corrective action plan, within 45 days of the issuance of this final report that specifies the steps it will take to resolve the finding, timelines for completion of those steps, and methods for evaluating that the steps taken have resolved the finding.

3. Case Closure Requirements for Individual Achieving an Employment Outcome

Legal Requirements:

VR Program Regulations - 34 CFR 361.5(b)(16), 361.45(b)(2) and 361.56

Finding:

The AZRSA policy related to the development of an IPE and the achievement of employment is not consistent with federal VR program regulations defining the term “employment outcome,” the development of an IPE, and the closure of the record of services. Specifically, AZRSA’s current VR service policy manual asserts that an individual served through the VR program must be working at least 35 hours per week in order to be considered to have achieved an employment outcome at the time the record of services is closed. Exceptions to this policy are made in cases where a medical professional or psychologist provides written documentation that the individual’s disability precludes him/her from working full time; or, if the industry standard for the vocational goal achieved is less than 35 hours per week.

The AZRSA VR service policy manual, effective as of March 23, 2011, on page 164 in Section F, “Employment Planning,” part 11, states:

Full time employment is the Vocational Rehabilitation goal unless the severity or nature of the client's disability preclude full time employment (35 hours or more, or defined by the employer).

- a. A goal of less hours may be agreed to in the IPE when such a choice is supported by medical or psychological information, past work history, other objective evidence, or an individual's self report substantiated by other data.

The above policy requiring a goal of full-time employment at 35 hours or more per week is not in compliance with the definition of an employment outcome found in VR program regulations at 34 CFR 361.5(b)(16), which states that an employment outcome, with respect to an individual, means:

Entering or retaining full-time or, if appropriate, part-time competitive employment, as defined in §361.5(b)(11), in the integrated labor market; supported employment; or any other type of employment, including self-employment, telecommuting, or business ownership, that is consistent with an individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

Additionally, federal regulations found at 34 CFR 361.45(b)(2), "Development of the Individualized Plan for Employment (IPE)," state that:

The IPE must be designed to achieve a specific employment outcome, as defined in §361.5(b)(16), that is selected by the individual consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

Lastly, federal regulations found at 34 CFR 361.56, "Requirements for closing the record of services of an individual who has achieved an employment outcome," state that a record of service may only be closed when:

The individual has achieved the employment outcome that is described in the individual's IPE ... ; that The individual has maintained the employment outcome for an appropriate period of time, but not less than 90 days, necessary to ensure the stability of the employment outcome, and the individual no longer needs vocational rehabilitation services; and, that the individual and the qualified rehabilitation counselor employed by the designated State unit consider the employment outcome to be satisfactory and agree that the individual is performing well in the employment.

The regulations noted above do not provide for the establishment of full time employment as the standard definition of an employment goal for which an exception must be sought before the individual may select a vocational goal that may result in part time employment, or work fewer than 35 hours per week; nor is there a requirement of such documentation before an individual's service record may be closed with the achievement of the vocational goal identified on the IPE.

AZRSA regional managers, office supervisors, and VR counselors indicated to RSA that they understood that exceptions could be sought for the full-time employment requirement, but there was significant anecdotal evidence that some service records were closed indicating that the individuals had not achieved an employment outcome because they were working fewer than 35 hours per week, despite attaining their vocational goals. Furthermore, there was some confusion among field staff as to whether the policy required 32 or 35 hours per week to be considered full time. In either case, it is clear that the policy is not being implemented consistently across all field offices, and that there is likely an impact on the rehabilitation rate of the agency as a result of the policy.

RSA recognizes and supports AZRSA's intent of maximizing the employment potential of all VR consumers. Nevertheless, AZRSA must pursue this goal utilizing effective VR counseling and guidance, benefits counseling, and VR training and supports, rather than the current full time employment policy and its accompanying requirements for exceptions.

Corrective Action 3: AZRSA must be in compliance with the definition of an employment outcome, the requirements for the development of the IPE, and the procedures for the closure of service records contained in the VR program regulations cited above, AZRSA must:

- 3.1 revise the AZRSA VR service policy manual to remove the requirement currently found in section F, page 164, that states that an employment goal must be 35 hours per week; and
- 3.2 ensure that all VR counselors and staff receive training on how to implement the policy changes regarding employment outcomes.

4. Reporting of Program Income

Legal Requirements:

- VR Program Regulations – 34 CFR 361.12 and 361.63(c)(2)
- EDGAR – 34 CFR 80.20(a), 80.21(f)(2) and 80.25

Finding:

AZRSA, through DES, is not reporting program income captured through the VR program in a manner consistent with federal regulations at 34 CFR 361.12 and 34 CFR 80.20(a), which require all 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. DES financial staff, as a function of the DSA, 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 AZRSA, the DSU (which RSA generally found to be accurate through a review of supporting documentation), with the information entered into the RSA-MIS by DES staff, the DSA. The following issues were noted:

1. The FY 2007 4th quarter SF-269 reported \$1,084,602 in program income. The FY 2007 Final SF-269 reported \$1,235,861. 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 4th quarter (9/30) report for any fiscal year.
2. The FY 2010 4th quarter SF-425 reported \$553,379 in program income. However, the documentation provided by the DSU indicated that only \$520,336 in program income was received during the reporting period.
3. AZRSA is not tracking or reporting program income¹ being generated through various Transition School to Work Third Party Cooperative Arrangements (TPCA).
 - Although, this monitoring did not cover programs other than the VR and SE formula grants, RSA found errors in the SF-269/425s prepared by DES staff for AZRSA related to the reporting of VR program income used in other programs. DSU documentation for FYs 2006-2010 indicated that VR program income was being transferred and expended to support the independent living (IL) program. However, the transferred program income was not reported on the IL SF-269/SF-425 forms submitted by the DSA. The State may choose to use Social Security reimbursements earned by the VR program for other formula grant programs funded under the Rehabilitation Act (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.

In addition, regulations at 34 CFR 80.21(f)(2) require grantees to disburse program income prior to requesting additional cash payments. This means that AZRSA must disburse all program income prior to requesting a drawdown of additional Federal VR funds. AZRSA budgeted a portion of the program income received to Independent Living (IL) staff salaries. In FY 2010, the amount of program income transferred to the IL program was \$134,139. These funds were budgeted, but not expended, prior to the subsequent drawdown of additional Federal VR program funds. As a result, AZRSA drew down additional Federal funds to cover expenditures in the VR program while program income remained available for disbursement. Consequently, AZRSA did not satisfy the requirements of 34 CFR 80.21(f)(2) in this instance.

Corrective Action 4: AZRSA must:

- 4.1 cease drawing down Federal VR program 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 program funds as required by 34 CFR 80.21(f)(2). In addition, AZRSA must take the necessary steps to ensure that program income will be available for use across all VR program budget categories, in accordance with the requirements in 34 CFR 80.21(f)(2);
- 4.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it, in conjunction with DES, will report program income completely and accurately on

¹Program income is generated through the use of VR program funds to support TSW student work activities (e.g., popcorn sales, landscaping, and other work experience activities).

the SF-269/SF-425 reports as required by 34 CFR 361.12 and 34 CFR 80.20. AZRSA must correct the amount of program income reported on the final FY 2007 SF-269 and the FY 2010 SF-425 reports. In addition, the FY 2006-2010 SF-269/SF-425 reports for the IL program must be revised to include the amount of VR program income received and expended.

5. Personnel Costs Charged Directly to Grant

Legal Requirements:

- VR Program Regulations - 34 CFR 361.12
- EDGAR - 34 CFR 80.20(a)
- OMB Circulars - 2 CFR Part 225, Appendix A, C.1.a & b

Finding:

AZRSA is not in compliance with federal regulations at 34 CFR 361.12 and 34 CFR 80.20(a), which require grantees to ensure the proper administration of the VR program and accountability of VR funds. In ensuring accountability for personnel costs, AZRSA must maintain supporting documentation regarding the time its staff spend providing VR services. DES permits some professional and support staff, not supervised by AZRSA, to directly charge the VR program based upon actual time spent providing services. However, AZRSA does not have policies or procedures defining what time/services may be charged to the VR program and what supporting documentation is required. Additionally, AZRSA must ensure that the direct charges are applied against the appropriate grant. Staff charging directly must identify the appropriate award for which the work was performed to ensure the costs are charged to the benefiting grant (e.g., the VR and other grant programs administered by AZRSA) in accordance with 2 CFR Part 225, Appendix A. Costs associated with services provided in support of other grants must not be charged, as a general practice, to the VR grant.

Corrective Action 5: AZRSA must develop policies and procedures that define:

- 5.1 the services direct staff may charge to the VR and other programs (e.g., IL, IL services for older individuals who are blind, supported employment);
- 5.2 the supporting documentation required to be maintained; and
- 5.3 the internal controls implemented to ensure that costs associated with services provided are only charged to the benefiting grant.

6. Internal Controls for TPCAs

Legal Requirements:

- VR Program Regulations - 34 CFR 361.3 and 361.12
- EDGAR - 34 CFR 80.20 and 80.40(a)

Finding:

AZRSA is not in compliance with federal regulations at 34 CFR 80.20(a), which require grantees to account for the VR funds to such a degree that it can trace the funds for each activity to ensure that the funds were expended in accordance with federal requirements, and regulations at 34 CFR 361.40(a), which require grantees to monitor and manage the day-to-day operations of all grant-supported activities. Third-party Cooperative Arrangements constitute a grant-supported activity and must be monitored by AZRSA to ensure compliance with all federal requirements and that performance goals are achieved.

AZRSA has established 21 Transition from School to Work (TSW) TPCAs. The TPCA contracts include budgets that were submitted by the school districts and approved by AZRSA. The budgets identify the associated costs, including the roles of personnel and the percentage of time assigned to TPCA services. TSW contractors submit invoices to AZRSA on a quarterly basis. AZRSA reimburses the TSW contractors 60 percent of the approved costs and uses the remaining 40 percent to meet AZRSA's non-federal share.

The 2011 contract with Glendale Union High School identified numerous teacher and coordinator positions that charge from 20 percent to 100 percent of their salary and benefits to the TPCA contract. The quarterly invoice submitted for payment for the reporting period January 2011 through March 2011 included only the total gross monthly salary for each position. An adding machine tape was attached to the invoice breaking out by percentage the total amount of each individual's time and benefits being charged to VR. There was no supporting documentation, such as class attendance sheets, to support that the percentage of time charged to VR was actually spent providing services to VR applicants or consumers.

The Vail Unified School District TSW invoices for January 2011 through March 2011 included mileage sheets with the date, the driver's name, route, and the beginning and ending odometer readings. However, there was no information regarding the purpose of the travel or what VR applicants/consumers were being transported. VR reimbursed the TSW contractor on a per mile basis. The invoices also included various receipts from office supply stores, home improvement stores, and various national retailers. There was no indication on the receipt as to who purchased the items and their purpose in relation to the services specified in the contract. One invoice included \$848.26 for TSW t-shirts for students and staff.

AZRSA must ensure that VR funds are used solely for the administration of the VR program and for the provision of VR services in accordance with 34 CFR 361.3.

Prior to 2009, AZRSA employed monitoring staff that conducted onsite reviews to ensure compliance with contract and federal requirements. As a result of staff reductions and vacancies, AZRSA's ability to conduct this monitoring activity has been diminished.

Corrective Action 6: AZRSA must develop and implement procedures to ensure that:

- 6.1 fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
- 6.2 internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
- 6.3 it monitors all grant-supported activities.

7. Child Care Assistance Program - Unallowable Costs and Sources of Match

Legal Requirements:

- Rehabilitation Act - Sections 7(38), 103(a) and 111(a)(1)
- VR Program Regulations - 34 CFR 361.3, 361.12 and 361.60(b)(1)
- EDGAR - 34 CFR 80.24(a)

Finding:

A. Unallowable Use of VR Program Funds

The use of VR program funds to reimburse the DES Child Care Assistance (CCA) program for costs associated with individuals with disabilities receiving CCA services is not allowable under Sections 111(a)(1), 7(38) and 103(a) of the Rehabilitation Act. The CCA division within DERS regularly submits a list of its consumers receiving assistance to the VR program. VR then matches the CCA clients with the names of VR applicants and consumers. If the individual is receiving VR and CCA services, AZRSA reimburses the CCA program an amount equal to 78.7 percent of its costs and uses the remaining 21.3 percent as non-federal match. In some instances CCA is reimbursed 78.7 percent without the service having been identified as a needed VR service and listed on the IPE.

VR program funds may only be used for costs incurred in the provision of services and in the administration of the program (Section 111(a)(1) of the Rehabilitation Act). The Act defines “vocational rehabilitation services” for an individual as those services specified in Section 103(a) of the Act (Section 7(38)). Section 103(a) states that VR services are those services specified on an IPE. Therefore, a VR agency can only incur costs associated with the provision of services to an individual if the services are included in the individual’s IPE.

Because AZRSA did not verify that each of the individuals whose names were submitted by the CCA division were receiving CCA services as specified on each individual’s IPE, but rather merely compared the names of those provided with its list of VR program consumers, the reimbursements to the CCA division were unallowable expenditures under the VR program.

B. Unallowable Source of Match

The costs incurred by the CCA program in the provision of CCA services to VR consumers is not an allowable source of match for the VR program because the reimbursements made by AZRSA for such services were not allowable expenditures under the VR program. Non-federal expenditures used for satisfying VR match requirements must be for allowable expenditures under the VR program, which include expenditures for the cost of providing VR services and the cost for administering the VR program (34 CFR 361.3 and 361.60(b)(1); 34 CFR 80.24(a)). As described above, AZRSA reimbursed the CCA program for 78.7 percent of the costs the CCA incurred in the provision of services to VR consumers and used the remaining 21.3 percent of such costs to satisfy the agency's non-federal matching requirements for the VR program. As the reimbursements were not allowable expenditures under the VR program as described above, the 21.3 percent of the costs incurred by CCA cannot be used as the non-federal share for the VR program.

Corrective Action 7: AZRSA must:

- 7.1 cease using federal VR funds to reimburse CCA for services to VR consumers where the service has not been identified on the consumer's IPE and using the costs incurred by CCA to satisfy its non-federal share; and
- 7.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that VR funds will not be used to reimburse CCA for services provided to VR consumers where the service has not been identified on the consumer's IPE and will not use the costs incurred by CCA to satisfy its non-federal share.

8. Arizona Industries for the Blind – Unallowable Costs and Sources of Match

Legal Requirements:

- Rehabilitation Act - Sections 101(a)(2)(B), (15)(A), (C) and(D); 103(b)(2)(A); and 111(a)(1)
- VR Program Regulations – 34 CFR 361.3; 361.5(b)(2), (9), (17), (18)(v) and (58); 361.12; 361.29(a), (c) and (d); 361.49(a)(1); 361.60(b)(1) and (b)(3)(i)
- EDGAR - 34 CFR 80.20(a) and 80.24(a)
- OMB Circulars - 2 CFR 225, Appendix A, C.1.a, C.2 and C.3.a

Background:

Arizona Industries for the Blind (AIB), established in 1952, provides employment and training opportunities for Arizonans who are blind. Arizona statute Section 41-1972(A) authorizes AIB not only to produce goods and materials for sale, but also to provide training services for individuals who are blind. AIB operates under the AbilityOne Program and is an affiliate of National Industries for the Blind. State law established AIB as an organizational component

within AZRSA, but it is separate and distinct from AZRSA's VR program (Arizona State Statute Section 41-1971). See Finding 2 above.

According to Arizona state law, the AIB program receives no direct state revenue. However, Arizona state statute Section 41-1975(C) states:

The department of economic security, in addition to the monies paid into the industries for the blind fund as provided in subsection A of this section, may provide subsidy monies necessary to meet the costs set forth in subsection B of this section from other monies available to the department for rehabilitative purposes.

As noted in Finding 2 above and consistent with state law, AIB's IRS 990 disclosure form for 2009 states that AIB is self-sustaining through the sale of products and services and does not receive state funding. However, according to that same disclosure form, AIB received \$721,715 in federal VR funds in 2009 to support AIB's activities. AIB's total annual revenues for 2009 totaled \$9,004,861, with a net income of \$8,188,965 from gross sales.

Finding:

A. Whether the AIB expenditures are allowable under the VR program:

As a recipient of Title I VR funds, AZRSA must maintain procedures to ensure that it administers the VR program in an efficient and effective manner and accounts for the proper expenditure of VR funds (34 CFR 361.12 and 34 CFR 80.20(a)). AZRSA must ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (34 CFR 361.3). The Federal cost principles require that Federal funds be spent solely on allowable and allocable costs. To be allowable, costs must be necessary and reasonable for carrying out the federal program (2 CFR 225, Appendix A, C.1.a). To be considered reasonable, the cost must be one that would be incurred by a prudent person (2 CFR 225, Appendix A, C.2). To be allocable to the VR program, the cost must be proportional to the benefit received by the Federal program (2 CFR 225, Appendix A, C.3.a).

During the monitoring process, RSA learned from interviews with AZRSA management and the review of AZRSA's records and financial reports that AZRSA paid substantial sums of Title I VR funds to AIB to support its activities from FY 2007 through FY 2010. Some of those payments were made for the following invoiced costs.

- From FY 2007 through FY 2010, AIB invoiced AZRSA for ten percent of AIB's total administrative costs in each of those years. During that period, AIB invoiced AZRSA a total of \$609,724 in administrative costs. AZRSA used federal VR funds to pay AIB a total of \$479,853 (78.7 percent of the total invoiced costs); AIB paid the balance of \$129,871 (21.3 of the total invoiced costs) with its own non-federal funds. AZRSA, in

turn, counted those non-federal expenditures toward satisfying its non-federal share requirement under the VR program.

- From FY 2007 through FY 2010, AIB invoiced AZRSA a total of \$299,533 for various equipment and vehicle costs associated with the operation and maintenance of its Digital Data Scan unit and Production Service unit. AZRSA used federal VR funds to pay AIB \$235,732 (78.7 percent of the total invoiced costs); AIB paid the balance of \$63,801 (21.3 percent of the total invoiced costs) with its own non-federal funds. AZRSA counted those non-federal expenditures toward satisfying its non-federal share requirement under the VR program. Table 6.2 below contains a representative sample, but not all, of the AIB equipment and vehicle expenditures paid for with VR program funds during the period covered by the review, as documented in several spread sheets provided by AZRSA to RSA.

Table 6.2
Sample of AIB Expenditures Paid by AZRSA

Federal Fiscal Year	Federal Amount	Expense
2007	\$5,154.06	Application Server
2007	\$6,392.80	Power Storage Vault
2007	\$39,013.14	Isuzu Box Truck
2007	\$12,650.24	2 Scanners
2007	\$14,356.04	Automobile
2007	\$6,587.34	Copier
2008	\$13,392.37	Automobile
2008	\$30,590.69	Color Scanner
2010	\$28,794.75	Lift Truck
2010	\$4,981.65	Computer Server
2010	\$37,410.80	Reach Truck

- AIB invoiced AZRSA \$326,489 for supplies during this same period. AZRSA used federal VR funds to pay AIB \$256,947 (78.7 percent of the total invoiced costs); AIB paid the balance of \$69,542 (21.3 percent of the total invoiced costs) with its own non-federal funds. In turn, AZRSA counted those non-federal expenditures toward satisfying its non-federal share requirement under the VR program.
- During this same time period, AIB invoiced AZRSA a total of \$1,310,587 to cover the salary and benefit costs of some AIB staff. AZRSA used federal VR funds to pay AIB \$1,031,431 (78.7 percent of the total invoiced costs); AIB paid the balance of \$279,156 (21.3 percent of the total invoiced costs) with its own non-federal funds. AZRSA then counted those non-federal expenditures toward satisfying its non-federal share requirement under the VR program.

Given that AZRSA has used substantial sums of federal VR funds to pay for AIB-related costs, it is necessary for RSA to determine whether these costs are allowable under the VR program and under what authority AZRSA has used federal VR funds to pay for these costs. As stated above, VR funds must be used solely for the administration of the VR program and the provision of VR services to AZRSA applicants or consumers (34 CFR 361.3).

VR Administrative Costs:

In order to constitute an administrative cost under the VR program, the expenditures must be such that they were incurred in the performance of administrative functions under the VR program (34 CFR 361.5(b)(2)). The costs most relevant to this part of the analysis are the \$609,724 in administrative costs and the \$326,489 in supplies that AIB invoiced to AZRSA (see above). In this case, the expenditures were incurred by AIB -- not AZRSA, the DSU for the VR program. Therefore, it must be determined whether AIB incurred these expenditures while performing administrative functions under the VR State plan.

As described briefly above, but more fully in Finding 2 of this report, AIB is housed within AZRSA's organizational structure. As the DSU for the VR program, AZRSA is permitted under section 101(a)(2)(B) of the Rehabilitation Act to house non-VR programs and entities within its organizational structure, so long as AZRSA satisfies the requirements of section 101(a)(2)(B)(ii) that it -- as a DSU -- be primarily concerned with VR and other rehabilitation activities. Although AZRSA is primarily concerned with VR and other rehabilitation, AIB is one component of its organizational structure that is not (see Finding 2 of this report). While a small number of AZRSA consumers receive some training at AIB and those specific activities would be considered rehabilitation-related, the information that AZRSA provided to RSA during the monitoring process demonstrates that AIB primarily functions, consistent with its establishment under state law, as a production facility employing individuals who are blind and visually impaired and is self-supporting from the sale of manufactured goods. The VR and AIB funding streams are separate. Furthermore, AZRSA does not report AIB income as VR program income on its financial reports for the VR program. Finally and most significantly for this analysis, AZRSA does not include AIB as part of its operations under its VR State plan, and AZRSA does not administer AIB under the VR State plan. Therefore, administrative costs incurred by AIB and invoiced to AZRSA are not allowable under the VR program as administrative costs because they were not incurred during the performance of administrative functions under the VR State plan, as required by 34 CFR 361.5(b)(2). These expenditures also would not be allowable nor allocable in accordance with federal cost principles.

VR Service Costs:

To constitute an allowable expenditure as a VR service, the costs must be incurred in the provision of VR services to individuals in accordance with their approved IPEs, pursuant to 34 CFR 361.48, or to groups of individuals with disabilities, pursuant to 34 CFR 361.49 (34 CFR 361.5(b)(58)).

VR Services to Individuals:

In this case, AIB invoiced AZRSA for equipment and vehicle costs totaling \$299,533 from FY 2007 through FY 2010. AZRSA provided RSA with no documentation that demonstrated that these expenditures were for equipment or vehicles deemed to be a necessary VR service on any individual's approved IPE. Instead, it appeared from the invoices reviewed by RSA that these costs were merely those incurred by AIB to operate its Digital Data Scan and Production Services units. Therefore, these costs do not constitute a VR service to individuals, in accordance with 34 CFR 361.48, and are not allowable as such under the VR program.

VR Services to Groups – Establishment, Development, or Improvement of a CRP:

To constitute a VR service to groups, the VR services must promise to contribute substantially to the rehabilitation of groups of individuals with disabilities and must not be an individualized service listed on any one individual's approved IPE (34 CFR 361.49). While 34 CFR 361.49 itemizes many different possible VR services to groups of individuals with disabilities, the possible VR service most relevant to this analysis is the establishment, development, or improvement of a CRP pursuant to 34 CFR 361.49(a)(1). Under this authority, AZRSA is permitted to use federal VR funds for the establishment, development, or improvement of a public or other non-profit CRP that is used to provide VR services that promote integration and competitive employment.

Although AIB functions primarily as a production facility for manufactured goods, there is a component within AIB that provides work adjustment and other VR training for some AZRSA consumers. Therefore, AIB satisfies the definition of a CRP under the VR program as, "an agency, organization, or institution, or unit of an agency, organization, or institution, that provides directly or facilitates the provision of vocational rehabilitation services as one of its major functions." (34 CFR 361.5(b)(9)) Furthermore, as an entity established under State law and housed within a State agency, AIB is deemed to be a public entity.

As described in the background section of this finding, Arizona statute Section 41-1975 permits DES – the umbrella agency that houses AIB – to use "other monies available to the department for rehabilitation purposes" to subsidize AIB as necessary to meet its costs. According to the information provided by AZRSA during the monitoring process, AZRSA – the DSU for the VR program and also housed within DES – has used a substantial amount of federal VR funds to subsidize some of AIB's expenses. As we have demonstrated throughout this finding, these expenditures are not allowable under the VR program as either administrative costs or VR services to individuals. Given that AIB satisfies the definition of a public CRP under the VR program, it must be determined whether VR program regulations permit the use of federal VR funds to pay the above-described AIB expenditures under the authority to establish, develop, or improve a public CRP, as set forth at 34 CFR 361.49(a)(1). To expend federal VR funds for this purpose, AZRSA must satisfy certain requirements, each of which will be discussed separately below.

Planning Requirements:

Section 101(a)(15) of the Rehabilitation Act and 34 CFR 361.29 require that the DSU engage in substantial planning prior to starting “establishment” activities pursuant to section 103(b)(2)(A) of the Rehabilitation Act and 34 CFR 361.49(a)(1). The DSU, together with its SRC, must conduct an assessment of VR needs in the state every three years and include the results of that needs assessment in its State Plan (section 101(a)(15)(A) of the Rehabilitation Act and 34 CFR 361.29(a)). The assessment identifies the VR needs of individuals with the most significant disabilities and those from unserved or underserved populations, and includes a description of whether there is a need to establish, develop, or improve a CRP (section 101(a)(15)(A) of the Rehabilitation Act and 34 CFR 361.29(a)(1)). The DSU must use the results from its triennial needs assessment to develop goals and priorities for carrying out its VR program (section 101(a)(15)(C) of the Rehabilitation Act and 34 CFR 361.29(c)). The DSU must develop strategies to address the identified VR needs within the state and achieve its goals and priorities, including those related to the establishment, development, or improvement of a CRP (section 101(a)(15)(D) of the Rehabilitation Act and 34 CFR 361.29(d)). None of AZRSA’s State Plans for FYs 2006 through 2010 contained information from the triennial needs assessment that identified its goals, priorities, and strategies for engaging in activities for establishing, developing, or improving a CRP, and specifically AIB, as required by section 101(a)(15) of the Rehabilitation Act and 34 CFR 361.29.

In addition to these State Plan requirements, the DSU must develop and maintain written policies covering the nature and scope of VR services that will be provided to groups of individuals with disabilities, including those involving the establishment, development, or improvement of a CRP (34 CFR 361.49(b)(1)). These policies also must set forth the criteria under which these services will be provided (*Id.*). At the time of this review, AZRSA had not adopted policies meeting these requirements.

Because AZRSA had not satisfied these planning requirements, it was not authorized to use VR funds under section 103(b)(2)(A) of the Rehabilitation Act and 34 CFR 361.49(a)(1) to establish, develop, or improve a CRP, including AIB. Even if AZRSA had satisfied these pre-planning requirements, RSA still have concerns about the use of federal VR funds for the expenditures described above within the context of the establishment authority.

Use of VR funds under the “Establishment” Authority:

VR regulations at 34 CFR 361.5(b)(17) define the “establishment, development or improvement of a public or nonprofit [CRP]” as:

- the establishment of a facility for a public or non-profit CRP to provide VR services to VR consumers and applicants;
- staffing, if necessary, to establish, develop, or improve a CRP for the purpose of providing VR services to VR applicants and consumers for a maximum period of four years; and
- other expenditures related to the establishment, development, or improvement of a CRP that are necessary to make the program functional or increase its effectiveness in providing VR services to applicants or eligible individuals, but are not ongoing operating expenses of the program.

First, “establishment of a facility for a public or non-profit [CRP]” is defined at 34 CFR 361.5(b)(18) to include, in pertinent part, the costs of fixed or moveable equipment – including the installation costs for that equipment, if necessary to establish, develop, or improve a CRP (34 CFR 361.5(b)(18)(v)). Although an argument could be made that the vehicles and equipment invoiced by AIB to AZRSA from FY 2007 through FY 2010 constitute fixed or moveable equipment, AZRSA provided no evidence or documentation to support that these vehicles or equipment were purchased specifically for the establishment, development or improvement of a CRP necessary for the provision of VR services to AZRSA applicants and consumers, as required by 34 CFR 361.5(b)(18)(v).

To meet the definition of “establishment of a facility for a public or non-profit [CRP],” for purposes of the VR program, the expenditures must be necessary for the provision of VR services to AZRSA applicants and consumers (34 CFR 361.5(b)(17)(i)). AZRSA provided no evidence to support that any of its applicants and consumers were receiving VR training, pursuant to an approved IPE, in the Digital Data Scan or Production Services units at AIB, for which these vehicles and equipment were purchased. In fact, AZRSA management informed RSA during the monitoring process that AZRSA did not typically track the number of its consumers who were referred to AIB for VR training. Furthermore, AIB’s invoices contained no supporting documentation justifying that the amount invoiced to AZRSA for these vehicle and equipment costs (\$299,533) was proportional – if related at all -- to the number of AZRSA applicants and consumers benefitting from those purchases as part of their VR training at AIB. Those invoices contained no specific information about the AZRSA consumers receiving training and benefitting from those purchases.

As with any cost paid with VR funds, the cost must be allowable under the VR program (34 CFR 361.3) and traceable to a level of expenditure to ensure that the cost was allowable under the program (34 CFR 80.20(a)). In this case, there was no such documentation provided that ensures that these costs were allowable under the VR program to provide VR services to AZRSA consumers or used to benefit the VR program in any manner. Furthermore, there was no documentation that could be used to trace the expenditures to the provision of VR services to specific AZRSA consumers and which could support that the amount invoiced was proportional to the benefit the VR program

received. Absent such documentation, it appears that these purchases were for AIB's own benefit as a production facility. Given these deficiencies, the vehicle and equipment costs invoiced to and paid by AZRSA with VR funds were not allowable under the VR program nor allocable to the VR program in accordance with federal cost principles or the authority to establish, develop, or improve a facility for a public or non-profit CRP, pursuant to 34 CFR 361.5(b)(17), 34 CFR 361.5(b)(18), and 34 CFR 361.49(a)(1).

Second, in accordance with the definition of "establishment, development, or improvement of a public or non-profit [CRP]," VR funds may be used only to build the staff capacity of a CRP to provide VR services to applicants and eligible individuals in the manner prescribed at 34 CFR 361.5(b)(17)(ii). According to this regulatory provision, VR program funds can be used in the establishment, development or improvement of a CRP, "for a maximum period of 4 years, with federal financial participation available at the applicable matching rate..." The regulation then specifies the rate of federal participation in these costs, ranging from 100 percent in the first year to 45 percent in the fourth and final year.

In this case, AZRSA provided no documentation to demonstrate that these staffing costs were related to the establishment, development, or improvement of a CRP. For example, AZRSA provided no evidence to demonstrate that AIB hired additional rehabilitation teachers during the four-year period of FY 2007 through FY 2010 to increase the provision of VR services to AZRSA consumers. Absent such supporting documentation, the staffing costs appear to be on-going salaries and benefits for rehabilitation teachers employed at AIB and, therefore, such costs do not meet the definition at 34 CFR 361.5(b)(17)(ii). In addition, consistent with the invoices RSA reviewed, the staffing costs invoiced by AIB to AZRSA extended beyond the four years prescribed in 34 CFR 361.5(b)(17)(ii). Even if these staffing costs were within the four-year period allowed, AZRSA did not adhere to the prescribed levels of participation in those costs specified therein. Instead, AIB invoiced AZRSA for the total staffing costs (\$1,310,587) of its rehabilitation teachers for the period of FY 2007 through FY 2010. In turn, AZRSA paid AIB 78.7 percent of those costs, or \$1,031,431, with VR funds. Given that AZRSA failed to comply with the staffing requirements outlined at 34 CFR 361.5(b)(17)(ii), these costs were not allowable under the VR program for purposes of establishing, developing, or improving a CRP.

Third, in accordance with the definition of "establishment, development, or improvement of a public or non-profit [CRP]," AZRSA may use VR funds to pay for other costs necessary to make the CRP functional or increase its effectiveness in providing VR services to applicants or eligible individuals, but are not ongoing operating expenses of the program (34 CFR 361.5(b)(17)(iii)). As described in more detail above, AZRSA used VR funds to subsidize ten percent of AIB's administrative costs (\$609,724) and purchased supplies for AIB (\$326,489) during FYs 2007 through 2010. Administrative costs and supplies represent ongoing operating expenses of a CRP. Consequently,

AZRSA's use of VR program funds in this manner was not permissible under the regulations at 34 CFR 361.5(b)(17)(iii).

Furthermore, while an argument could be made that the costs of those AIB vehicles described above potentially fit within the definition of 34 CFR 361.5(b)(17)(iii), AZRSA provided no documentation to support that AIB's purchase of these vehicles were necessary for the provision of VR services to AZRSA consumers, as required by 34 CFR 361.5(b)(17), or that the amount of the cost invoiced to AZRSA was proportional to the number of AZRSA consumers benefitting from their use during the receipt of VR services at AIB, as required by 34 CFR 361.12 and 34 CFR 80.20(a). Without such documentation, AZRSA was not able to demonstrate that these expenditures were necessary to make AIB functional and improve its effectiveness in providing VR services to applicants and eligible individuals in accordance with 34 CFR 361.5(b)(17)(iii).

In summary, AZRSA did not engage in the necessary planning activities associated with the establishment, development or improvement of AIB as a CRP. In addition, it used VR program funds improperly to subsidize the ongoing operating expenses of AIB. Furthermore, the agency did not maintain supporting documentation necessary to demonstrate that the equipment and vehicles it purchased for AIB were used to provide VR services only to AZRSA applicants and eligible individuals, or that these expenditures were charged in a manner in proportion to the extent they benefited VR program applicants or eligible individuals. Finally, AZRSA did not pay for the costs of the rehabilitation teachers in a manner consistent with federal requirements for building the staff capacity of a CRP. For these reasons, AZRSA lacked the authority to use VR program funds to establish, develop or improve a CRP, namely AIB, and the above-referenced expenditures paid for with VR funds were not allowable under Section 103(b)(2)(A) of the Rehabilitation Act and 34 CFR 361.49(a)(1).

B. Whether AIB's Non-Federal Expenditures were an Allowable Source of Match under the VR Program

AZRSA may use non-federal expenditures to satisfy its match requirement under the VR program, so long as those expenditures are for allowable costs under the VR program, which include expenditures for the cost of providing VR services and the cost for administering the VR program (34 CFR 361.3 and 361.60(b)(1); 34 CFR 80.24(a)). More specifically, AZRSA may use non-federal expenditures incurred by a public CRP, including AIB, for the establishment, development, or improvement of a CRP to satisfy its match requirement under the VR program, if those expenditures are for allowable costs under the VR program (34 CFR 361.60(b)(3)(i)). From FY 2007 through FY 2010, AZRSA reimbursed AIB for a variety of expenses in the amount of 78.7 percent and used the remaining 21.3 percent of the total expenses to satisfy its non-federal share requirement under the VR program. For the reasons provided throughout this finding, these costs were neither allowable under, nor allocable to, the VR program. Therefore, the non-federal share of those same expenditures were not an allowable source of match under the VR program. Consequently, there was no legal basis for AZRSA to count the non-federal

share of those costs, as described in detail above, toward satisfying its match requirement under the VR program (34 CFR 361.60(b)).

Corrective Action 8: AZRSA must:

- 8.1 cease using federal VR funds to pay for AIB costs that are not allowable under the VR program and using these costs to meet AZRSA's non-federal share; and
- 8.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that AZRSA will:
 - A. comply with all requirements governing the establishment, development or improvement of a CRP as set forth in Section 103(b)(2)(A) and 34 CFR 361.49(a)(1);
 - B. ensure that VR funds are used to pay for costs that are proportional to the benefit received by the VR program, as required by the federal cost principles; and
 - C. ensure non-federal expenditures used for satisfying VR match requirements are for allowable expenditures under the VR program which include expenditures for the cost of providing VR services and the cost for administering the VR program (34 CFR 361.3 and 361.60(b)(1); 34 CFR 80.24(a)).

APPENDIX A: AGENCY RESPONSE

Section 4: Results of Prior Monitoring Activities

AZRSA requests additional technical assistance described below to enable it to carry out the following recommendations and/or compliance findings identified in the FY 2008 monitoring report.

Recommendations

1. Employment closures
2. Case Closures during the VR process
3. CRPs
4. Staff development and training
5. Management of staff resources and allocation
6. Transition services
7. Case management system
8. Strategic Planning: Systemic Approach to State Plan Development
9. Strategic Planning: Agency Communications
10. Quality assurance
11. Recouping of payments not earned
12. Contract Format and Payment Structure

Additional TA Requested: AZRSA requests technical assistance in #4 Staff Development and Training and in # 10 Quality Assurance.

Corrective Actions

1. Composition of the State Rehabilitation Council (SRC)
2. Certification of Staff Who Work On One Grant or Cost Objective

Additional TA Requested: AZRSA does not request technical assistance.

Section 5: Focus Areas

A. Organizational Structure

Observation 5.A.1: Administrative Rule Making by the DSA

Recommendation: 5.A.1: RSA recommends that AZRSA:

- 5.A.1.1 develop and implement a training module for the benefit of administrative law judges and other appropriate DSA staff involved with fair hearings and administrative reviews

- on AZRSA's current VR service policies and procedure, highlighting the areas where current AZRSA policy diverges from administrative rules;
- 5. A.1.2 work with appropriate DSA managers and staff to develop and implement a more flexible and timely process for the revision of administrative rules to reflect changes in the laws and regulations that govern the VR program; and
 - 5.A.1.3 provide training to the client assistance program and protection and advocacy grant representatives to enhance their understanding of AZRSA's VR service policies and procedures, highlighting areas where administrative rules may vary with current law.

Agency Response: Previous to this monitoring visit, AZRSA had already begun these training activities.

Technical Assistance: AZRSA does not request technical assistance.

B. Transition Services for Youth with Disabilities

Observation 5.B.1: Training of VR Counselors and Staff Providing Transition Services

Recommendation: RSA recommends that AZRSA:

- 5.B.1.1 utilize data to monitor the performance of the agency's transition initiatives to assess levels of performance throughout the state and implement targeting training based upon this data;
- 5.B.1.2 develop mechanisms through which staff from AZRSA and the school districts can exchange information about effective transition practices throughout the state;
- 5.B.1.3 develop a website for transition counselors to post resources and solutions to problematic cases to expand communications on how to improve services to this population; and
- 5.B.1.4 that TWS contracts be developed in consultation with VR transition staff to help AZRSA leadership and counseling staff to manage these contracts in a more uniform manner.

Agency Response: AZRSA concurs with this recommendation.

Technical Assistance: AZRSA requests technical assistance.

Section 6: Compliance Findings and Corrective Actions

1. Organizational Placement of the DSU

Corrective Action 1: AZRSA must:

- 1.1 work with the director of the Department of Economic Security (DES) to ensure that revisions will be made to the Department's organizational structure that will enable AZRSA

to comply with federal organizational requirements for the DSU of the VR program such that the revised organizational structure ensures that:

- a) the AZRSA administrator reports directly to the head of the DSA with no intervening organizational or administrative level; and
 - b) AZRSA has a status equal to other major organizational units within the DSA.
- 1.2 submit an assurance within 10 days of the issuance of the final monitoring report that it will comply with the requirements of the Rehabilitation Act Section 101(a)(2)(B)(ii)(IV), and 34 CFR 361.13(b)(1)(iv); and
- 1.3 develop a corrective action plan, within 45 days of the issuance of this final report, that specifies the steps it will take to resolve the finding, timelines for completion of those steps, and methods for evaluating that the steps taken have resolved the finding.

Agency Response: AZRSA does not concur.

The organizational structure that exists is in compliance with the Rehabilitation Act which requires that the DSU director report at an equal level to that of other major programs within the DSA. The AZRSA is treated in the same manner as other major programs within the Department. As an example, the Arizona Unemployment Insurance program (comprised of more than 400 employees and a budget in excess of \$500,000,000 annually) reports to the Deputy Assistant Director for the Division. Since the Division of Employment and Rehabilitation Services is one of the only divisions within the Department that is comprised of four distinct programs, the ability to have one or more of those programs report to the Deputy Assistant Director is vital to ensuring that all program issues are addressed with equal importance. The communication path of the AZRSA director to the DSA director is not hampered by the current reporting structure. In fact, the AZRSA director, the Deputy Assistant Director for the Division and the Assistant Director for the division meet bi-weekly to discuss issues in the program. Day-to-day supervisory responsibilities are addressed by the Deputy Assistant Director.

RSA Response: Section 101(a)(2)(B)(ii)(IV) of the Rehabilitation Act and its implementing regulations found at 34 CFR 361.13(b)(1)(iv) require that the DSU responsible for the administration and operation of the VR program be located within the DSA at an organizational level comparable to that of the major components of the DSA. As DERS is not identified as the DSA for the VR program, RSA has not based the finding on the placement of AZRSA in comparison to the other program offices within DERS and the line of communication that exists between the AZRSA administrator, the deputy assistant director and the assistant director of DERS. As explained in the finding, DES is recognized as the DSA based on information contained in Section 1 of the AZRSA FY 2011 and previous State Plans. According to the organizational charts of DES reviewed by RSA during the course of the review, DES consists of eleven major components, one of which is DERS. To satisfy the organizational requirements where DES is identified as the DSA, AZRSA must be located at a comparable level in relation to the eleven major components, including DERS, and the AZRSA administrator must have a direct line of communication with the DES director through the deputy director of programs. This is not the case under the current structure where AZRSA is located within, not on the same level with, DERS and a direct line of communication between the AZRSA administrator and the DES

director or his deputy does not exist. Consequently, RSA maintains the finding as written and AZRSA must take the necessary corrective actions to bring the organizational structure of the DSA and DSU for the VR program into compliance with the pertinent federal requirements.

Technical Assistance: AZRSA does not request technical assistance.

2. Percentage of DSU Staff Working Full-Time on the VR Program and other Rehabilitation Services

Corrective action 2: AZRSA must:

- 2.1 modify its organizational structure or adjust its staffing levels so that 90 percent of all staff are employed full-time on the rehabilitation work, including both VR and “other rehabilitation,” of the DSU for the VR program, as required by 34 CFR 361.13(b)(1)(iii);
- 2.2 submit an assurance within 10 days of the issuance of the final report that it will comply with the requirements of 34 CFR 361.13(b)(1); and
- 2.3 develop a corrective action plan, within 45 days of the issuance of this final report, that specifies the steps it will take to resolve the finding, timelines for completion of those steps, and methods for evaluating that the steps taken have resolved the finding.

Agency Response:

- 2.1 AZRSA does not concur. See comments below.
- 2.2 AZRSA does not concur. See comments below.
- 2.3 AZRSA does not concur. See comments below.

AZRSA currently meets the requirement that 90 percent of all staff are employed full-time on the rehabilitation work, including both VR and “other rehabilitation,” of the DSU for the VR program, as required by 34 CFR 361.13(b)(1)(iii). AZRSA absolutely considers AIB to be “other rehabilitation.”

This finding was quite a surprise as this interpretation had never been discussed with AZRSA before in any Arizona federal monitoring visits. To the best of our knowledge it has not been discussed with any other state VR agency during their monitoring visit. We do not understand the rationale for RSA to not consider AIB services as "other rehabilitation." RSA did not provide specific information as to why AIB, as a Community Rehabilitation Program (CRP) is not considered "other rehabilitation." The federal law, regulations, and federal register comments were general and provided only examples and did not provide a finite list of what other rehabilitation services. The references were illustrative of issues, but did not exclude CRPs like AIB from being considered “other rehabilitation.”

During a June 16, 2010, teleconference between the National Council of State Agencies for the Blind (NCSAB) and the RSA Commissioner, she was asked her position on the 90/10 Rule in relationship to Industries for the Blind . RSA staff stated that there would not be a problem with

a state's Disability Determination Unit (DDU) qualifying as other rehabilitation, therefore meeting the 90/10 requirement for the organization. AZRSA staff raised a number of issues with this finding and requested some clarification. AZRSA's understanding was that RSA would respond to these issues. To date RSA has not responded or provided further clarification to our question.

AZRSA does not concur with this finding for the reasons below.

1. The fact that Arizona's Industries for the Blind is not regarded as "other rehabilitation" is not supported by rehabilitation law or regulation.
2. AIB meets the definition of a community rehabilitation program as defined in 34 CFR 361.5 (b)(9). One of AIB's major functions is to provide a wide range of VR services to VR clients and most specifically to individuals who are blind.
3. RSA believes the concept of "other rehabilitation" includes programs and services that benefit people with disabilities that are not offered under the VR program. There is no question that AIB has a complimentary function in relation to the services provided under the Arizona VR program in addition to the VR services it provides.
4. The federal register definition referenced does not provide a complete list of what constitutes other rehabilitation. The examples in the federal register are intended to be illustrative, not finite.
5. There is no federal regulation or law that would define DDUs as more appropriate "other rehabilitation" than a CRP.
6. The capability of the Arizona VR program to best serve blind individuals would be weakened by the loss of AIB services.
7. The following rehabilitation positions further documents how AIB meets the definition of a community rehabilitation program and "other rehabilitation."

FY 2006

Rehabilitation Services Unit Manager

Part-time vocational evaluator

(2) Work Adjustment Specialists

Employment Services Supervisor

Employment Services Specialist/Job Coach

Technology Services Supervisor

Assistive Technology - Computer Instructor

Rehabilitation Services Technician

FY 2007

Rehabilitation Services Unit Manager
Part-time vocational evaluator
(2) Work Adjustment Specialists
Employment Services Supervisor
Employment Services Specialist/Job Coach
Assistive Technology - Computer Instructor
Rehabilitation Services Technician

FY 2008

Rehabilitation Services Unit Manager
Part-time Vocational Evaluator
(2) Work Adjustment Specialists
Employment Services Supervisor
Assistive Technology - Inventory Specialist
Assistive Technology - Computer Instructor
Rehabilitation Services Technician

FY 2009

Rehabilitation Services Unit Manager
Part-time Vocational Evaluator
(2) Work Adjustment Specialists
Employment Services Supervisor
Assistive Technology - Inventory Specialist
Assistive Technology - Computer Instructor
Rehabilitation Services Technician
Administrative Secretary I

FY 2010

Part-time vocational evaluator
(2) Work Adjustment Specialists
Assistive Technology - Inventory Specialist
Assistive Technology - Computer Instructor
Rehabilitation Services Technician
Administrative Secretary I

8. The following shows the number of VR clients and services provided by the rehabilitation positions listed in number 7 above. Again, this continues to document that AIB meets the definition of a community rehabilitation program (CRP) at 34 CFR 361.5 (b)(9).

FY 2006

(77) Assessment for vocational rehabilitation needs and evaluation of specific disabilities
(15) Job development, placement, and retention services
(22) Assistive Technology – Computer Training

- (57) Rehabilitation Technology Services
- (21) Specialized work adjustment

FY 2007

- (76) Assessment for vocational rehabilitation needs and evaluation of specific disabilities
- (13) Job development, placement, and retention services
- (35) Assistive Technology – Computer Training
- (22) Rehabilitation Technology Services
- (12) Specialized work adjustment

FY 2008

- (83) Assessment for vocational rehabilitation needs and evaluation of specific disabilities
- (33) Job development, placement, and retention services
- (36) Assistive Technology – Computer Training
- (61) Rehabilitation Technology Services
- (15) Specialized work adjustment

FY 2009

- (113) Assessment for vocational rehabilitation needs and evaluation of specific disabilities
- (5) Job development, placement, and retention services
- (48) Assistive Technology – Computer Training
- (37) Rehabilitation Technology Services
- (11) Specialized work adjustment

FY 2010

- (38) Assessment for vocational rehabilitation needs and evaluation of specific disabilities
- (19) Assistive Technology – Computer Training
- (16) Rehabilitation Technology Services
- (8) Specialized work adjustment

9. The following number of VR clients received work experience from AIB outside of the services listed in number 8:

FY 2006: 37
FY 2007: 34
FY 2008: 37
FY 2009: 34
FY 2010: 22

10. The number of rehabilitation staff compared to the number of administrative and business operations staff is as follows. This shows that rehabilitation staff is a significant portion of AIB positions. This documents that rehabilitation is a major function of AIB.

FY 2006

- # administrative staff = 16
- # operational staff = 22
- # rehabilitation staff=9

FY 2007

- # administrative staff = 13
- # operational staff = 24
- # rehabilitation staff=8

FY 2008

- # administrative staff = 14
- # operational staff = 30
- # rehabilitation staff=8

FY 2009

- # administrative staff = 13
- # operational staff = 31
- # rehabilitation staff=9

FY 2010

- # administrative staff = 12
- # operational staff = 31
- # rehabilitation staff=7

11. Over the past year, AZRSA has worked with AIB to increase their focus on VR services. For example, a new specific skill training program is being implemented on July 25, 2011. The first phase of specific skill training is in distribution. The next phase is for CNC training.

RSA Response: RSA does not contest AZRSA's assertion that AIB provides vocational and other rehabilitation services to eligible VR clients, and that AIB is a VR service provider in accordance with the definition of community rehabilitation programs. RSA also recognizes and encourages AIB's efforts to expand its training capacity. However, the 90 percent rule, as described in this finding, is not predicated on the number of VR clients receiving VR services, but rather the number of employees at AIB who work full-time on the provision of VR or other rehabilitation services. The number of full-time employees at AIB provided by AZRSA in the course of the review was 104, the majority of whom cannot be described as providing VR or other rehabilitation services on a full-time basis. While RSA appreciates that AIB staff engage in training that may be described as VR or other rehabilitation, the majority of the full-time employees of AIB work in its production units, which cannot be characterized as VR training or other rehabilitation.

The information provided above in AZRSA's response neither defines the categories of AIB employees, nor does it clarify whether these individuals work full or part-time on VR and other rehabilitation activities. Individuals described above as "rehabilitation" only constitute, at the most, nine individuals of the total number identified above. Even if these individuals worked full-time on VR and other rehabilitation activities, this would not mitigate the fact that 90 percent of AZRSA's employees do not perform VR program or other rehabilitation work on a full-time basis. AZRSA reported that 104 employees work with AIB, while a total of 484 employees work for AZRSA. Subtracting nine from the 104 AIB employees, leaving 95 employees, still results in 19 percent of AZRSA employees who do not work full-time on the provision of VR and other rehabilitation services. Therefore, RSA maintains the finding as written and AZRSA must take the steps necessary to resolve the finding as required by the corrective actions.

Technical Assistance: AZRSA does not request technical assistance.

3. Requirements for the Closure for an Individual Achieving an Employment Outcome

Corrective Action 3: In order to be in compliance with the definition of an employment outcome, and the requirements of the development of the IPE, and the procedures for employment closure found in the act and the regulations cited above, AZRSA must:

- 3.1 revise the AZRSA VR service policy manual to remove the requirement currently found in section F, page 164, that states that employment must be 35 hours a week; and
- 3.2 ensure that all VR counselors and staff receive training on how to implement the policy changes regarding employment outcomes.

Agency Response: AZRSA does not agree that this issue rises to the level of a finding as there were avenues within our policy to allow for closure of less than full-time. We believe this should instead be at the level of a recommendation.

- 3.1 AZRSA has revised the policy manual to remove the requirement previously found in section F, page 164.
- 3.2 On June 1, 2011, all AZRSA staff were notified via email regarding the change in policy and the current expectations of the agency in regards to client choice and a client driven goal. This was further emphasized and explored on June 6-7, 2011 in a meeting with all management and supervisors who were then instructed to take the information back to their staff. The AZRSA policy unit has also put together a work group of vocational counselors to develop a best practices document in relation to working with clients to develop a vocational goal with an emphasis on client choice and the use of vocational counseling to assist the client in developing an employment goal that meets the clients unique strengths, resources, priorities, concerns, abilities, capabilities, and interests and also ensuring that the client is making an informed choice in regards to this vocational goal. This work group met for the first time on June 20, 2011. Further training for all vocational counselors will occur when this document is finalized to ensure that all vocational counselors have an

understanding of the agencies expectations and of methods to help client's determine and meet their goals.

RSA Response: RSA recognizes and appreciates AZRSA's proactive efforts to redress this issue by changing the VR service policy manual to remove the reference to full-time employment cited in this finding, and to commence with the training of agency staff to ensure that the policy for employment closures are carried out in a manner compliant with federal regulations. Nevertheless, given that the employment closure policy referenced in this finding existed at the time of the review, and that a number of supervisors and VR counselors operated in accordance with this policy, the finding stands.

Technical Assistance: AZRSA requests further technical assistance in the area of client driven plans.

4. Program Income Disbursement and Reporting

Corrective Action 4:

- 4.1 AZRSA 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, AZRSA 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);
- 4.2 AZRSA must submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will report program income completely and accurately on the SF-269/FFR-425 reports as required by 34 CFR 361.12 and 34 CFR 80.20. AZRSA must correct the amount of program income reported on the final FY 2007 SF-269 and the FY 2010 SF-425 reports. In addition, the FY 2006-2010 SF-269/SF-425 reports for the IL program must be revised to include the amount of VR program income received and expended.

Agency Response: AZRSA concurs. However, we request a waiver regarding the use of program income as it is an administrative burden to the DSU.

RSA Response: RSA does not have the authority to waive this legal requirement and therefore, the agency must implement the required corrective actions. RSA has provided additional TA to the agency regarding efficient methods for implementing this requirement.

Technical Assistance: AZRSA requests technical assistance.

5. Personnel Costs Charged Directly to Grant

Corrective Action 5: AZRSA must develop policies and procedures that define:

- 5.1 what services direct staff may charge to the VR and other programs (e.g., IL, IL-OIB, SE);
- 5.2 what supporting documentation is required to be maintained; and
- 5.3 the internal controls implemented to ensure that costs associated with services provided are only charged to the benefitting grant.

Agency Response: AZRSA concurs.

RSA Response: No response required.

Technical Assistance: AZRSA does not request technical assistance.

6. Internal Controls for TPCAs

Corrective Action 6: AZRSA must develop and implement procedures to ensure that:

- 6.1 fiscal controls permit the tracking of expenditures necessary to ensure that the funds are not used in violation of restrictions and prohibitions of applicable statutes;
- 6.2 internal controls are in place to ensure that all program assets are maintained and accounted for, and used solely for authorized purposes; and
- 6.3 AZRSA monitors all grant-supported activities.

Agency Response: AZRSA concurs.

RSA Response: No response required.

Technical Assistance: AZRSA requests technical assistance.

7. Child Care Assistance Program - Unallowable Costs and Sources of Match

Corrective Action 7: AZRSA must:

- 7.1 cease using federal VR funds to reimburse CCA for services to VR consumers where the service has not been identified on the consumer's IPE and using the costs incurred by CCA to satisfy its non-federal share; and
- 7.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that VR funds will not be used to reimburse CCA for services provided to VR consumers where the service has not been identified on the consumer's IPE and will not use the costs incurred by CCA to satisfy its non-federal share.

Agency Response: AZRSA does not concur.

The Rehabilitation Act prescribes that services may be provided to family members in order for the applicant or eligible individual to achieve an employment outcome (34 CFR 361.48 (i)). The

AZRSA counselors documented the need for child care services in the client's case plan and file when clients requested that type of service in order to meet the client's goal of obtaining or retaining employment. While the AZRSA understands that the Vocational Rehabilitation grant is the payer of last resort, there is conflicting requirements of the same nature for the Child Care Development Fund (CCDF) block grant that the Department utilizes for payment of child care services. To ensure that eligible clients receive services, the Department had instituted a cross match, whereby AZRSA clients involved with the Child Care program were identified and the match funding for the VR grant was provided from the Child Care program State General Fund appropriation. This is an eligible source of non-federal matching funds.

RSA Response: During the onsite review, RSA staff reviewed the process used by AZRSA staff to match the names of VR applicants with those receiving services through the Child Care program. Payments were made based upon a simple name match between the two data sets.

The list of VR consumers matched with the Child Care Development Fund (CCDF) participants did not identify those VR consumers with an IPE goal related to child care services or the IPE plan dates. It was also unclear how the agency ensured the number of hours of service identified on the IPE matched the amount provided through the Child Care Development Fund (CCDF). For example, if the IPE identified the service as needed during a six-month period when the VR consumer was receiving training, there was no process to ensure only those associated CCDF expenses were counted toward match. Due to the lack of internal controls or processes necessary to ensure the costs were allowable VR program costs, the finding remains unchanged.

In addition, the State Plan for CCDF Services in Arizona for the period beginning October 1, 2009 and ending September 30, 2011, indicated that state funds were being used to meet state match and maintenance of effort funds for the CCDF program. State funds used to meet the matching or maintenance of effort requirement of another federal program may not be used as match for the VR program. Because CCDF provides child care subsidies utilizing federal and state funds, it is unclear how the agency can track the specific VR services being provided to ensure that only state funds, not used as CCDF match, were expended for the provision of allowable VR child care services.

Technical Assistance: AZRSA does not request technical assistance.

8. Arizona Industries for the Blind – Unallowable Costs and Sources of Match

Corrective Action 8: AZRSA must:

- 8.1 cease using federal VR funds to pay for AIB costs that are not allowable under the VR program and using these costs to meet AZRSA's non-federal share; and
- 8.2 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that AZRSA will:
 - A. comply with all requirements governing the establishment, development or improvement of a CRP as set forth in Section 103(b)(2)(A) and 34 CFR 361.49(a)(1);

- B. ensure that VR funds are used to pay for costs that are proportional to the benefit received by the VR program, as required by the federal cost principles; and
- C. ensure non-federal expenditures used for satisfying VR match requirements are for allowable expenditures under the VR program which include expenditures for the cost of providing VR services and the cost for administering the VR program (34 CFR 361.3 and 361.60(b)(1); 34 CFR 80.24(a)).

Agency Response:

8.1 AZRSA does not concur. Until the new MTAG was released in May 2011 and the federal monitoring review was conducted, AZRSA was not aware that the VR funds spent on services were unallowable.

During the monitoring visit, RSA provided additional guidance on the use of VR funds for the Arizona Industries for the Blind. Since the monitoring visit, AZRSA has implemented new procedures where AIB is listed as a vendor in our Libera Client Case Management system to allow rehabilitation counselors to authorize IPE services and payments to AIB based upon provision of VR services provided to VR clients. We are in the process of creating the necessary documentation to allocate AIB administrative costs to VR clients. AZRSA will modify its VR State Plan to document using the establishment authority in relation to the AIB. The needs assessment already documents the need for additional training services.

8.2 AZRSA does not concur with the language as written. If RSA is saying that AZRSA needs to now comply with all requirements governing the establishment, development or improvement of a CRP as set forth in Section 103(b)(2)(A) and 34 CFR 361.49(a)(1) for any establishment, development, or improvement of AIB using VR funds, we concur.

If RSA is saying that AZRSA will not reimburse for any expenditures, we do not concur. In regard to the last part of the finding "...and will not use the costs incurred by AIB to satisfy its non-federal share." we do not understand or concur. This requirement has not been discussed with AZRSA. AZRSA believes there are multiple situations addressed by 34CFR361.60 where AIB can match VR funds. AZRSA plans on modifying its VR State Plan to document using the establishment authority in relation to the AIB. The needs assessment already documents the need for additional training services.

RSA Response: Upon the review of AZRSA's response to Corrective Actions 8.1 and 8.2, RSA has revised the text of the finding, including the corrective actions, found in Section 6 of this report to clarify that the administrative costs and other expenditures incurred by AIB for equipment, vehicles, supplies and staff described in the finding were not allowable expenditures under the VR program as administrative costs, services to individuals or services to groups through the authority to establish, improve or develop a CRP. AZRSA's response did not provide any additional information or supporting documentation demonstrating that the costs included in the finding were in fact allowable VR program expenditures. Because these costs

could not be charged to the VR program as explained in the finding, the non-federal expenditures incurred by AIB for these same costs could not be used by AZRSA to satisfy its match requirement for the program. Therefore, although the finding has been revised for the purpose of clarification, RSA's conclusion contained in the draft report, dated June 26, 2011, remains unchanged and AZRSA must take the necessary steps to resolve the finding as required in Corrective Actions 8.1 and 8.2.

Finally, RSA emphasizes that AZRSA can use the establishment authority as set forth in 34 CFR 361.49(a)(1), 361.5(b)(17) and 361.5(b)(18) only to expand, improve or develop the capacity of AIB to provide VR services to AZRSA VR program applicants or consumers. AZRSA cannot use VR program funds to subsidize current and on-going AIB expenditures.

Technical Assistance: AZRSA does not request technical assistance.

APPENDIX B: LEGAL REQUIREMENTS

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

The Rehabilitation Act of 1973, as amended

Section 7(38) Vocational Rehabilitation Services

The term "vocational rehabilitation services" means those services identified in section 103 which are provided to individuals with disabilities under this Act.

Section 101(A)

(2) Designated state agency; designated state unit

(A) Designated state agency

The State plan shall designate a State agency as the sole State agency to administer the plan, or to supervise the administration of the plan by a local agency, except that--

- (i) where, under State law, the State agency for individuals who are blind or another agency that provides assistance or services to adults who are blind is authorized to provide vocational rehabilitation services to individuals who are blind, that agency may be designated as the sole State agency to administer the part of the plan under which vocational rehabilitation services are provided for individuals who are blind (or to supervise the administration of such part by a local agency) and a separate State agency may be designated as the sole State agency to administer or supervise the administration of the rest of the State plan;
- (ii) the Commissioner, on the request of a State, may authorize the designated State agency to share funding and administrative responsibility with another agency of the State or with a local agency in order to permit the agencies to carry out a joint program to provide services to individuals with disabilities, and may waive compliance, with respect to vocational rehabilitation services furnished under the joint program, with the requirement of paragraph (4) that the plan be in effect in all political subdivisions of the State; and
- (iii) in the case of American Samoa, the appropriate State agency shall be the Governor of American Samoa.

(B) Designated state unit

The State agency designated under subparagraph (A) shall be--

- (i) a State agency primarily concerned with vocational rehabilitation, or vocational and other rehabilitation, of individuals with disabilities; or
- (ii) if not such an agency, the State agency (or each State agency if 2 are so designated) shall include a vocational rehabilitation bureau, division, or other organizational unit that--

- (I) is primarily concerned with vocational rehabilitation, or vocational and other rehabilitation, of individuals with disabilities, and is responsible for the vocational rehabilitation program of the designated State agency;
- (II) has a full-time director;
- (III) has a staff employed on the rehabilitation work of the organizational unit all or substantially all of whom are employed full time on such work; and
- (IV) is located at an organizational level and has an organizational status within the designated State agency comparable to that of other major organizational units of the designated State agency. ***

(15) Annual state goals and reports of progress

(A) Assessments and estimates

The State plan shall--

- (i) include the results of a comprehensive, statewide assessment, jointly conducted by the designated State unit and the State Rehabilitation Council (if the State has such a Council) every 3 years, describing the rehabilitation needs of individuals with disabilities residing within the State, particularly the vocational rehabilitation services needs of--
 - (I) individuals with the most significant disabilities, including their need for supported employment services...
- (ii) include an assessment of the need to establish, develop, or improve community rehabilitation programs within the State; and
- (iii) provide that the State shall submit to the Commissioner a report containing information regarding updates to the assessments, for any year in which the State updates the assessments...

(C) Goals and priorities

(i) In general

The State plan shall identify the goals and priorities of the State in carrying out the program. The goals and priorities shall be jointly developed, agreed to, and reviewed annually by the designated State unit and the State Rehabilitation Council, if the State has such a Council. Any revisions to the goals and priorities shall be jointly agreed to by the designated State unit and the

State Rehabilitation Council, if the State has such a Council. The State plan shall provide that the State shall submit to the Commissioner a report containing information regarding revisions in the goals and priorities, for any year in which the State revises the goals and priorities.

(ii) Basis

The State goals and priorities shall be based on an analysis of--

- (I) the comprehensive assessment described in subparagraph (A), including any updates to the assessment;
- (II) the performance of the State on the standards and indicators established under section 106; and
- (III) other available information on the operation and the effectiveness of the vocational rehabilitation program carried out in the State, including any reports received from the State Rehabilitation Council, under section 105(c) and the findings and recommendations from monitoring activities conducted under section 107...

(D) Strategies

The State plan shall contain a description of the strategies the State will use to address the needs identified in the assessment conducted under subparagraph (A) and achieve the goals and priorities identified in subparagraph (C), including...

- (iii) where necessary, the plan of the State for establishing, developing, or improving community rehabilitation programs;

Sec. 111(a)(1) of the Rehabilitation Act

Except as provided in paragraph (2), from each State's allotment under this part for any fiscal year, the Commissioner shall pay to a State an amount equal to the Federal share of the cost of vocational rehabilitation services under the plan for that State approved under section 101, including expenditures for the administration of the State plan.

Section 103(b)

Vocational rehabilitation services provided for the benefit of groups of individuals with disabilities may also include the following...

- (2)(A) The establishment, development, or improvement of community rehabilitation programs, including, under special circumstances, the construction of a facility. Such programs shall be used to provide services that promote integration and competitive employment.

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 361.5(b)(2)

Administrative costs under the State plan means expenditures incurred in the performance of administrative functions under the vocational rehabilitation program carried out under this part...

This section defines administrative costs for purposes of the VR program as those incurred in the performance of administrative functions under the program. The definition gives many examples of administrative costs, including those expenditures incurred in the operation and maintenance of VR facilities, equipment and grounds, and administrative salaries (including for those personnel who support these administrative functions).

34 CFR 361.5(b)(9)

- (i) Community rehabilitation program means a program that provides directly or facilitates the provision of one or more of the following vocational rehabilitation services to individuals with disabilities to enable those individuals to maximize their opportunities for employment, including career advancement...
- (ii) For the purposes of this definition, the word program means an agency, organization, or institution, or unit of an agency, organization, or institution, that provides directly or facilitates the provision of vocational rehabilitation services as one of its major functions.

34 CFR 361.5(b)(16)

Employment outcome means, with respect to an individual, entering or retaining full-time or, if appropriate, part-time competitive employment, as defined in §361.5(b)(11), in the integrated labor market; supported employment; or any other type of employment, including self-employment, telecommuting, or business ownership, that is consistent with an individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

34 CFR 361.5(b)(17)

Establishment, development, or improvement of a public or nonprofit community rehabilitation program means --

- (i) The establishment of a facility for a public or nonprofit community rehabilitation program as defined in paragraph (b)(18) of this section to provide vocational rehabilitation services to applicants or eligible individuals;
- (ii) Staffing, if necessary to establish, develop, or improve a community rehabilitation program for the purpose of providing vocational rehabilitation services to applicants or eligible individuals, for a maximum period of 4 years, with Federal financial participation available at the applicable matching rate for the following levels of staffing costs:
 - (A) 100 percent of staffing costs for the first year.
 - (B) 75 percent of staffing costs for the second year.
 - (C) 60 percent of staffing costs for the third year.
 - (D) 45 percent of staffing costs for the fourth year; and
- (iii) Other expenditures related to the establishment, development, or improvement of a community rehabilitation program that are necessary to make the program functional or increase its effectiveness in providing vocational rehabilitation services to applicants or eligible individuals, but are not ongoing operating expenses of the program.

34 CFR 361.5(b)(18)

Establishment of a facility for a public or nonprofit community rehabilitation program means:

- (v) The acquisition of fixed or movable equipment, including the costs of installation of the equipment, if necessary to establish, develop, or improve a community rehabilitation program.

34 CFR 361.5(b)(58)

Vocational rehabilitation services--

- (i) If provided to an individual, means those services listed in §361.48; and
- (ii) If provided for the benefit of groups of individuals, also means those services listed in §361.49.

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 361.13

(b) Designation of State unit.

- (1) If the designated State agency is not of the type specified in paragraph (a)(1)(i) of this section or if the designated State agency specified in paragraph (a)(3) of this section is not primarily concerned with vocational rehabilitation or vocational and other rehabilitation of individuals with disabilities, the State plan must assure that the agency (or each agency if two agencies are designated) includes a vocational rehabilitation bureau, division, or unit that--
 - (i) Is primarily concerned with vocational rehabilitation or vocational and other rehabilitation of individuals with disabilities and is responsible for the administration of the State agency's vocational rehabilitation program under the State plan;
 - (ii) Has a full-time director;
 - (iii) Has a staff, at least 90 percent of whom are employed full time on the rehabilitation work of the organizational unit; and
 - (iv) Is located at an organizational level and has an organizational status within the State agency comparable to that of other major organizational units of the agency.
- (2) In the case of a State that has not designated a separate State agency for individuals who are blind, as provided for in paragraph (a)(3) of this section, the State may assign responsibility for the part of the plan under which vocational rehabilitation services are provided to individuals who are blind to one organizational unit of the designated State agency and may assign responsibility for the rest of the plan to another organizational unit of the designated State agency, with the provisions of paragraph (b)(1) of this section applying separately to each of these units.

34 CFR 361.29

(a) Comprehensive statewide assessment. (1) The State plan must include--

- (i) The results of a comprehensive, statewide assessment, jointly conducted by the designated State unit and the State Rehabilitation Council (if the State unit has a Council) every 3 years describing the rehabilitation needs of individuals with disabilities residing within the State, particularly the vocational rehabilitation services needs of--
 - (A) Individuals with the most significant disabilities, including their need for supported employment services;...
 - (ii) An assessment of the need to establish, develop, or improve community rehabilitation programs within the State.
- (2) The State plan must assure that the State will submit to the Secretary a report containing information regarding updates to the assessments under paragraph (a) of this section for any year in which the State updates the assessments.

(c) Goals and priorities.

- (1) In general. The State plan must identify the goals and priorities of the State in carrying out the program.

- (2) Council. The goals and priorities must be jointly developed, agreed to, reviewed annually, and, as necessary, revised by the designated State unit and the State Rehabilitation Council, if the State unit has a Council.
- (3) Submission. The State plan must assure that the State will submit to the Secretary a report containing information regarding revisions in the goals and priorities for any year in which the State revises the goals and priorities.
- (4) Basis for goals and priorities. The State goals and priorities must be based on an analysis of--
 - (i) The comprehensive statewide assessment described in paragraph (a) of this section, including any updates to the assessment;
 - (ii) The performance of the State on the standards and indicators established under section 106 of the Act; and
 - (iii) Other available information on the operation and the effectiveness of the vocational rehabilitation program carried out in the State, including any reports received from the State Rehabilitation Council under §361.17(h) and the findings and recommendations from monitoring activities conducted under section 107 of the Act...
- (d) Strategies.
The State plan must describe the strategies the State will use to address the needs identified in the assessment conducted under paragraph (a) of this section and achieve the goals and priorities identified in paragraph (c) of this section, including--
 - (3) As applicable, the plan of the State for establishing, developing, or improving community rehabilitation programs.

34 CFR 361.45 Development of the individualized plan for employment.

- (a) General requirements. The State plan must assure that--
 - (1) An individualized plan for employment (IPE) meeting the requirements of this section and §361.46 is developed and implemented in a timely manner for each individual determined to be eligible for vocational rehabilitation services or, if the designated State unit is operating under an order of selection in accordance with §361.36, for each eligible individual to whom the State unit is able to provide services; and
 - (2) Services will be provided in accordance with the provisions of the IPE.
- (b) Purpose.
 - (1) The designated State unit must conduct an assessment for determining vocational rehabilitation needs, if appropriate, for each eligible individual or, if the State is operating under an order of selection, for each eligible individual to whom the State is able to provide services. The purpose of this assessment is to determine the employment outcome, and the nature and scope of vocational rehabilitation services to be included in the IPE.
 - (2) The IPE must be designed to achieve a specific employment outcome, as defined in §361.5(b)(16), that is selected by the individual consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

34 CFR 361.49

- (a) The designated State unit may also provide for the following vocational rehabilitation services for the benefit of groups of individuals with disabilities:
 - (1) The establishment, development, or improvement of a public or other nonprofit community rehabilitation program that is used to provide vocational rehabilitation services that promote integration and competitive employment, including, under special circumstances, the construction of a facility for a public or nonprofit community rehabilitation program. Examples of "special circumstances" include the destruction by natural disaster of the only available center serving an area or a State determination that construction is necessary in a rural area because no other public agencies or private nonprofit organizations are currently able to provide vocational rehabilitation services to individuals.

34 CFR 361.56

Requirements for closing the record of services of an individual who has achieved an employment outcome.

The record of services of an individual who has achieved an employment outcome may be closed only if all of the following requirements are met:

- (a) Employment outcome achieved. The individual has achieved the employment outcome that is described in the individual's IPE in accordance with §361.46(a)(1) and is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.
- (b) Employment outcome maintained. The individual has maintained the employment outcome for an appropriate period of time, but not less than 90 days, necessary to ensure the stability of the employment outcome, and the individual no longer needs vocational rehabilitation services.
- (c) Satisfactory outcome. At the end of the appropriate period under paragraph (b) of this section, the individual and the qualified rehabilitation counselor employed by the designated State unit consider the employment outcome to be satisfactory and agree that the individual is performing well in the employment.
- (d) Post-employment services. The individual is informed through appropriate modes of communication of the availability of post-employment services.

34 CFR 361.60(b)(1)

- (b) Non-Federal share.
 - (1) General. Except as provided in paragraph (b)(2) and (3) of this section, expenditures made under the State plan to meet the non-Federal share under this section must be consistent with the provisions of 34 CFR 80.24...
 - (3) Contributions by private entities. Expenditures made from contributions by private organizations, agencies, or individuals that are deposited in the account of the State agency or sole local agency in accordance with State law and that are earmarked, under a

condition imposed by the contributor, may be used as part of the non-Federal share under this section if the funds are earmarked for--

- (i) Meeting in whole or in part the State's share for establishing a community rehabilitation program or constructing a particular facility for community rehabilitation program purposes;

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 expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - (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. 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 80.24(a) and (b)(6)

- (a) Basic rule: Cost and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:

- (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties...
- (b) Qualifications and exceptions—
- (6) Records. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors...

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 225, Appendix A, C.1, C.2, & C.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.

- C.2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately

federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
 - b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
 - c. Market prices for comparable goods or services.
 - d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
 - e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.
- C.3. Allocable costs.
- a. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
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Guidance from the Federal Register

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

“The Secretary does not believe that the proposed requirement that at least 90 percent of the designated State unit staff shall work full time on the rehabilitation work of the organizational unit is unduly restrictive. This provision means that if the organizational unit provides other rehabilitation services, in addition to vocational rehabilitation, the 90 percent staffing requirement applies to all unit staff providing rehabilitation services, not to just the vocational rehabilitation staff. "Other rehabilitation" includes, but is not limited to, other programs that provide medical, psychological, educational, or social services to individuals with disabilities. Although some commenter’s believed the 90 percent staffing requirement sets too restrictive a standard, the Secretary believes that this requirement is consistent with the statutory requirement in section 101(a)(2)(A)(iii) of the Act that “substantially all” of the DSU’s staff shall work on rehabilitation and with RSA’s longstanding interpretation of “substantially all” to mean 90 percent.”

RSA Sub-regulatory Issuances

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

“...[i]n evaluating the comparability of the organizational level and status of the organizational unit, the Secretary will give consideration to such factors as the directness of the reporting line from the administrator of the organizational unit for vocational rehabilitation to the chief officer of the designated state agency; the title, status, and grade of the administrator of the organizational unit for VR, as compared with those of the heads of other organizational units of the state agency; the extent to which the administrator of the VR organizational unit can

determine the scope and policies of the VR program; and the kind and degree of authority delegated to the administrator of the VR organizational unit for the administration of the VR program.”