

**FISCAL YEAR 2012
MONITORING REPORT
ON THE
MARYLAND DIVISION OF
REHABILITATION SERVICES
VOCATIONAL REHABILITATION
PROGRAM**



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

SEPTEMBER 5, 2012

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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 Maryland Division of Rehabilitation Services (DORS) in federal fiscal year (FY) 2012, 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, as applicable, 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 June 11, 2012 through June 13, 2012 is described in detail in the FY 2012 Monitoring and Technical Assistance Guide for the Vocational Rehabilitation Program.

Emerging Practices

Through the course of its review, RSA collaborated with DORS, 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.

Transition

- **Specialized Autism Services:** DORS, Community College of Baltimore County (CCBC), and Hannah More, a secondary school for students on the autism spectrum, initially collaborated in a grant funded project called the Pathways Project, which provided comprehensive supports to individuals with autism enrolled at a local community college.

Improvement of Employment Outcomes

- **Customized and Partnership Trainings:** DORS's Workforce & Technology Center (WTC) developed Customized and Partnership Trainings, which provide short-term, intensive training for individuals not pursuing college degrees who are interested in obtaining an industry certification and/or the skills required to enter employment that will provide a higher average entry wage.

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

Summary of Compliance Findings

RSA's review resulted in the identification of a compliance finding in the fiscal integrity focus area as specified below. The complete finding and the corrective actions that DORS must undertake to bring itself into compliance with pertinent legal requirements are contained in Section 6 of this report.

- DORS is not in compliance with federal regulations because it charged administrative costs for non-VR programs to the VR program and administrative staff did not complete personnel activity reports or equivalent documentation necessary to support personnel expenditures.

Development of the Technical Assistance Plan

RSA will collaborate closely with DORS and the Region 3 TACE, George Washington Center for Rehabilitation Counseling Research and Education (GW CRCRE), to develop a plan to address the technical assistance needs identified by DORS in Appendix A of this report. RSA, DORS and the GW CRCRE will conduct a teleconference within 60 calendar 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, DORS and GW CRCRE 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 Joe Doney (Technical Assistance Unit); Ed West, Zera Hoosier, and Sandy DeRobertis (Vocational Rehabilitation Unit); David Steele and Tarsha Johnson (Fiscal Unit); Joan Ward (Data Collection and Analysis Unit); and Pamela Hodge (Independent Living 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 DORS for the cooperation and assistance extended throughout the monitoring process. RSA also appreciates the participation of the SRC, the Client Assistance Program and advocates, and other stakeholders in the monitoring process.

SECTION 2: PERFORMANCE ANALYSIS

This analysis is based on a review of the programmatic and fiscal data contained in Tables 2.1 and 2.2 below and is intended to serve as a broad overview of the VR program administered by DORS. It should not be construed as a definitive or exhaustive review of all available agency VR program data. As such, the analysis does not necessarily capture all possible programmatic or fiscal trends. In addition, the data in Table 2.1 measures performance based on individuals who exited the VR program during federal fiscal years 2007 through 2011. Consequently, the table and accompanying analysis do not provide information derived from DORS open service records including that related to current applicants, individuals who have been determined eligible and those who are receiving services. DORS may wish to conduct its own analysis, incorporating internal open caseload data, to substantiate or confirm any trends identified in the analysis.

Performance Analysis

VR Program Analysis

Table 2.1
DORS Program Performance Data for Federal FY 2007 through Federal FY 2011

All Individual Cases Closed	Number, Percent, or Average	2007	2008	2009	2010	2011	Change from 2007 to 2011	Agency Type 2011
TOTAL CASES CLOSED	Number	10,841	6,317	7,920	7,780	9,591	-1,250	273,950
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	-11.5%	100.0%
Exited as an applicant	Number	1,296	886	829	818	760	-536	45,694
	Percent	12.0%	14.0%	10.5%	10.5%	7.9%	-41.4%	16.7%
Exited during or after trial work experience/extended evaluation	Number	222	93	59	40	34	-188	1,910
	Percent	2.0%	1.5%	0.7%	0.5%	0.4%	-84.7%	0.7%
TOTAL NOT DETERMINED ELIGIBLE	Number	1,518	979	888	858	794	-724	47,604
	Percent	14.0%	15.5%	11.2%	11.0%	8.3%	-47.7%	17.4%
Exited without employment after IPE, before services	Number	954	192	437	662	1,266	312	8,173
	Percent	8.8%	3.0%	5.5%	8.5%	13.2%	32.7%	3.0%
Exited from order of selection waiting list	Number	521	405	187	146	314	-207	2,978
	Percent	4.8%	6.4%	2.4%	1.9%	3.3%	-39.7%	1.1%
Exited without employment after eligibility, before IPE	Number	1,642	1,769	2,933	2,323	1,738	96	62,559
	Percent	15.1%	28.0%	37.0%	29.9%	18.1%	5.8%	22.8%
TOTAL EXITED AFTER ELIGIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	3,117	2,366	3,557	3,131	3,318	201	73,710
	Percent	28.8%	37.5%	44.9%	40.2%	34.6%	6.4%	26.9%

All Individual Cases Closed	Number, Percent, or Average	2007	2008	2009	2010	2011	Change from 2007 to 2011	Agency Type 2011
Exited with employment	Number	3,097	2,290	2,309	2,408	2,437	-660	80,711
	Percent	28.6%	36.3%	29.2%	31.0%	25.4%	-21.3%	29.5%
Exited without employment	Number	3,109	682	1,166	1,383	3,042	-67	71,925
	Percent	28.7%	10.8%	14.7%	17.8%	31.7%	-2.2%	26.3%
TOTAL RECEIVED SERVICES	Number	6,206	2,972	3,475	3,791	5,479	-727	152,636
	Percent	57.2%	47.0%	43.9%	48.7%	57.1%	-11.7%	55.7%
EMPLOYMENT RATE	Percent	49.90%	77.05%	66.45%	63.52%	44.48%	-10.87%	52.88%
Transition age youth	Number	3,509	2,107	2,593	2,517	3,299	-210	97,282
	Percent	32.4%	33.4%	32.7%	32.4%	34.4%	-6.0%	35.5%
Transition aged youth employment outcomes	Number	993	831	827	806	801	-192	29,062
	Percent	32.1%	36.3%	35.8%	33.5%	32.9%	-19.3%	36.0%
Competitive employment outcomes	Number	2,882	2,107	2,111	2,151	2,238	-644	76,087
	Percent	93.1%	92.0%	91.4%	89.3%	91.8%	-22.3%	94.3%
Supported employment outcomes	Number	511	226	284	372	585	74	10,480
	Percent	16.5%	9.9%	12.3%	15.4%	24.0%	14.5%	13.0%
Average hourly wage for competitive employment outcomes	Average	\$10.11	\$10.60	\$10.61	\$10.86	\$10.97	\$0.86	\$11.22
Average hours worked for competitive employment outcomes	Average	30.6	30.1	28.6	28.4	27.9	-2.7	31.4
Competitive employment outcomes at 35 or more hours per week	Number	1,488	1,057	901	858	905	-583	39,622
	Percent	48.0%	46.2%	39.0%	35.6%	37.1%	-39.2%	49.1%
Employment outcomes meeting SGA	Number	1,822	1,287	1,150	1,173	1,168	-654	50,261
	Percent	58.8%	56.2%	49.8%	48.7%	47.9%	-35.9%	62.3%
Employment outcomes with employer-provided medical insurance	Number	692	477	458	407	392	-300	19,640
	Percent	22.3%	20.8%	19.8%	16.9%	16.1%	-43.4%	24.3%

Positive Trends

During the review period, the number of individuals whose cases were closed in an integrated setting with supports (supported employment) increased by 14.5 percent, from 511 individuals in FY 2007 to 585 individuals in FY 2011. Of all individuals who achieved an employment outcome in FY 2011, 24 percent represented supported employment outcomes, which was 11 percent higher than the average for all combined agencies.

Trends Indicating Potential Risk to the Performance of the VR Program

DORS reported closing 3,097 individuals with an employment outcome in FY 2007, the beginning of the current review cycle (FY 2007 through FY 2011), which represented a slight increase of 0.48 percent or 15 over the number who achieved employment outcomes during FY 2006 (3,082), the last year of the previous five-year review cycle. In FY 2008, DORS reported closing 2,290 individuals with employment outcomes, a decrease of 26.06 percent or 807 fewer individuals than the number who achieved employment outcomes in FY 2007. Although the number of employment outcomes reported by DORS moved incrementally upward throughout the remainder of the current review cycle, and concluded with 2,437 employment outcomes in FY 2011, the number of employment outcomes from FY 2008 through FY 2011 remained substantially below the agency's previous levels. Due to the downturn of DORS performance in FY 2008, particularly with respect to the number of employment outcomes achieved, this trend analysis of potential risk emphasizes the performance during FY 2008 to FY 2011.

The number of individuals DORS closed without employment increased by 381.3 percent, from 632 individuals in FY 2008 to 3,042 individuals in FY 2011. During the same period, the number of individuals DORS closed with an employment outcome increased by 6.4 percent from 2,290 individuals in FY 2008 to 2,437 individuals in FY 2011. Despite this increase, there was a drop in the employment rate from 77.05 percent (2,290 individuals achieving an employment outcome divided by 2,972 individuals receiving services) in FY 2008 to 44.48 percent (2,437 individuals achieving an employment outcome divided by 5,479 individuals receiving services) in FY 2011 resulting in DORS not passing federal evaluation Standard 1, Indicator 1.2 (percent who are determined to have achieved an employment outcome). Although the average hourly wage for individuals who achieved a competitive employment outcome has increased by \$0.86 from \$10.11 in FY 2007 to \$10.97 in FY 2011, it is below the FY 2011 average of \$11.22 for all combined agencies. Additionally, it is below the FY 2011 state average hourly wage of \$25.61 resulting in the continuing trend of DORS not passing evaluation Standard 1, Indicator 1.5 (ratio of average earnings to state average earnings).

The quality of employment outcomes achieved by individuals served by DORS declined during the review period as demonstrated below.

- The number of individuals who achieved a competitive employment outcome that were employed 35 or more hours per week dropped 39.2 percent from 1,488 individuals in FY 2007 to 905 individuals in FY 2011. DORS's performance in FY 2011 was 12 percentage points below the average of 49.1 percent for all combined agencies in FY 2011.

- The number of individuals closed with an employment outcome with earnings above the threshold of substantial gainful activity (SGA), as defined by the Social Security Administration, dropped by 35.9 percent from 1,822 individuals in FY 2007 to 1,168 individuals in FY 2011. DORS's performance in FY 2011 was 14.4 percentage points below the average of 62.3 percent for all combined agencies in FY 2011.
- The number of individuals closed with an employment outcome with employer-provided medical insurance dropped 43.4 percent from 692 individuals in FY 2007 to 392 individuals in FY 2011. DORS's performance in FY 2011 was 8.2 percentage points below the average of 24.3 percent for all combined agencies in FY 2011.

Fiscal Analysis

Table 2.2
Fiscal Performance Data for Federal FY 2007 through Federal FY 2011

VR Fiscal Profile	Quarter	2007	2008	2009	2010	2011
Grant amount per MIS	4 th	39,862,465	39,639,603	45,611,435	47,029,781	47,116,848
	Latest/ Final*	39,862,465	38,114,000	45,611,435	47,029,781	47,116,848
Total outlays	4 th	52,199,826	51,329,972	49,519,733	37,544,795	29,386,672
	Latest/ Final*	52,246,683	52,501,764	58,455,547	59,820,292	29,386,672
Total unliquidated obligations	4 th	95,008	1,594,943	1,714,472	7,036,622	28,880,341
	Latest/ Final*	0	0	0	0	28,880,341
Federal Share of Total Outlays	4 th	39,862,465	39,639,603	36,675,621	24,788,134	16,562,700
	Latest/ Final*	39,862,465	39,639,603	45,611,435	47,029,781	16,562,700
Federal share of unliquidated obligations	4 th	0	0	1,714,472	7,036,622	28,880,341
	Latest/ Final*	0	0	0	0	28,880,341
Total federal share	4 th	39,862,465	39,639,603	36,675,621	31,824,756	45,443,041
	Latest/ Final*	39,862,465	39,639,603	45,611,435	47,029,781	45,443,041
Recipient funds	4 th	12,213,218	11,555,287	12,752,082	12,756,661	12,823,972
	Latest/ Final*	12,260,075	12,727,079	12,752,082	12,790,511	12,823,972
Recipient share of unliquidated obligations	4 th	95,008	1,594,943	0	0	0
	Latest/ Final*	0	0	0	0	0
Agency actual match (total recipient share)	4 th	12,308,226	13,150,230	12,752,082	12,756,661	12,823,972
	Latest/ Final*	12,260,075	12,727,079	12,752,082	12,790,511	12,823,972
Agency required match	4 th	10,788,698	10,728,380	9,926,185	6,708,860	4,482,662
	Latest/ Final*	10,788,698	10,728,380	12,344,645	12,728,518	4,482,662

VR Fiscal Profile	Quarter	2007	2008	2009	2010	2011
Over/under match	4 th	-1,519,528	-2,421,850	-2,825,897	-6,047,801	-8,341,310
	Latest/ Final*	-1,471,377	-1,998,699	-407,437	-61,993	-8,341,310
Maintenance of Effort (MOE) **	4 th					
	Latest/ Final*			0	12,790,511	
Unobligated funds qualifying for carryover	4 th	0	0	7,221,342	15,205,025	1,673,807
	Latest/ Final*	0	-1,525,603	0	0	1,673,807
Total program income realized	4 th	2,318,374	3,212,251	3,193,524	2,122,255	2,458,199
	Latest/ Final*	2,318,374	3,212,251	3,193,524	2,122,255	2,458,199
Total indirect costs	4 th	2,969,848	2,546,130	2,882,349	3,469,988	1,956,304
	Latest/ Final*	2,969,848	2,663,510	3,234,556	5,578,681	1,956,304

*Denotes Final or Latest SF-269 or SF-425. **Based upon Final or Latest SF-269 or SF-425.

RSA reviewed fiscal performance data from federal FY 2007 through federal FY 2011. Based on the data in the table above, the agency matched its grant award through state appropriations in each fiscal year reviewed. The agency reported \$0 in carryover after the fourth quarter for FY 2007 and FY 2008. However, the agency's carryover increased substantially from \$7,221,342 in FY 2009 to \$15,205,025 in FY 2010. The increase in carryover funds was due primarily to the awarding of VR funds under the American Reinvestment and Recovery Act (ARRA) of 2009. According to the data, the agency met its MOE requirements for each fiscal year reviewed. The U.S. Department of Education is the cognizant agency and approved the indirect cost rate.

SECTION 3: EMERGING PRACTICES

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

- strategic planning;
- program evaluation and quality assurance practices;
- financial management;
- 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.

Transition

- **Specialized Autism Services:** DORS, Community College of Baltimore County (CCBC), and Hannah More, a secondary school for students on the autism spectrum, initially collaborated in a grant funded project called the Pathways Project, which provided comprehensive supports to individuals with autism enrolled at a local community college. The Pathways Program is currently operated through the DORS Workforce & Technology Center in collaboration with CCBC, rather than through grant funding. Supports include: faculty trainings; career guidance; self-advocacy instruction; and increased communication with DORS counselors, faculty and families. Ongoing staff training and the development of programs have contributed to DORS's success in assisting increasing numbers of transition-age youth who are on the autism spectrum to achieve employment outcomes.

Improvement of Employment Outcomes

- **Customized and Partnership Trainings:** DORS's Workforce & Technology Center developed Customized and Partnership Trainings that provide short-term, intensive training for individuals not pursuing college degrees who are interested in obtaining an industry certification and/or the skills required to enter employment that will provide a higher average entry wage. They were developed based on labor market research/hiring

trends, inquiries from local businesses, requests from DORS counselors and DORS consumers, and are aligned with the Maryland Career Clusters identified in the Governor's Skills2Compete initiative. Customized trainings include CVS-Pharmacy Technician, OfficeMax Distribution Center-Warehouse Technician, Hilton Home2Suites-Hospitality Worker, Collins Collision-Auto Body Technician, large and small bakeries, screen printing, landscaping, and animal care.

A complete description of the practices described above can be found on the RSA website at [emerging practices](#).

SECTION 4: RESULTS OF PRIOR MONITORING ACTIVITIES

During its review of the VR and SE programs in federal FY 2012, RSA assessed progress toward the implementation of recommendations accepted by DORS resulting from the prior monitoring review in FY 2007 and the resolution of compliance findings from that review.

Recommendations

In response to RSA's monitoring report dated September 7, 2007, DORS accepted the recommendations listed in the following section, including a brief summary of the agency's progress toward implementation of each recommendation. The FY 2007 monitoring report was based on FY 2002 through FY 2006 performance data and thus the agency's performance objectives and strategies were developed using FY 2006 data as a baseline.

Goal: To promote and enhance high-quality employment outcomes for individuals with the most significant disabilities in Maryland through the vocational rehabilitation program.

1. DORS consumers will achieve hourly earnings of \$12 by September 30, 2010.

- 1.1 DORS will set and pursue annual performance targets for average hourly wages earned by consumers.
- 1.2 DORS will assist consumers in pursuing professional, technical, and managerial careers in demand in Maryland.
- 1.3 DORS will assist consumers in securing employment with federal agencies within commuting distance from their homes.
- 1.4 DORS will inform its staff, community rehabilitation programs, referral sources and other community partners regarding its mission to increase employment options and average hourly wages.
- 1.5 DORS will collaborate with community rehabilitation programs, Centers for Independent Living (CILs) and other community partners to align their services in support of this mission.

Status: This objective was not achieved. DORS established annual performance targets to increase wages for individuals closed successfully in employment but did not meet any of the annual wage attainment benchmarks. Though the overall change was an increase of \$.86, the state average wage increased by \$2.70 from FY 2006 to FY 2011, and DORS performance on federal evaluation Standard 1, Indicator 1.5 (ratio of average earnings to state average earnings) dropped from 46 percent in FY 2006 to 42 percent in FY 2011. The performance requirement established in federal evaluation Standard 1, Indicator 1.1 (number of individuals exiting the VR program who achieved an employment outcome) is 50 percent of state average wage. DORS has cited the economic downturn as hampering progress in reaching this goal. Wages for transition-age youth increased by \$.79 from \$8.52 in FY 2006 to \$9.31 in FY 2010, but fell below the national average of \$9.88. In FY 2006 DORS reported the number of consumers whose cases were closed successfully in employment in professional, technical, and managerial positions as coded from the Dictionary of Occupational Titles (DOT-0,1 and 18) was 470 or 14.4 percent of

all successful employment outcomes. DORS established a measurement criteria based on annual increases in these coded closures. Additionally, DORS has since been involved in the Governor's initiative entitled "Skills2Compete" which targets the 50 fastest growing positions in Maryland for those coming out of high school and identifies workforce skills and training needs to compete for these jobs. However, despite the focus on professional, technical, and managerial employment outcomes, DORS's employment outcomes decreased sharply to 40 in FY 2011 as based on coded closures from the Standard Occupational Classification (SOC-11). DORS reported success in establishing relationships with federal agencies and federal contractors placing 100 individuals in jobs or internships within the federal workforce and in participation in federal hiring events. RSA provided DORS with technical assistance in the federal Schedule A hiring authority and shared federal agency contacts. Finally, DORS articulated its emphasis on employment to staff, community rehabilitation programs, referral sources and other community partners.

2. DORS staff will have increased time to provide quality service delivery to consumers.

- 2.1 DORS will educate all referral sources on the need to refer only individuals interested in obtaining and maintaining employment.
- 2.2 DORS will target outreach efforts to individuals with most significant disabilities.
- 2.3 DORS will evaluate staffing patterns, work roles, and business processes to determine improvements in service delivery that reduce response time to consumer contacts/requests and facilitate progress throughout the rehabilitation process.
- 2.4 DORS will utilize benefits planning services early in the rehabilitation process to facilitate consumer informed choice regarding achievement of an employment outcome.
- 2.5 DORS and the Maryland SRC will review and revise as appropriate its QA System to further develop its consumer satisfaction survey and to also collect consumer feedback that is focused on continuous improvement and identifies unmet consumer needs. DORS and the Maryland SRC will develop additional methods to obtain consumer satisfaction information.

Status: This objective was not achieved. DORS reports it has communicated its emphasis on serving only individuals who are interested in obtaining and maintaining employment to referral sources. DORS has been on an order of selection since 1991. In July 2007, DORS closed all three selection categories and at the end of FY 2007 had 4,490 individuals on the waiting list. At the end of FY 2009 1,184 individuals were on the waiting list and the waiting list increased to 2,953 at the end of FY 2011 with categories 2 and 3 remaining closed. DORS has made efforts to facilitate progress throughout the rehabilitation process and RSA data indicates a significant decrease in response time from application to eligibility. In an effort to fully utilize benefits planning for its consumers, DORS has focused on increasing capacity to provide this service through a fee for services model including a system to approve providers who have Social Security Administration Community Work Incentives Coordinator or equivalent certification and participate in training on state benefits. Among those individuals that DORS approved to provide benefits counseling, four have been consumers, one of whom is deaf. Currently 35 benefits planners are providing services statewide and they are listed on the DORS intranet. This service is available at application and for job ready consumers. DORS sends out consumer

satisfaction surveys, approved by the SRC, to 50 percent of closed general VR consumers with a return rate of 25 to 28 percent. The Office for Blindness and Vision Services surveys are sent out by the University of Maryland to all closed consumers with 100 percent follow up with a return rate of 20 percent. Quarterly and annual reports are detailed and sent to the DORS director. The survey provides an option to self-identify and if consumers elect to do so, the survey is followed up by the regional directors.

Despite the progress outlined above, these strategies have been insufficient in addressing the objective set forth of increasing staff time to provide quality service delivery to consumers. As mentioned previously the number of individuals on the waiting list has increased markedly since 2009. Fifty staff positions have been eliminated since FY 2007 due to state workforce reductions. In addition DORS has 15 to 20 vacancies of which approximately five are counselor positions. DORS reported extended delays in hiring to fill vacancies due to state hiring restrictions. DORS reported a significant decrease in clerical support function and an increase in ratio of counselors to support staff. The agency reported a concurrent increase in referrals since FY 2007 that led to an increase in caseload size. In FY 2007, DORS reported general caseloads averaged 140 to 150 individuals, and in FY 2011, general caseloads averaged 160 individuals. Although DORS management cites the funding allotment formula as being insufficient to provide resources to fund services to all consumers and to maintain an adequate staffing complement, the agency's management was unable to demonstrate an integrated management document, process, or approach for mitigating risk.

3. To increase the numbers of individuals with most significant disabilities served by DORS who are members of minority populations in Maryland.

- 3.1 DORS will identify, secure and implement effective outreach strategies and supporting resources with the assistance of community partners with strong associations to minority populations.
- 3.2 Resources for interpreters, translation of VR materials, cultural awareness, and serving individuals with limited English proficiency will be identified and compiled for use by consumers and DORS.

Status: This objective was achieved. DORS has effectively increased the minority service rate from .79 percent in FY 2006 to .92 percent in FY 2011. The performance requirement established in federal evaluation Standard 2, Indicator 2.1 (service rate for all individuals with disabilities from minority backgrounds) is a minority service rate of .80 percent. The FY 2009 comprehensive statewide needs assessment identified the need for the agency to improve access to Asian and Hispanic individuals with disabilities. The number of individuals served coded as Asian increased from 69 in FY 2006 to 97 in FY 2011, while those coded as Hispanic increased from 89 in FY 2006 increased to 131 in FY 2011.

Though DORS did not develop a targeted outreach strategy to improve access to services for individuals from minority populations the agency was successful in increasing minority access to services. DORS reports a field staff that is multicultural and is reflective of the communities it serves. There is a multicultural committee that reviews staff training needs and the delivery of

services. Technical assistance is provided through a community advisory committee. Finally, there are statewide contracts for both interpreters and document translation.

Compliance Findings and Corrective Actions

As the result of the monitoring conducted during FY 2007, DORS developed a corrective action plan (CAP) that included the steps DORS committed to take to resolve the compliance finding identified in the monitoring report dated September 7, 2007, 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 finding. A summary of DORS's progress toward the resolution of the finding appears below.

Through the implementation of the CAP, DORS successfully resolved the compliance finding in the following fiscal area: Reporting of Matching Funds.

Technical Assistance

During the course of FY 2012 monitoring activities, RSA provided technical assistance to enable DORS to implement accepted recommendations and resolve compliance findings identified through the FY 2007 review.

During the review, RSA learned that, among other things, DORS's focus on evidence-based supported employment (SE) superseded the agency's examination of a more global, long-range and coordinated approach to meet the stated performance objectives and strategies to effectively serve more consumers. Technical assistance was provided to DORS on balancing its services to consumers with the most significant disabilities and its ability to meet federal evaluation standards and performance indicators.

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 DORS with the federal requirements related to its organization within Maryland State Department of Education (MSDE) and the ability of the DORS to perform its non-delegable functions, including the determination of eligibility, the provision of VR services, the development of VR service policies, and the expenditure of funds. Specifically, RSA engaged in a review of:

- compliance with statutory and regulatory provisions governing the organization of the MSDE and DORS under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which DORS 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 DORS 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:

- MSDE and DORS directors and senior managers;
- MSDE and DORS staff members responsible for the fiscal management of the VR program;
- SRC Vice-Chairpersons and members;
- Client Assistance Program staff members; and
- TACE center representatives.

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

- diagrams and supporting documentation 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;
- diagrams and supporting documentation 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 DORS;

- individuals who work on rehabilitation work of the DORS and one or more additional programs/cost objectives (e.g., one-stop career centers); and
- individuals under DORS that do not work on VR or other rehabilitation within the DSU.
- sample memoranda of understanding (MOUs) and/or cost allocation plans with one-stop career centers; and
- documents describing Maryland procurement requirements and processes.

Overview

The Division of Rehabilitation Services (DORS) is the DSU for the administration of the VR and SE programs in Maryland and resides organizationally within the Maryland State Department of Education (MSDE), the DSA. DORS operates two major programs: the public vocational rehabilitation (VR) program and the Disability Determination Services (DDS). DORS was established under the MSDE by the Governor in 1929 and the DDS was added in 1955 under an agreement with the Social Security Administration. DDS makes medical decisions about disability claims filed by Marylanders for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI).

The VR program is comprised of the Office of Field Services, the Office for Blindness and Vision Services, the Workforce Technology Center and DORS Administration. The VR program operates in 24 district offices with 445 employees, 432 of whom spend 100 percent of their time in the VR program. DORS provides vocational assessments, counseling, job training, assistive technology, orientation and mobility training, and job-placement assistance to adults and transition-age youth. Specialty services help individuals with visual and hearing impairments; traumatic brain injuries; and serious and persistent mental illness to obtain employment and live independently.

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

B. Transition Services and Employment Outcomes for Youth with Disabilities

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

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

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

- the agreement between the VR agency and the state education agency (SEA);
- sample agreements between the VR agency and local education agencies (LEA);
- 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 DORS relevant data from FY 2007 through FY 2011, 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.

To provide context for the agency's performance in the area of transition, RSA also compared the performance of DORS with the national average of all combined state agencies as appropriate.

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

- DORS administrator/director;
- DORS VR counselors and transition staff;
- DORS transition coordinators serving as liaisons with the SEA and other agencies; and
- state and local school personnel.

RSA's review of transition services and employment outcomes achieved by youth with disabilities did not result in the identification of observations and recommendations.

Technical Assistance

The RSA review team provided technical assistance to DORS during the on-site in the area of transition services and employment outcomes for youth with disabilities.

During the monitoring review, RSA learned that DORS's program planning was accomplished through an annual review and update of the VR state plan that focused on annual fiscal projections. DORS management staff, fiscal staff and service delivery staff do not regularly engage in coordinated, integrated and proactive planning activities. Although these groups engaged in discussions, there appeared to be no centralized documentation of information gleaned from these discussions. For the most part, the agency appears to engage in short-range planning, prompted by fiscal factors or changes in the work environment. Furthermore, RSA learned that while DORS routinely examines the OOS waiting list for transition-age youth, the agency does not have a process in place to integrate the results of the comprehensive statewide needs assessment with fiscal projections to reduce or eliminate the waiting list.

RSA provided technical assistance to DORS's management staff that focused on proactive risk analysis and assessment of risks to the program. RSA further suggested DORS could benefit from developing coordinated, integrated, proactive strategies that focus on minimizing potential future threats to the VR transition program.

During the monitoring review, RSA learned that DORS lacked an organized process to obtain evaluative, diagnostic information at the time of eligibility determination for the OOS categorical assignment of transition-age youth and others with disabilities. Further, DORS did not have a structured process for reviewing OOS assignments once additional documentation was received.

As evidenced in discussions with DORS staff and stakeholders, VR counselors immediately presume Social Security Administration (SSA) recipients as eligible under the agency's Priority Category 2 for services. However, this was often done without any evaluative documentation from SSA, DDS or medical providers. There was no formal process or mechanism in place to request and review documentation from SSA or DDS. In addition, there was no formal follow-up process that alerted VR counselors to review original functional assessments when evaluative documentation arrived after eligibility determination. Thus, SSA recipients may not be able to move from Priority Category 2, creating a significant delay in accessing services.

RSA provided technical assistance to DORS that involved advising VR staff on the advantages of obtaining evaluative documentation from DDS and SSA through more effective communication methods. Technical assistance was provided to DORS that included programming their electronic case management system to alert VR counselors at specific timeframes after eligibility determination was completed to check when evaluative information was added to the case file so that a review of the OOS categorical assignment could be verified or adjusted. RSA suggested DORS could benefit from additional technical assistance focused on providing VR counselors with training on the use of functional assessments that assist in assigning OOS categories based on evaluative, diagnostic documentation and routinely reassessing the initial categorical assignments at specific timeframes post eligibility determination.

C. Fiscal Integrity of the Vocational Rehabilitation Program

For purposes of the VR program, fiscal integrity is broadly defined as the proper and legal management of VR program funds to ensure that VR agencies effectively and efficiently manage funds to maximize employment outcomes for individuals with disabilities. Through the implementation of this focus area, RSA assessed the fiscal performance of the VR and SE programs and compliance with pertinent federal statutory and regulatory requirements, including cost principles, governing four components of review: financial resources, match and maintenance of effort (MOE), internal controls, and fiscal planning.

RSA used a variety of resources and documents in the course of this monitoring, including data maintained on RSA's MIS generated from reports submitted by the VR agency, e.g., Financial Status Report (SF-269/SF-425) and the Annual VR Program/Cost Report (RSA-2). The review covered fiscal data from FY 2007 through FY 2011, along with other fiscal reports as necessary, to identify areas for improvement and potential areas of noncompliance.

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

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

- agency policies, procedures, and forms (e.g., monitoring, personnel certifications, procurement and personnel activity reports), as needed; and
- documentation of expenditures including contracts, purchase orders and invoices.

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

- agreements, arrangements, contracts;
- 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 DORS did not result in the identification of observations and recommendations.

Technical Assistance

RSA provided technical assistance to DORS during the on-site related to the fiscal integrity of the VR program.

RSA provided technical assistance related to the management of contracts, memorandums of understanding (MOUs), memorandums of agreements (MOAs), and specifically addressed the interagency agreement between the state education agency and DORS. RSA suggested that DORS conduct timely reviews and revisions of those agreements to mitigate potential risk and identify the need for programmatic and fiscal adjustments.

SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS

RSA identified the following compliance finding and corrective action that DORS is required to undertake. Appendix A of this report indicates whether or not the agency requests technical assistance to enable it to carry out the corrective action. The full text of the legal requirements pertaining to the finding is contained in Appendix B.

DORS 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 DORS to develop the plan and undertake the corrective action.

RSA reserves the right to pursue enforcement action related to this finding as it deems appropriate, including the recovery of funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of EDGAR.

1. Personnel Activity Reporting and Cost Allocation

Legal Requirements:

- Rehabilitation Act—Section 111(a)(1)
- VR Program Regulations—34 CFR 361.3, 361.5(b)(2)) and 361.12
- EDGAR—34 CFR 80.20(a)
- Federal Cost Principles—2 CFR 225, Appendix A, paragraphs C.1.b and C.3.a; and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5

Finding:

DORS is not in compliance with Section 111(a)(1) of the Rehabilitation Act; 34 CFR 361.3 and 34 CFR 361.12; and 34 CFR 80.20(a) because it charged administrative costs for the State Independent Living Services (SILS) and the Independent Living Services for Older Individuals Who Are Blind (OIB) programs to the VR award. To the extent the costs charged to VR were unallocable to the program, these costs were unallowable program expenditures, pursuant to 34 CFR 361.3 and federal cost principles at 2 CFR 225, Appendix A, paragraphs C.1.b and C.3.a. Additionally, DORS is not in compliance with 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5 because administrative staff did not complete personnel activity reports or equivalent documentation necessary to support personnel expenditures.

As a recipient of Title I VR funds, DORS must maintain procedures to ensure financial accountability and the administration of the VR program in an efficient and effective manner, and that it accounts for the proper expenditure of VR funds (34 CFR 361.12 and 34 CFR 80.20(a)). DORS must ensure that VR funds are spent solely on the provision of VR services

and the administration of the VR program (Section 111(a)(1) of the Rehabilitation Act; 34 CFR 361.3).

The federal cost principles require that federal funds be spent solely on allowable and allocable costs. 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, paragraph C.3.a). To be allowable, costs must be allocable to federal awards under the provisions of 2 CFR 225, Appendix A, paragraph C.1.b. In addition, federal cost principles require employees working on multiple programs or cost objectives to maintain personnel activity reports (PAR) or equivalent documentation that reflect an after-the-fact distribution of the actual activity of each employee (2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5).

To constitute an administrative cost under the VR program, expenditures must be incurred in the performance of administrative functions of the VR program (34 CFR 361.5(b)(2)). Administrative salaries, including those for clerical and other support staff who work under the VR program, constitute a VR-related administrative cost (34 CFR 361.5(b)(2)(xi)). Personnel costs related to other programs do not constitute VR administrative costs because they do not arise from the performance of administrative functions for the VR program.

While onsite, RSA found that for FYs 2007 through 2011, DORS employees were supervising/administering the State Independent Living Services (SILS) and Older Individuals who are Blind (OIB) programs. However, administrative staff did not complete personnel activity reports or equivalent documentation necessary to support personnel expenditures. As a result, these costs were paid by the VR program instead of being allocated to the appropriate programs. To the extent the costs charged to VR were unallocable to the program, these costs were unallowable program expenditures, pursuant to 34 CFR 361.3. DORS must ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (Section 111(a)(1) of the Rehabilitation Act). Regulations at 34 CFR 361.12 and 34 CFR 80.20 require the proper and efficient administration of the VR program, which includes proper accounting of expenditures and record-keeping. By using VR funds to pay for costs that should have been borne by non-VR programs, DORS has not ensured proper administration and fiscal accountability under the VR program.

Corrective Action 1: DORS must:

- 1.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.3; 34 CFR 361.12; 34 CFR 80.20(a); 2 CFR 225, Appendix A, paragraphs C.1.b and C.3.a; and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 1.2 submit documentation demonstrating full implementation of personnel activity report requirements for DORS employees who work on more than one federal grant program or cost objective.

APPENDIX A: AGENCY RESPONSE

Section 6: Compliance Findings and Corrective Actions

1. Personnel Activity Reporting and Cost Allocation

Corrective Action 1: DORS must:

- 1.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with 34 CFR 361.3; 34 CFR 361.12; 34 CFR 80.20(a); 2 CFR 225, Appendix A, paragraphs C.1.b and C.3.a; and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 1.2 submit documentation demonstrating full implementation of personnel activity report requirements for DORS employees who work on more than one federal grant program or cost objective.

Agency Response: DORS staff members who are working on both the VR and IL or ILOB grants are now filling out Personal Activity Reports. In the future DORS will be following the approved time keeping plan from the U.S. Department of Education with DORS's parent agency, the Maryland State Department of Education.

Technical Assistance: DORS 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.

Rehabilitation Act of 1973, as Amended

Section 111

(a)(1) 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.

VR Program Regulations

361.3 Authorized activities.

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)) Applicable definitions.

(b) *Other definitions.* The following definitions also apply to this part:

- (1) *Act* means the Rehabilitation Act of 1973, as amended (29 U.S.C. 701 *et seq.*).
- (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, including expenses related to program planning, development, monitoring, and evaluation, including, but not limited to, expenses for—
 - (i) Quality assurance;
 - (ii) Budgeting, accounting, financial management, information systems, and related data processing;
 - (iii) Providing information about the program to the public;
 - (iv) Technical assistance and support services to other State agencies, private nonprofit organizations, and businesses and industries, except for technical assistance and support services described in § 361.49(a)(4);
 - (v) The State Rehabilitation Council and other advisory committees;
 - (vi) Professional organization membership dues for designated State unit employees;
 - (vii) The removal of architectural barriers in State vocational rehabilitation agency offices and State-operated rehabilitation facilities;
 - (viii) Operating and maintaining designated State unit facilities, equipment, and grounds;
 - (ix) Supplies;
 - (x) Administration of the comprehensive system of personnel development described in §361.18, including personnel administration, administration of affirmative action plans, and training and staff development;

- (xi) Administrative salaries, including clerical and other support staff salaries, in support of these administrative functions;
- (xii) Travel costs related to carrying out the program, other than travel costs related to the provision of services;
- (xiii) Costs incurred in conducting reviews of determinations made by personnel of the designated State unit, including costs associated with mediation and impartial due process hearings under § 361.57; and
- (xiv) Legal expenses required in the administration of the program.

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 plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability.

Education Department General Administrative Regulations (EDGAR)

34 CFR 80.20 Standards for financial management systems.

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

Federal Cost Principles as cited in the CFR

2 CFR part 225, Appendix A, Paragraphs C.1.b and C.3.a

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
3. Allocable costs.
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

- b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
- c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
- d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

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

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- 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.
3. Allocable costs.
- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
 - c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
 - d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.