



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**PROGRAMS AND OPERATIONS,
DEPARTMENT OF
VOCATIONAL REHABILITATION,
GOVERNMENT OF GUAM**

**REPORT NO. 98-I-335
MARCH 1998**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 20 1998

MEMORANDUM

TO: The Secretary

FROM: Robert J. Williams *Robert J. Williams*
Acting Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Programs and Operations, Department of Vocational Rehabilitation, Government of Guam" (No. 98-I-335)

Attached for your information is a copy of the subject final audit report. The objective of the review was to determine whether the Department of Vocational Rehabilitation carried out its responsibilities effectively in accordance with Title 17, Chapter 41, of the Guam Code Annotated and complied with applicable Federal laws and regulations for Federal programs.

We found that the Department did not manage its Federal programs in accordance with Federal regulations. Specifically, the Department provided services to ineligible clients and clients who were not periodically evaluated to support continuation, provided services not supported by medical recommendations, did not provide needed services in a timely manner, inappropriately used Federal funds instead of local funds, and did not charge personal services costs based on actual work load distribution. These conditions occurred because the Department did not have written procedures to ensure that clients were eligible to participate in the program and/or that their medical progress was evaluated, medical recommendations were complied with, and program costs were properly classified and charged to the benefiting program. As a result, the Department incurred questioned costs totaling \$826,007 for program management and an additional \$311,152 for personal services costs.

Based on the response from the Director of the Department of Integrated Services for Individuals with Disabilities (successor department to the Department of Vocational Rehabilitation), we requested additional information for the report's five recommendations.

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

MAR 16 1998

The Honorable Carl T.C. Gutierrez
Governor of Guam
Office of the Governor
Agana, Guam 96910

Subject: Audit Report on Programs and Operations, Department of Vocational
Rehabilitation, Government of Guam (No. 98-I-335)

Dear Governor Gutierrez:

This report presents the results of our review of programs and operations of the Department of Vocational Rehabilitation, Government of Guam. The objective of the review was to determine whether the Department: (1) carried out its responsibilities effectively, as specified by Title 17, Chapter 41, of the Guam Code Annotated, and (2) complied with applicable laws and regulations. Our review covered Federal and local program activities that occurred in fiscal years 1992, 1993, and 1994.

We found that the Department provided services to ineligible clients, provided services that were contrary to medical evaluations, did not provide timely services, and inappropriately used Federal grant funds instead of local funding. In addition, the Department incorrectly charged personal services costs to Federal grant programs. These conditions occurred because the Department did not have written procedures to ensure that: (1) clients were eligible to participate in the program and/or that their medical progress was evaluated; (2) medical recommendations were complied with; and (3) program costs were properly classified and charged to the benefiting program. As a result, we questioned costs of about \$1 million charged to the Federal grants.

To correct the conditions noted, we recommended that you, as Governor of Guam, instruct the Departmental Director to: (1) develop and implement written procedures to ensure applicant eligibility and client progress evaluation; (2) comply with medical evaluations and recommendations for determining client services needed; (3) ensure that funding of local programs is not supplanted with Federal grant funding; and (4) charge program and personal services costs to the correct program.

On October 15, 1997, we transmitted a draft of this report to you, requesting your comments by November 21, 1997. On November 20, 1997, the Department of Integrated Services for Individuals with Disabilities (successor department to the Department of Vocational Rehabilitation) delivered its response (see Appendix 3) dated November 19, 1997, to our office. On December 10, 1997, we provided the Department with requested

information on the vocational rehabilitation cases and questioned costs discussed in the report. Based on the response, which generally concurred with the report's five recommendations, we requested additional information on all of the recommendations (see Appendix 4).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by April 3, 1998. The response should be addressed to our North Pacific Region, 238 Archbishop F.C. Flores Street, Suite 807; Pacific News Building; Agana, Guam 96910. The response should provide the information requested in Appendix 4.

We appreciate the assistance of the staff of the Department of Vocational Rehabilitation during the conduct of our audit.

Sincerely,

A handwritten signature in cursive script, reading "Robert J. Williams".

Robert J. Williams
Acting Inspector General

cc: Director, Department of Integrated Services
for Individuals with Disabilities
Acting Director, Bureau of Budget and Management Research

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INTRODUCTION

BACKGROUND

The Rehabilitation Act of 1973 (U.S. Public Law 99-506, as amended) was enacted for the purpose of assisting persons with disabilities to maximize employment, economic self-sufficiency, independence, and integration into society through vocational rehabilitation programs, independent living centers and services, research, and training. In order to participate in the programs authorized by the Act, Guam was required to submit a state plan for vocational rehabilitation services that included the designation of a state agency as the entity to administer the plan. Guam submitted its state plan for fiscal years 1992 through 1994 on July 15, 1991.

The Department of Vocational Rehabilitation (the designated state agency) was established by Title 17, Chapter 41, of the Guam Code Annotated for the purpose of evaluating individuals' vocational rehabilitation potential, determining the nature and scope of services needed, and providing needed services to eligible applicants. Pursuant to Title 17, Sections 41103 and 41104, of the Code, the activities of the Department are under the overall supervision of a Director, who is advised by a Rehabilitation Advisory Council. The Council comprises seven individuals involved in vocational rehabilitation programs.

Under the Act, the Department administers four programs (Vocational Rehabilitation Services, Supported Employment Services, Independent Living Services for Older Blind Individuals, and Independent Living Rehabilitation Services) for which it receives Federal grant funds from the U.S. Department of Education. The Department also administers two locally funded programs: the Workshop Center and Independent Living Rehabilitation Services. For the six programs, the Department reported an average of 306 client cases annually and receipts and expenditures of about \$2.8 million and \$2.4 million, respectively, for fiscal year 1992; \$3 million and \$2.9 million, respectively, for fiscal year 1993; and \$3.3 million and \$1.9 million, respectively, for fiscal year 1994. (The receipts and expenditures are presented for each fiscal year in Appendix 2.)

In addition to the Guam Code Annotated, the Department is required, for Federal and related local programs, to comply with Title 34, Chapter III, Parts 361, 363, 365, and 367, of the Code of Federal Regulations and U.S. Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments." In June 1993, the grantor agency performed a review of the Department's operations and recommended that the Department's Regulations and Procedures Manual (dated October 1986) be completely revised because it was "outdated" and contained "vague and conflicting" material. However, the Manual had not been completely revised as of the time of our review.

OBJECTIVE AND SCOPE

The objective of our audit was to determine whether the Department (1) carried out its responsibilities in accordance with Title 17, Chapter 41, of the Guam Code Annotated and (2) complied with applicable Federal laws and regulations for Federal grant programs. The scope of the audit included a review of the Department's activities that occurred during fiscal years 1992 through 1994. Audit work was conducted at the Departments of Vocational Rehabilitation, Administration, and Law and at the offices of five rehabilitative services contractors. Our audit work included a review of accounting records, financial and program reports, participant files, and other supporting documentation.

The audit was conducted, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls in the areas of program management, cost allocation, and procurement to the extent that we considered necessary to accomplish the audit objective. Significant internal control weaknesses were identified in the areas of program management and cost allocation. These weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas. Although no significant weaknesses were noted in the area of procurement, officials of the Department of Law and the Department of Administration's General Services Agency stated that the Client Authorization Form used by the Department of Vocational Rehabilitation was "not a valid procurement document" for obtaining supplies and services. After our review, the Director of Vocational Rehabilitation initiated action to conduct procurement activities by means of approved Government of Guam forms.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the U.S. General Accounting Office nor the Office of Inspector General has issued any reports that evaluated the programs and operations of Guam's Department of Vocational Rehabilitation. However, an independent public accounting firm issued a single audit report on the Government of Guam for the fiscal year ended September 30, 1990. The report stated that (1) a written rehabilitation program was not prepared for one client; (2) financial assistance was not solicited from other sources; (3) eight clients did not acknowledge, by signature, the receipt of their individual written rehabilitation program; and (4) prior approval was not obtained from the grantor agency to purchase a capital asset. Based on our review, we determined that the Government's actions were sufficient to correct these deficiencies.

In addition, an independent public accounting firm issued single audit reports on the Department of Vocational Rehabilitation for the fiscal years ended September 30, 1991, and 1992. These reports stated that personal services costs were not charged to grants

appropriately. Further, the 1992 report stated that the financial status reports were not submitted timely and that the matching requirement for maintenance of effort was not maintained. Based on our review, we determined that the Department did not take sufficient action to correct these deficiencies. The single audit reports for fiscal years 1993, 1994, and 1995 did not have findings related to the areas included in the objective and scope of our current audit.

FINDINGS AND RECOMMENDATIONS

A. PROGRAM MANAGEMENT

The Department of Vocational Rehabilitation did not manage its Federal grant programs in accordance with the requirements of the Code of Federal Regulations. Specifically, the Department (1) provided services to clients who were ineligible and who had not been periodically evaluated to support continuation; (2) provided services that were not supported by medical recommendations; (3) did not provide needed services to clients in a timely manner; and (4) inappropriately used Federal funding instead of local funding. These conditions occurred because the Department had not developed and implemented procedures to address these issues. As a result, we questioned costs of \$826,007 that the Department charged to the Federal program during the audit period.

Client Eligibility

Title 34, Chapter III, Section 363.3, of the Code of Federal Regulations states that an individual is eligible for the Supported Employment Program if "the individual has been determined to be an individual with the most severe disabilities." (Emphasis added.) In addition, Section 361.1 states that an individual has a severe handicap if the person is one "who has a severe physical or mental disability that seriously limits one or more functional capacities . . . in terms of employability." (Emphasis added.) Also, Section 361.40 states, "The State plan must assure that an individualized written rehabilitation program is initiated and periodically updated for each eligible individual." Finally, Section 363.11(g)(3)(ii) requires that the individualized written rehabilitation program provide for "periodic monitoring to ensure that each individual with severe disabilities is making satisfactory progress towards meeting the weekly work requirement established in the individualized written rehabilitation program."

Based on our review of 34 client case files, we determined that 7 clients were not eligible to participate in the Supported Employment Program and 2 additional clients were not eligible to continue to participate because the case files did not contain the required periodic evaluations supporting such continuation. As a result, for these nine clients, we questioned costs of \$136,897 that were incurred during fiscal years 1992 through 1994. For example, one client's case file contained an evaluation by a vocational/psychological psychiatrist which concluded that the client was functioning at a "mildly retarded level" and was "happy" with his job at a fast food restaurant. Since the medical evaluation did not indicate that the client met program eligibility requirements for "severely handicapped" individuals, we determined that the client was not eligible to participate in the Supported Employment Program and questioned the related expenditures of \$19,265 charged to the Program from May 1993 to September 1994.

In another example, the file for a client receiving job training from a rehabilitative service contractor contained contractor-prepared monthly progress reports. The report for February 1993 stated that the client was "ready to work at the private sector." Further, the file

contained the Vocational Rehabilitation Counselor's comment that the client did not need to continue job training and was "job ready." Although the documentation indicated that Program participation should have been discontinued, the Counselor extended the client's participation, and the client continued in the job training through September 1994. As a result, the Department incurred \$21,729 in excess costs from March 1993 through September 1994.

Medical Evaluations/Vocational Rehabilitative Services

Title 34, Section 361.31(b), of the Code of Federal Regulations on eligibility requires "the presence of a physical or mental disability which for the individual constitutes or results in a substantial handicap to employment; and a reasonable expectation that vocational rehabilitation services may benefit the individual in terms of employability." Further, Title 17, Chapter 41, of the Guam Code Annotated states that the Department "shall, as a free public service, provide rehab [rehabilitation] services to qualifying handicapped individuals." Finally, Title 34, Section 361.33(a), of the Code of Federal Regulations states, "When an individual's eligibility for vocational rehabilitation has been determined, there is a thorough diagnostic study to determine the nature and scope of services needed by the individual."

Based on our review of the case files of 34 clients, we identified 8 clients who received services that were not supported by medical evaluations and/or received medical rather than vocational rehabilitation services and 14 clients for whom needed services were not provided timely. As a result, the Department incurred \$67,479¹ of questioned costs and delayed providing needed vocational services to eligible persons. For example:

- A client had received hip replacement surgery based on an authorization by a Departmental Counselor, who was not a physician. However, the file contained a recommendation from the client's physician that an alternative medical procedure rather than a hip replacement should be performed. In addition, the file contained a report from the Department's Medical Consultant (a physician) which stated that "medical care was not part of vocational rehabilitation services" and recommended that the client be referred to the Medically Indigent Program or the Catastrophic Illness Assistance Program, both of which are administrated by the Department of Public Health and Social Services. The Counselor said that she authorized the surgery because the client was enrolled in the Independent Living Program and was therefore "entitled to receive services." The authorized costs for the hip replacement surgery were \$24,000.

- A client was identified in June 1993 as having a behavioral problem. An assessment in the client's file stated, "If behavior is not modified, he [the client] would not succeed in his goal." However, the client was not approved for therapeutic sessions with a psychologist until June 1994, or 1-year later.

¹We determined that the Department had incurred questioned costs of \$85,278. However, to avoid duplicate reporting, this amount was reduced by \$17,799, which had already been included as questioned costs in the section "Client Eligibility" in the finding.

Local Program Expenditures

Title 34, Section 361.86(b)(1), of the Code of Federal Regulations states:

In fiscal year 1990 and each subsequent fiscal year, the Secretary reduces amounts otherwise payable to a State under this section for that fiscal year if the State's expenditures from non-Federal sources, . . . for the prior fiscal year, are less than . . . (2) the average of the State's total expenditures from non-Federal sources for the three fiscal years preceding that prior fiscal year. (Referred to as maintenance of effort.)²

The Department did not comply with the "maintenance of effort" requirement in that it used Federal grant funds rather than available local funds to support its Workshop Center Program. This occurred, according to the Acting Administrative Services Officer, because there was some "confusion" between the Officer's employees and the Vocational Rehabilitation Counselors on the proper use of Federal and local program funds. As a result, for fiscal years 1993 and 1994, the Department incurred a maintenance of effort deficiency of \$621,631 for not maintaining local expenditures at the level required by the grantor. Specifically, the Department's budget submission to the Government of Guam for fiscal years 1993 and 1994 contained an impact statement for the Workshop Center Program to support its request for local funds, which it received. However, clients participating in the local program during this time period were paid with funds from the Federal Vocational Rehabilitation Services Program, with the locally appropriated funds reverting to the General Fund.

Title 34, Section 361.86(e)(1), of the Code of Federal Regulations states:

The Secretary may waive or modify any requirement . . . if the Secretary determines that a waiver or modification of the State maintenance of effort requirement is necessary to permit the State to respond to uncontrollable circumstances, such as major natural disaster or a serious economic downturn.

On March 21, 1994, the U.S. Department of Education advised the Department of Vocational Rehabilitation that a maintenance of effort deficiency existed for fiscal year 1993 in the amount of \$463,949. The Department requested that the U.S. Department of Education grant a waiver of the maintenance of effort requirement, as allowed by Section 361.86(e)(1). The U.S. Department of Education granted the waiver, because, according to the request, Guam had experienced "major natural disasters and serious economic downturn that have caused significant unanticipated expenditures and reduction in revenue." However, the Department did not disclose that local funding had been provided for the Workshop Center Program. If this information had been made available to U.S. Department of Education officials, we believe that the officials may not have approved the Department's request for a

²The Code of Federal Regulations (34 CFR 361.86) provides that Federal grant funds are subject to reduction if local governments do not maintain local program expenditures at the same level as in prior years, as determined by the U.S. Department of Education. This requirement is called "maintenance of effort."

waiver. Therefore, we questioned costs of \$463,949 related to the maintenance of effort deficiency. Further, during fiscal year 1994, the Department charged an additional \$157,682 to the same Federal program for clients certified for the same local program, which we also questioned.

We discussed these program management issues with a Rehabilitation Program Specialist at the U.S. Department of Education and with the Director of Vocational Rehabilitation. The Program Specialist said that Education's review of operations of the Department of Vocational Rehabilitation in 1992 found that the Department was not following medical recommendations and was providing medical services unrelated to vocational rehabilitation. The Director of Vocational Rehabilitation also agreed that Program funds were used for medical rather than vocational rehabilitation services and that clients were not provided services in a timely manner. This occurred, according to the Director, because the Department "did not have policies and procedures for the Vocational Rehabilitation Counselors and an effective monitoring system to ensure that vocational rehabilitation requirements were followed."

Recommendations

We recommend that the Governor of Guam instruct the Director of the Department of Integrated Services for Individuals with Disabilities³ to:

1. Develop and implement written procedures which ensure compliance with the requirements of Title 34, Chapter III, of the Code of Federal Regulations and Title 4, Chapter 14, of the Guam Code Annotated related to the eligibility of clients, the eligibility of the types of services rendered to clients, and the maintenance of effort for programs that are locally funded.

2. Advise Region IX, U.S. Department of Education, of the questioned costs and either resolve the questioned costs or arrange for repayment.

Department of Vocational Rehabilitation Response and Office of Inspector General Reply

In the November 19, 1997, response (Appendix 3) to the draft report from the Director of the Department of Integrated Services for Individuals with Disabilities (formerly the Department of Vocational Rehabilitation), the Department generally concurred with the two recommendations and indicated that corrective action had been or would be taken. However, the Department provided additional comments that disagreed with certain aspects of our finding and reserved its position pending receipt of further data on

³The Department of Vocational Rehabilitation was reorganized as one of five divisions under the Department of Integrated Services for Individuals with Disabilities, which was created by Guam Public Law 24-16.

questioned costs. Based on the response, we are requesting additional information for the two recommendations (see Appendix 4).

Recommendation 1. Concurrence.

Department of Vocational Rehabilitation Response. The Department stated that it had developed a Policy and Procedures Manual for Vocational Rehabilitation Services which was implemented in January 1996 and that the "maintenance of effort for locally funded programs has been resolved" with the grantor agency.

Office of Inspector General Reply. We found that the Manual did not include procedures to ensure that the Department met maintenance of effort requirements for locally funded programs. Therefore, the Department needs to provide our office with a copy of policies and procedures developed to address the issue of maintenance of effort. Additionally, the Department did not provide documentation that the grantor agency was advised of and resolved the reported maintenance of effort deficiencies.

Recommendation 2. Concurrence.

Department of Vocational Rehabilitation Response. The Department stated that "upon final resolution to the draft audit report response," it would advise the grantor agency of any questioned costs and resolve them as appropriate.

Office of Inspector General Reply. On December 10, 1997, we provided the Department with information on the cases and questioned costs discussed in the finding, including client names, case numbers, time periods, and calculations of related questioned costs. The Department needs to provide our office with appropriate documentation showing that the grantor agency has been informed of the reported questioned costs for final disposition.

General Comments on Finding

In its response to the draft report, the Department provided comments that disagreed with certain aspects of the finding related to Recommendation 2. These comments and our replies are as follows:

Department of Vocational Rehabilitation Response. With regard to the section of the finding on "Client Eligibility," the Department stated that it "agree[d] that in order for an individual to be eligible to participate in the Supported Employment Program, such an individual must be determined to be an individual with the most severe disability and that his/her Individualized Written Rehabilitation Program (IWRP) provide for 'periodic' monitoring to ensure that the individual is making satisfactory progress towards meeting the weekly work requirement established in the IWRP." (Emphasis in original.) However, the Department further stated that it could not provide specific comments on the alleged

ineligible applicants and related questioned costs without information such as clients' names or case numbers to identify and verify the audit finding.

Office of Inspector General Reply. We provided the Department, on December 10, 1997, with information on the cases and questioned costs discussed in the finding, including client names, case numbers, time periods, and calculations of related questioned costs.

Department of Vocational Rehabilitation Response. Regarding the section in the finding entitled "Medical Evaluations/Vocational Rehabilitative Services," the Department stated that while it "agree[d] that medical evaluations play a major part in the assessment process for determining eligibility for VR [Vocational Rehabilitation] services," other evaluations must be taken into consideration and that "[t]his is the primary reason why VR Counselors, on certain circumstances, make decisions contrary to the Department's medical consultant's recommendations." Furthermore, under the informed choice provision of the Rehabilitation Act of 1973, as amended in 1992, the choice of services is made jointly by the client and the counselor. The Department also said it would "like to withhold" its position on the related questioned costs until it received information to identify and verify the specific cases cited in the finding.

Office of Inspector General Reply. We agree that Vocational Rehabilitation Counselors determine client eligibility for services, and, under the Rehabilitation Act of 1973, as amended, the choice of services is made jointly by the client and the Counselor. However, we believe that the Counselors should adequately support (document) their determinations and obtain approval for those determinations from their supervisors. During our audit, we found no documentation as to why the medical consultant's determinations, made on the basis of diagnostic studies performed in accordance with the requirements of Title 34, Section 361.33(a), of the Code of Federal Regulations, were not accepted.

Department of Vocational Rehabilitation Response. The Department said that a 1-year delay in approving vocational rehabilitation services "may have been too lengthy" but that "circumstances beyond the control of the counselor," such as the client being off-island or not being able to make the appointment, existed. The Department further stated that there were "no set timelines required by either federal or local laws" as to when vocational rehabilitation services should be provided to consumers. The Department also cited 34 CFR 361.41(b)(1), which provides a 60 calendar day time frame for making client eligibility determinations but allows longer time periods for "exceptional and unforeseen circumstances beyond the control of the agency" or when the agency "determines that an extended evaluation is necessary for an individual." The Department said it would state its position on client eligibility and medical evaluation/vocational rehabilitation services within 90 days upon the receipt of the information requested.

Office of Inspector General Reply. The citation from the Code of Federal Regulations pertains to client eligibility and is not applicable to the provision of services

to clients who have already been approved for participation in the Department's vocational rehabilitation programs. The 14 cases cited in the report were clients who had been determined to be eligible for Departmental services but who were delayed at least 1 year for approval of specific services. We believe that the clients should be reevaluated after a reasonable time period because the clients' situations may have changed in a manner that could have affected their eligibility or the type of vocational rehabilitation services needed.

Department of Vocational Rehabilitation Response. On the section of the finding entitled "Local Program Expenditures," the Department did not concur that it "utilized the maintenance of effort funds rather than available funds to support its Workshop Center Program," explaining that it met matching fund requirements through "local funds directly appropriated for the VR [Vocational Rehabilitation] program." The Department also stated that the Workshop Center (now called Goodwill) was a "locally funded program," with local funds appropriated "to train disabled individuals job skills so that they can go out to the work force." The Department further stated that although it "concurs that VR [Vocational Rehabilitation] federal funds were spent on consumers" who were at the Workshop Center, "these expenditures were for consumers who were sent to [the Workshop Center] for services such as vocational adjustment training, vocational evaluation and work evaluation."

Office of Inspector General Reply. In accordance with Federal guidelines, "matching fund requirements" and "maintenance of effort requirements" are common to Federally funded programs. A "matching fund requirement" (or "cost sharing") means that for each dollar provided to a program from Federal funds, the local government must provide a certain matching percentage (usually 10 to 25 percent) from local funds. A "maintenance of effort requirement" (or "level of effort") means that the local government must maintain the amount of local funding at no less than the same level as in prior years. If the local government reduces the level of local funding provided to support a program, a greater amount of Federal funds are required to maintain a program's operations at the same level as in prior years. The issue addressed in our finding is not whether Workshop Center clients were referred for vocational rehabilitation services but whether the Department maintained a constant "level of effort" in the Workshop Center. Our review disclosed that, for fiscal years 1993 and 1994, funds appropriated for the Workshop Center were not fully utilized and reverted to Guam's General Fund, thus reducing the "level of effort" funded by the local government.

Department of Vocational Rehabilitation Response. The Department stated that "confusion" concerning the maintenance of effort for the Workshop Center "was not regarding the proper use of funds," as stated in the report. Rather, according to the Department, "when the auditor learned of the numerous programs being charged for consumers at the Workshop Center," the question was posed "as to whether the appropriate account number was being indicated on the authorization form[s]" for services to clients. The Department further stated that it had changed its procedures "to ensure clarity in identifying the appropriate program to be charged."

Office of Inspector General Reply. When our auditor questioned the Department's employees concerning the source of funding for services provided to clients of the Workshop Center, there was some confusion on the part of the employees as to which accounts, Federal or local, should have been charged. Because the Department charged certain costs related to the locally funded Workshop Center to Federal grant accounts, the Department did not maintain the level of effort required by the Federal grant requirements.

Department of Vocational Rehabilitation Response. The Department did not concur with questioned costs of \$463,949 and \$157,682 related to maintenance of effort deficiencies in fiscal years 1993 and 1994, respectively. With regard to the questioned costs of \$463,949 for fiscal year 1993, the Department stated: "The approval to the department's maintenance of effort waiver request was granted [by the grantor agency] for the justifications stated on the request. Whether or not the Federal officials were aware of the local appropriations for the Workshop Center is another matter." With regard to the questioned costs of \$157,682 for fiscal year 1994, the Department stated that it used Federal Basic Support funds for consumers participating in the Workshop Center program for services such as vocational adjustment training, vocational evaluation, and work evaluation and that it "can only respond when provided specific caseload numbers or client's name."

Office of Inspector General Reply. We disagree with the Department's statement that "whether or not the Federal officials were aware of the local appropriations for the Workshop Center is another matter" because the grantor agency made its determination on the Department's waiver request without having all of the pertinent facts. Had the grantor agency known about the local funding that was provided for the Workshop Center but that later reverted to the General Fund, the grantor agency's decision may have been different. In our opinion, it is inappropriate to use Federal funds to supplant a locally funded program. Additionally, the Department's statement that the "1993 Basic Support grant was reduced by \$199,321 . . . because [the Department] did not meet the criteria established for the granting of a waiver" supports our position that the maintenance of effort requirements were not met. Therefore, our audit findings should be considered by the grantor agency in its decision to approve or disapprove the Department's request for a maintenance of effort waiver. We provided the Department, on December 10, 1997, with information on the specific cases and our calculation of questioned costs discussed in the finding.

B. PERSONAL SERVICES COSTS

The Department of Vocational Rehabilitation did not charge personal services costs to Federal grants based on actual work load distribution. The requirements for determining the allowability of charges for personal services are contained in Office of Management and Budget Circular A-87. However, the Department did not have procedures which ensured that charges for personal services costs were made in accordance with the Federal requirements. As a result, we questioned personal services costs of \$294,120 for fiscal years 1992 through 1994. We also questioned, for the same period, indirect costs of \$17,032 that were applicable to the questioned direct costs, for total questioned costs of \$311,152.

Employee Time Distribution

Circular A-87, Attachment B, Section B.10.b, states:

Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the State, local, or Indian tribal government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

We reviewed all payroll records, together with supporting documentation, for fiscal years 1992, 1993, and 1994 and interviewed 20 of the Department's 34 employees to determine whether the Department had correctly charged personal services costs to Federal grant programs. We found that personal services costs had been incorrectly charged to the Federally funded Vocational Rehabilitation Services Program for all 3 fiscal years. Specifically:

- During fiscal year 1992, payroll documentation for 16 of the 20 employees reviewed showed that 100 percent of their time was charged to Rehabilitation Services. However, eight of the employees stated that they had worked on other programs. For example, one employee stated that she spent only 50 percent of her time working on Rehabilitation Services. Therefore, we questioned personal services costs of \$11,463 (50 percent) that were charged to the grant for this employee. Based on our review, we determined that for fiscal year 1992, the Department improperly charged personal services

costs of \$75,199⁴ to Rehabilitation Services. We also questioned indirect costs of \$7,377 (\$75,199 multiplied by a 9.81 percent indirect cost rate) applicable to the questioned direct costs, for total questioned costs of \$82,576 for fiscal year 1992.

- During fiscal year 1993, payroll documentation for 19 of the 20 employees showed that 100 percent of their time was charged to Rehabilitation Services. However, 13 of the employees stated that they had worked on other programs. For example, one employee stated that she spent 80 percent of her time working on Rehabilitation Services. Therefore, we questioned personal services costs of \$6,630 (20 percent) charged to the grant for this employee. Based on our review, we determined that for fiscal year 1993, personal services costs of \$93,715 were improperly charged to Rehabilitation Services. We also questioned indirect costs of \$8,586 (\$93,715 multiplied by a 9.14 percent indirect cost rate) applicable to the questioned direct costs, for total questioned costs of \$102,281 for fiscal year 1993.

- During fiscal year 1994, payroll documentation for all 20 of the employees reviewed showed that 100 percent of their time was charged to Rehabilitation Services. However, 12 of the employees stated that they had worked on other programs. For example, one employee stated that she spent only 50 percent of her time working on Rehabilitation Services. Therefore, we questioned personal services costs of \$13,482 (50 percent) charged to the grant for this employee. In addition, we found that an employee who was shown as spending 100 percent of her time working on Rehabilitation Services had not been at work because she had been in an accident. During her absence, the employee continued to be paid with grant funds. After the employee used all of her leave because of the accident, the Department continued to pay the employee and charge the costs to the grant. The employee subsequently retired. Therefore, we questioned personal services costs of \$4,408 incurred while the employee was neither at work nor on approved leave. Also, the employee may not have been entitled to the payments while not on approved leave because Guam laws do not contain these entitlement provisions. Based on our review, we determined that for fiscal year 1994, the Department improperly charged personal services costs of \$125,207 to Rehabilitation Services. We also questioned indirect costs of \$1,089 (\$125,207 multiplied by an 0.87 percent indirect cost rate) applicable to the questioned direct costs, for total questioned costs of \$126,296 for fiscal year 1994.

In June 1993, officials from Region IX, U.S. Department of Education, conducted a program review and advised the Department of Vocational Rehabilitation to take appropriate action to ensure that all staff salaries, fringe benefits, and administrative costs were charged to the appropriate Federal or local programs. In response to that review, the Department, in July 1993, implemented a time distribution sheet for all employees to complete. However, the Department continued to improperly charge all personal services costs to the Vocational Rehabilitation Services Program. Departmental officials said that the Department's local

⁴To determine the amount of questioned personal services costs for each sampled employee, we determined the percentage of each employee's time that was related to Rehabilitation Services and applied that percentage to the total salary costs charged to the grant for each employee. We then combined the questioned costs for all of the sampled employees to arrive at the total questioned amount. The same procedure was used for fiscal years 1993 and 1994.

budget did not include personal services costs to administer local programs. Therefore, according to the officials, they did not charge personal services costs to local programs but rather to the Federal program.

Recommendations

We recommend that the Governor of Guam instruct the Director of the Department of Integrated Services for Individuals with Disabilities to:

1. Develop and implement written procedures which ensure that personal services costs are documented and charged to Federal grants in accordance with the requirements of U.S. Office of Management and Budget Circular A-87.
2. Advise Region IX, U.S. Department of Education, of the questioned costs and either resolve the questioned costs or arrange for repayment.
3. Request that the Guam Attorney General determine the propriety of the payments made to the employee who was neither at work nor on approved leave and, if the payments are determined to have been improper, determine whether the Department has a legal basis to seek recovery of the funds.

Department of Vocational Rehabilitation Response and Office of Inspector General Reply

In the November 19, 1997, response (Appendix 3) to the draft report from the Director, Department of Integrated Services for Individuals with Disabilities (formerly the Department of Vocational Rehabilitation), the Department generally concurred with all three recommendations and said that corrective action had been or would be taken. However, the Department provided additional comments that disagreed with certain aspects of our finding and reserved its position pending receipt of further data on questioned costs. Based on the response, we are requesting additional information for the three recommendations (see Appendix 4).

Recommendation 1. Concurrence.

Department of Vocational Rehabilitation Response. The Department stated that it had policies and procedures in place which became effective in fiscal year 1994. The Department further stated that because it was operating under a 3-year budget from fiscal years 1993-1995, no costs were allocated for salaries and benefits to be paid out of the local programs. However, the Department said that in its fiscal year 1996 budget submission, it requested that local funds be appropriated for salaries and benefits. The Department stated that its staff was currently using time records to report their time directly to the individual programs for which time is spent and that "only up to 10% of staff spend time on programs other than VR [vocational rehabilitation]."

Office of Inspector General Reply. During our audit, our review of employee time records for fiscal years 1992, 1993, and 1994 disclosed that personal services costs had been incorrectly charged to the Federally funded programs. In addition, the Department's response confirms our finding that charges were made to the grant programs for personal services costs that were outside the scope of the programs for fiscal years 1993 and 1994. The Department needs to provide our office with a copy of the policies and procedures for personal services costs that incorporate the use of time distribution records.

Recommendation 2. Concurrence.

Department of Vocational Rehabilitation Response. The Department said that it "will seek resolution to the questioned costs before forfeiting any federal dollars."

Office of Inspector General Reply. The Department needs to provide our office with appropriate documentation showing that the grantor agency has been informed of the reported questioned costs for final disposition.

Recommendation 3. Concurrence.

Department of Vocational Rehabilitation Response. The Department stated that it had conferred with the Attorney General's Office regarding the propriety of payments to the employee who was neither at work nor on leave and that it had "communicated" its response regarding the questioned personal services costs of \$4,408 to the Attorney General's Office.

Office of Inspector General Reply. The Department needs to provide our office with a copy of the Attorney General's formal opinion on the propriety of the payments to the employee.

General Comments on Finding

In its November 19, 1997, response to the draft report, the Department provided comments that disagreed with certain aspects of the finding related to Recommendation 2. These comments and our replies are as follows:

Department of Vocational Rehabilitation Response. The Department said that it is "withholding" its position regarding specific questioned costs and requested names and "individual amounts for the 16 employees with alleged personal services costs improperly charged" to the Rehabilitation Services Program for fiscal years 1992, 1993, and 1994.

Office of Inspector General Reply. Based on the Department's response, we provided the Department, on December 10, 1997, with the requested employee names, time periods, and calculations of related questioned costs.

Department of Vocational Rehabilitation Response. The Department stated that, in fiscal year 1993, it had sought assistance from the Department of Administration to prepare a cost allocation plan for employees who worked for Federal grant programs other than the Vocational Rehabilitation Services Program. However, according to the response, the Department did not implement the cost allocation plan but instead charged all administrative expenses directly to the program for which services were rendered. The Department said that in fiscal year 1994, it developed a new time sheet and implemented policies for all employees to charge their time directly to the program for which time was spent. The Department stated that time sheets are currently "utilized on a daily basis for all employees to charge their time directly to the program of which their time is spent." The Department further stated that there was "not a problem as far as charging the other federal programs" but that "the problem was with the locally funded programs not having funds appropriated to capture administrative salaries and benefits." The Department said, "This was due to the department having to operate under a three-year budget."

Office of Inspector General Reply. We commend the Department for including salaries and wages in its local programs for fiscal year 1996 and subsequent years. However, we found that the Department did not take action to make adjustments to correct the salaries and wages that were not properly allocated between Federal and/or local programs during fiscal years 1992, 1993, and 1994. Therefore, the Department's records should be adjusted to reflect what should have been charged to each program prior to fiscal year 1996.

Department of Vocational Rehabilitation Response. The Department stated that it agreed that for fiscal years 1992 and 1994, one employee spent only 50 percent of her time working on the Vocational Rehabilitation Services Program, but it also stated that it had an agreement with the Social Security Administration for one employee to spend 50 percent of her time working on the Vocational Rehabilitation Services Program and the other 50 percent on Social Security's Disability Determination Services Program. Therefore, according to the Department, this employee's time was "captured accordingly." The Department also stated, regarding the eight employees who said they spent time on other programs during fiscal year 1992, that the grantor agency told the Department in fiscal year 1994 that "this was an audit exception." The Department said that it "immediately took action" to address this matter and that "this matter was corrected" with the approval of its budget in fiscal year 1996.

Office of Inspector General Reply: We took no exception to the personal services costs that were charged 50 percent to the Vocational Rehabilitation Services Program and 50 percent to Social Security's program for fiscal years 1993 and 1994. However, we found that the employee's time had not been allocated properly for fiscal year 1992; therefore, we took exception to those costs.

Department of Vocational Rehabilitation Response. Regarding the questioned indirect costs, the Department stated, "This allegation is ambiguous and would need further clarification to support the auditor's findings." The Department further stated that

the indirect cost "is captured against the program's expenditures" and that "[b]ased on the indirect cost rate for that year, the total is deducted and taken out at the end of the year. The Department further stated: "This is a function of the Department of Administration, Division of Accounts. The indirect cost that is captured is used to support only the external government agencies for their time spent on the program."

Office of Inspector General Reply. The Department's statement regarding the manner in which indirect costs are accounted for is correct. However, once direct salaries and wages are questioned, the corresponding indirect costs must also be questioned because indirect costs are based on a percentage of direct salaries and wages. Therefore, we applied the applicable indirect cost rate to questioned direct salaries and wages to derive the amount of indirect costs questioned.

Department of Vocational Rehabilitation Response. The Department stated that the employee who spent 100 percent of her time working on the Vocational Rehabilitation Services Program but who had not been to work because of an accident was given work assignments to be completed at home "for intermittent periods between June 1994 to August 1994, which terminated when the employee could no longer complete her tasks productively as a result of the injuries she received from the accident." The Department said that the employee was subsequently placed on leave status and "was loaned additional leave" from her coworkers and a relative once all her leave was used.

Office of Inspector General Reply. We questioned the employee's time that was charged to the program between the pay periods ending June 11 to August 6, 1994, because the employee was neither at work nor on approved leave during this period. Leave that was donated from her coworkers and a relative were for different time periods (from August 8 to November 25, 1994, and from February 20 to March 3, 1995). In addition, the Department provided no documentation to support that the employee performed work at home. Further, as a Developmental Disability aide, the employee's job duties included client interviews, job coaching and development, home visits, and client followup visits, none of which could have been performed by the employee from home. In addition, although not questioned, we believe that personal services costs charged to the Federal program while the employee was on donated leave may not have been proper because the donated leave was funded by local sources.

OTHER MATTERS

Title 34, Subpart D, Section 80.23(b), of the Code of Federal Regulations states, "A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period." Of the 436 outstanding obligations, totaling \$406,685, from the Department's encumbrance reports⁵ for September 30, 1992, through September 30, 1994, we reviewed 11 obligations, valued at \$111,864. We noted four instances, totaling \$54,173 (all occurring in fiscal year 1992), in which the Department had incurred additional Vocational Rehabilitation Services Program costs for services that were not provided within the required 90-day liquidation period. For example, the Department entered into an interagency agreement with a local radio station to provide an outreach program for the Department. The funds for the agreement were obligated on September 30, 1992; however, services totaling \$28,250 were not provided until 6 months later, or 3 months after the 90-day liquidation requirement.

A U.S. Department of Education official from Region IX told us that, although he had orally given the Department of Vocational Rehabilitation permission to carry unliquidated obligations beyond the 90-day requirement, he requested that this issue be mentioned in our audit report. We therefore suggest that the Department confer with Region IX officials regarding the carrying of unliquidated obligations beyond the 90-day requirement to determine whether subsequent payment of those obligations could be properly charged to the Federal funds.

Department of Vocational Rehabilitation Response and Office of Inspector General Reply

In the November 19, 1997, response (Appendix 3) to the draft report from the Director of the Department of Integrated Services for Individuals with Disabilities (formerly the Department of Vocational Rehabilitation), the Department included comments on this issue as follows:

Department of Vocational Rehabilitation Response. The Department stated that in fiscal year 1992, it had obtained approval from the U.S. Department of Education to carry unliquidated obligations beyond the 90-day requirement because of the nonreceipt of invoices from the various vendors who performed services but that in fiscal year 1993 and subsequent years, it had "carried over federal dollars into the subsequent year." As such, according to the Department, the funds were available for obligation for an additional year. The Department also stated that it had "gone without" any technical assistance regarding financial matters from Region IX, Rehabilitation Services Administration, for the past 5 years. Finally, the Department stated that in July 1997, its officials and those from Guam's Department of Administration met with U.S. Department

⁵The encumbrance reports listed amounts that were set aside to pay for unfilled purchase orders and contracts for goods and services.

of Education officials on revising Financial Status Reports dating as far back as fiscal year 1992. As a result of the meeting, the issue was corrected and the reports were restructured.

Office of Inspector General Reply. The Department did not provide documentation supporting the approval received from the U.S. Department of Education for the fiscal year 1992 carryover or provide documentation that this action was taken. The Department needs to provide the substantiating documents to our office.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Areas</u>	<u>Questioned Costs</u>		
	<u>Federal Funds</u>	<u>Local Funds</u>	<u>Total</u>
A. Program Management			
Client Eligibility	\$121,813	\$15,084	\$136,897
Medical Evaluations	10,288	57,191	67,479
Local Program Expenditures	<u>621,631</u>	<u> </u>	<u>621,631</u>
Subtotal	753,732	72,275	826,007
B. Personal Services Costs	<u>233,364</u>	<u>77,788</u>	<u>311,152</u>
Total	<u>\$987,096</u>	<u>\$150,063</u>	<u>\$1,137,159</u>

**PROGRAM COSTS AND QUESTIONED COSTS
FOR FISCAL YEARS 1992, 1993, AND 1994**

<u>Programs</u>	<u>Receipts</u>	<u>Total Costs</u>	<u>Total Audited</u>	<u>Questioned Costs</u>
Federal Funds:				
Vocational Rehabilitation Services	\$5,248,109	\$5,047,893	\$1,975,368	\$910,535
Supported Employment	130,310	83,786	76,565	76,561
Independent Living for the Older Blind	580,380	231,968	2,025	
Independent Living	<u>59,057</u>	<u>43,944</u>	<u>230</u>	<u> </u>
Subtotal - Federal Funds	<u>\$6,017,856</u>	<u>\$5,407,591</u>	<u>\$2,054,188</u>	<u>\$987,096</u>
Local Funds:				
Vocational Rehabilitation Services (Federal Program)	\$1,820,910	\$1,065,726	\$204,736	\$92,872
Workshop Center	586,418	541,289	229,711	30,375
Independent Living	<u>556,925</u>	<u>84,296</u>	<u>30,002</u>	<u>26,816</u>
Subtotal - Local Funds	<u>\$2,964,253</u>	<u>\$1,691,311</u>	<u>\$464,449</u>	<u>\$150,063</u>
Total	<u>\$8,982,109</u>	<u>\$7,098,902</u>	<u>\$2,518,637</u>	<u>\$1,137,159</u>

**Program Costs and Questioned Costs
for Fiscal Year 1992**

<u>Programs</u>	<u>Receipts</u>	<u>Total Costs</u>	<u>Total Audited</u>	<u>Questioned Costs</u>
Federal Funds:				
Vocational Rehabilitation Services	\$1,764,771	\$1,687,508	\$542,593	\$86,248
Supported Employment	47,202	4,549		
Independent Living for the Older Blind	193,460	78,139		
Independent Living	<u>17,750</u>	<u>8,000</u>	<u> </u>	<u> </u>
Subtotal - Federal Funds	<u>\$2,023,183</u>	<u>\$1,778,196</u>	<u>\$542,593</u>	<u>\$86,248</u>
Local Funds:				
Vocational Rehabilitation Services (Federal Program)	\$449,647	\$295,488	\$106,970	\$25,320
Workshop Center	289,418	289,418		
Independent Living	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal - Local Funds	<u>\$739,065</u>	<u>\$584,906</u>	<u>\$106,970</u>	<u>\$25,320</u>
Total	<u>\$2,762,248</u>	<u>\$2,363,102</u>	<u>\$649,563</u>	<u>\$111,568</u>

**Program Costs and Questioned Costs
for Fiscal Year 1993**

<u>Programs</u>	<u>Receipts</u>	<u>Total Costs</u>	<u>Total Audited</u>	<u>Questioned Costs</u>
Federal Funds:				
Vocational Rehabilitation Services	\$1,603,566	\$2,026,754	\$823,637	\$559,133
Supported Employment	39,938	39,927	37,755	37,751
Independent Living for the Older Blind	193,460	67,997		
Independent Living	<u>19,028</u>	<u>17,432</u>	<u>80</u>	<u></u>
Subtotal - Federal Funds	<u>\$1,855,992</u>	<u>\$2,152,110</u>	<u>\$861,472</u>	<u>\$596,884</u>
Local Funds:				
Vocational Rehabilitation Services (Federal Program)	\$699,624	\$589,902	\$59,522	\$31,728
Workshop Center	150,000	105,662	102,420	16,200
Independent Living	<u>281,275</u>	<u>19,427</u>	<u>7,714</u>	<u>7,714</u>
Subtotal - Local Funds	<u>\$1,130,899</u>	<u>\$714,991</u>	<u>\$169,656</u>	<u>\$55,642</u>
Total	<u>\$2,986,891</u>	<u>\$2,867,101</u>	<u>\$1,031,128</u>	<u>\$652,526</u>

**Program Costs and Questioned Costs
for Fiscal Year 1994**

<u>Programs</u>	<u>Receipts</u>	<u>Total Costs</u>	<u>Total Audited</u>	<u>Questioned Costs</u>
Federal Funds:				
Vocational Rehabilitation Services	\$1,879,772	\$1,333,631	\$609,138	\$265,154
Supported Employment	43,170	39,310	38,810	38,810
Independent Living for the Older Blind	193,460	85,832	2,025	
Independent Living	<u>22,279</u>	<u>18,512</u>	<u>150</u>	<u></u>
Subtotal - Federal Funds	<u>\$2,138,681</u>	<u>\$1,477,285</u>	<u>\$650,123</u>	<u>\$303,964</u>
Local Funds:				
Vocational Rehabilitation Services (Federal Program)	\$671,639	\$180,336	\$38,244	\$35,824
Workshop Center	147,000	146,209	127,291	14,175
Independent Living	<u>275,650</u>	<u>64,869</u>	<u>22,288</u>	<u>19,102</u>
Subtotal - Local Funds	<u>\$1,094,289</u>	<u>\$391,414</u>	<u>\$187,823</u>	<u>\$69,101</u>
Total	<u>\$3,232,970</u>	<u>\$1,868,699</u>	<u>\$837,946</u>	<u>\$373,065</u>

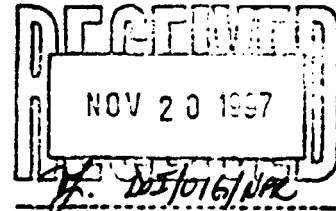


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APPENDIX 3
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Mr. Peter Scharwark, Jr.
Senior Auditor
U.S. Department of Interior
North Pacific Region
238 Archbishop F.C. Flores Street, Suite 807
Pacific Daily News Building
Agana, Guam 96910



Re: Draft Audit Report on the Programs and Operations, Department of Vocational
Rehabilitation (N-IN-GUA-005-94)

Pursuant to the subject matter, I am pleased to enclosed the Department of Integrated Services
for Individuals with Disabilities (DISID) response to the findings and recommendations stated in
the above referenced report.

Thank you for the opportunity to comment on the report.

Sincerely,

CARL T.C. GUTIERREZ

Enclosures

November 19, 1997

MEMORANDUM:

TO: Director, Bureau of Budget and Management Research

ATTN: Chief Internal Auditor

FROM: Director, Department of Integrated Services for Individuals with Disabilities

SUBJECT: **RESPONSE TO THE INSPECTOR GENERAL'S DRAFT REPORT**

Hafa Adai!

This is a response to the October 1997 draft report of the Office of the Inspection General regarding the Department of Vocational Rehabilitation's, Government of Guam, federal and local activities that occurred in Fiscal Year 1992 through 1994.

Our response to the auditor's findings and the proposed recommendations in the draft report are as follows:

A. PROGRAM MANAGEMENT

1. Client Eligibility

Findings:

The Department provided services to seven (7) consumers who were ineligible to participate in the Supported Employment Program and two (2) additional consumers were not eligible to continue to participate because the case files did not contain the required periodic evaluations supporting such continuation. As a result, for these nine consumers, a questioned costs of \$136,897 were incurred during fiscal years 1992 through 1994.

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Response:

Generally, we agree that in order for an individual to be eligible to participate in the Supported Employment Program, such an individual must be determined to be an individual with the most severe disability and that his/her Individualized Written Rehabilitation Program (IWRP) provide for "periodic" monitoring to ensure that the individual is making satisfactory progress towards meeting the weekly work requirement established in the IWRP.

However, we are not able to provide specific comment on the alleged ineligible applicants without specific information about their records such as caseload numbers or client's names so that we can accurately verify the audit findings. While the single audit conducted in FY 1992 has a list of caseload numbers, we found that they are not similar cases. Thus, we request that we be provided the caseload numbers or names of the nine consumers in order for us to review the case files of these consumers before we state our position regarding the questioned costs of \$136,897 incurred during FY 1992 through 1994. Additionally, we also need the caseload number or the name of the client whom the auditor determined was not eligible to participate in the Supported Employment Program and questioned the related expenditures of \$19,265 charged to the program from May 1993 to September 1994. As well, we also need the caseload number or the name of the client who was "Job Ready" but continued to received job training from February 1993 through September 1994. As a result, the Department incurred \$21,729 in excess costs.

Again, we would like to withhold our position regarding the above questioned costs of \$19,265 and \$21,729 until we obtain the information requested on two consumers.

2. **Medical Evaluation/Vocational Rehabilitation Services**

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Findings:

The Department provided services that were not supported by medical recommendations. As a result, the Department incurred \$64,479 of questioned costs and delayed providing needed vocational services to eligible persons. Also, a client received hip replacement contrary to the client's physician and department's medical consultant's recommendation. The hip replacement costs was \$24,000. Another client who had a behavioral problem was not approved for therapeutic sessions with a psychologist until June 1994, or a one year delay.

Response:

We would like to withhold our positions, regarding the questioned costs of \$64,479 and \$24,000, respectively, until we obtain additional information, such as the caseload numbers or names of the consumers identified in the findings to enable us to review and verify the alleged questioned costs.

While we do agree that medical evaluations play a major part in the assessment process for determining eligibility for VR services, there are other evaluations such as unique strengths, resources, priorities, interests and needs, including the need for Supported Employment that are also considered in making the determinations. This is the primary reason why VR Counselors, on certain circumstances, make decisions contrary to the Department's medical consultant's recommendations. Furthermore, under the informed choice provision of the Rehab Act of 1973, as amended in 1992, the choice of VR services is made jointly by the client and the VR Counselor.

Title 34, Section 361.42 of the Code of Federal Regulation (CFR) on eligibility specifies that this responsibility is vested in the State unit. Further, Chapter 4, page 154 of the updated VR Services Manual, assigns the VR Counselor the primary responsibility to make eligibility

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November 19, 1997
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determination.

On the issue of client receiving medical rather than vocational rehabilitation services, CFR, Title 34, Section 361.48, identifies "physical and mental restoration services as one of the VR services available to its clientele. Medical services are provided to reduce or

correct medical problems of consumers to enable to participate in VR programs without undue interruptions.

Findings:

The Department did not provide needed services to consumers in a timely manner. A client was identified in June 1993 as having a behavioral problem. However, the client was not approved for therapeutic sessions with a psychologist until June 1994, or a one year delay.

Response:

We agree that a one year delay in approving VR services in the IWRP may have been too lengthy. However, there are circumstances beyond the control of the counselor for such lengthy delays in the delivery of services. For example, the client may have been off-island or unavailable to make appointments, etc. It should be noted that with the exception of processing of applications, providing VR services to consumers has no set timelines required by either federal or local laws applicable to VR services.

Title 34, Section 361.41(b)(1) stated that "The State Plan must assure that once an individual has submitted an application for VR services, eligibility determination will be made within 60 calendar days unless --

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- (i) Exceptional and unforeseen circumstances beyond the control of the agency preclude a determination within 60 calendar days and the individual is so notified and agrees that an extension of time is warranted; or
- (ii) The State unit determines that an extended evaluation is necessary for an individual.

We will state our positions on each of the above mentioned findings within 90 days upon the receipt of the information requested above.

3. Local Program Expenditures

Findings:

The department did not comply with the "maintenance of effort" requirement in that it used federal grant funds rather than available local funds to support its workshop center program.

Response:

The Department does not concur with the finding of which the department utilized the maintenance of effort funds rather than available funds to support its Workshop Center Program.

The Rehabilitation Act of 1973, as amended, requires that states provide matching funds for the VR program. State agencies may meet the required match using a combination of cash or in-kind contributions from state and local sources. Guam's matching funds for the Basic Support Program are local funds directly appropriated for the VR program.

A locally funded program titled Workshop Center funds was appropriated for "to train disabled individuals job skills so that

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they can go out to the work force. There is no specific area of employment that this program is limited to. It is any type of job skill that a person with a disability can be trained to perform out in the employment market." These funds although titled "Workshop Center," was not the sole funding source for consumers who were undergoing services at the Workshop. Basic Support funds and the Independent Living local funds were also utilized concurrently for fiscal years 1992-1994 for consumers at Goodwill (Workshop Center). The counselors made the determination as to which program the consumers were eligible for in obtaining services. Each program had its own criteria for eligibility.

The department concurs that VR federal funds were spent on consumers who were at Goodwill (former Workshop Center). However, these expenditures were for consumers who were sent to Goodwill for services such as vocational adjustment training, vocational evaluation and work evaluation.

A total of \$150,000 in fiscal year 1993 and \$160,000 in fiscal year 1994 was appropriated for the Workshop Center Program. Both years funds were expended for the program with \$30,658 and \$871.00, consecutively, reverting back to the general fund at the close of the fiscal years. (See Atch 1)

The "confusion" was not regarding the proper use of funds, but at the time of inquiry, the confusion was when the auditor learned of the numerous programs being charged for consumers at the Workshop Center, also known as Goodwill. It was presumed that the sole source of funding was the account that held the title of Workshop Center. The secretaries for the counselors were then questioned as to why they were charging accounts other than the Workshop Center Program account. That posed the question as to whether the appropriate account number was being indicated on the authorization form. Their

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response was that the account number was provided by the department's Fiscal Office. When questioned, the Acting ASO informed the auditor that the Counselor's secretaries did not decide which program to identify on the authorization form without the counselor informing them as to which program to charge.

This problem was corrected to ensure clarity in identifying the appropriate program to be charged. The current practice is for the counselor to identify the program by name, for which services are to be charged to. The program's title is then typed on the authorization form and forwarded to the Fiscal Office where the Accounting Technician types the coinciding account number onto the authorization form.

Furthermore, DVR was \$199,321 short of matching the fiscal year 1992 maintenance of effort requirement. As a result, DVR's 1993 Basic Support grant was reduced by \$199,321. DVR's request for a waiver was denied because it did not meet the criteria established for the granting of a waiver request. (See Atch 2)

Findings:

Questioned costs of \$463,949 related to the maintenance of effort deficiency for fiscal year 1993.

Response:

The department does not concur with this finding. The approval to the department's maintenance of effort waiver request was granted for the justifications stated on the request. Whether or not the Federal officials were aware of the local appropriations for the Workshop Center is another matter. As mentioned earlier, the Basic Support federal dollars are matched

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with direct cash appropriated from the general fund specifically for the program. The department fell short in meeting its MOE from local expenditures from the VR local matching funds and no other locally funded programs. (See Atch 3)

In response to the additional amount of \$157,682 of questioned costs charged to the federal program for fiscal year 1994, for consumers certified for the same local program. The department utilized federal Basic Support funds for consumers participating in the Workshop Center Program for services such as vocational adjustment training, vocational evaluation and work evaluation. However, the department can only respond when provided specific caseload numbers or client's name, should there be a specific allegation as to the appropriateness of the service/s provided totaling this amount.

Recommendation:

1. Develop and implement written procedures which ensure compliance with the requirements of Title 34, Chapter III, of the Code of Federal Regulation and Title 4, Chapter 14, of the Guam Code Annotated related to the eligibility of consumers, the eligibility of types of services rendered to consumers, and the maintenance of effort for programs that are locally funded.

Response:

The Policy and Procedures Manual for VR services was developed and submitted through the local adjudication process and implemented in January 1996. (See Atch 4)

The maintenance of effort for locally funded programs has been resolved with RSA. This is discussed in detail under the "local program expenditure."

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2. Advise Region IX, U.S. Department of Education, of the questioned costs and either resolve the questioned costs or arrange for payment.

Response:

Upon final resolution to the draft audit report response, we will advise RSA IX of any questioned costs, and resolve them, as appropriate.

B. Personal Service Costs

Findings:

The department withholds its position respectively, regarding the total questioned costs of \$311,152 of direct and indirect costs for fiscal years 1992 through 1994.

The Department of Vocational Rehabilitation did not charge personal services costs to Federal grants based on actual work load distributions. As a result, a total of \$311,152 of direct and indirect costs was questioned for fiscal years 1992 through 1994.

Response:

The department sought the assistance of the Department of Administration, Division of Accounts in fiscal year 1993, to prepare a cost allocation plan for the department's employee's who worked under a separate federal program, other than VR. At that time, a decision was made, that the department would not be implementing a cost allocation plan, but instead would charge all administrative expenses directly to the program from which services are rendered. In Fiscal year 1994, a new time sheet was developed and policies implemented for all employees to charge their time directly to the programs for which time is spent.

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There was not a problem as far as charging the other federal programs. However, the problem was with the locally funded programs not having funds appropriated to capture administrative salaries and benefits. The department submitted requests to modify the existing local program accounts to accommodate these expenditures. There was no action taken, however, the department was advised by their Budget Analyst from the Bureau of Budget and Management Research, that the request for changes to the existing local appropriations would only be entertained during the submission of the department's next budget request to the Bureau and to the Legislature which was for fiscal year 1996. This was due to the department having to operate under a three-year budget, which was for fiscal years 1993 to 1995. As such, the department incorporated this request to appropriate funds in salaries and benefits in their fiscal year 1996 and all subsequent budget document submissions. Time sheets are utilized on a daily basis for all employees to charge their time directly to the program of which their time is spent. (See Atch 5)

Finding:

During fiscal year 1992, payroll documentation for 16 of the 20 employees reviewed showed that 100 percent of their time was charged to Rehabilitation Services. However, eight of the employees stated that they had worked on other programs. For example, one employee stated that she spent only 50 percent of her time working on Rehabilitation Services. Therefore, a questioned cost for personal services of \$11,463 (50 percent) that was charged to the grant for this employee was identified. Based on the review, it was determined that the Department improperly charged personal services costs of \$75,199 to Rehabilitation Services. In addition, the amount of \$7,377 of indirect costs, applicable to the questioned direct costs, for a total of \$82,576 for fiscal year 1992.

Response:

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The department concurs with the finding that one employee spent only 50% of her time working on Rehabilitation Services. DVR has an agreement with the Social Security Administration for one employee to spend 50% of her time working on the VR services program and the other 50% of her time is spent on the Disability Determination Services Program, which is another 100% federally funded program under DVR's purview. This employee's time and salary are captured accordingly. VR funds are not used to pay for more than 50% of her salary. (See Atch 6)

As for the eight employees who stated that they spent their time on programs other than VR during fiscal year 1992. The department was advised in fiscal year 1994, by a representative of the RSA Region IX Grantor Agency Office, that this was an audit exception. The department immediately took action to address this concern. The delay for the corrective action was due to the department having to operate under a three-year budget from fiscal years 1993 to 1995. This matter was corrected in the approval of the department's budget request in fiscal year 1996. (See attachment 5)

We are withholding our position regarding the questioned costs of \$75,199 charged to Rehabilitation Services. The department requests that specific names and the individual amounts for the 16 employees with alleged personal services costs improperly charged to the Rehabilitation Services program, be provided in order for the department to fairly respond to the individual allegations.

As for the questioned indirect costs of \$7,377 for fiscal year 1992. This allegation is ambiguous and would need further clarification to support the auditor's findings. The department has no control of the amount of indirect costs taken out. The indirect cost is captured against the program's expenditures. Based on the indirect cost rate for that year, the total is deducted

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and taken out at the end of the year. This is a function of the Department of Administration, Division of Accounts. The indirect cost that is captured is used to support only the external governmental agencies for their time spent on the program.

Finding:

During fiscal year 1993, payroll documentation for 19 of the 20 employees showed that 100 percent of their time was charged to Rehabilitation Services. However, 13 of the employees stated that they had worked on other programs. For example, one employee stated that she spent 80 percent of her time working on Rehabilitation Services. Therefore, there was a questioned personal services costs of \$6,630 charged to the grant for this employee. For fiscal year 1993, it was determined that a total of \$93,715 of personal services costs were improperly charged to Rehabilitation Services. The auditors also questioned indirect costs of \$8,586 of indirect costs, for a total questioned costs of \$102,281 for fiscal year 1993.

Response:

The department respectively withholds its position regarding the questioned personal services costs of \$93,715. The department is requesting for the names of the 13 employees and the titles of the other programs worked. In addition, the department is requesting for the name of the employee alleged to have spent only 80 percent of her time working on Rehabilitation Services with a questioned personal services costs of \$6,630 charged to the grant, in order to respond to these allegations.

As for the indirect costs of \$8,586 in question, this questioned cost is ambiguous and the department requests further clarification to support the auditor's findings. The indirect cost is captured against the program's expenditures. The department has no control of the

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amounts captured at the close of the fiscal year. This is a function of the Department of Administration, Division of Accounts. The indirect cost that is captured is used to support **only the external governmental agencies** for their time spent on the program.

Finding:

During fiscal year 1994, payroll documentation for all 20 employees showed that 100 percent of their time was charged to Rehabilitation Services. However, 12 of the employees stated that they had worked on other programs. For example, one employee stated that she spent only 50% of her time working on Rehabilitation Services, therefore a questionable cost of \$13,482 was identified as been charged to the grant for this employee. Based on the review, a total of \$125,207 was the alleged total of personal services costs improperly charged to the Rehabilitation Services program.

Response:

The department withholds its position regarding the 12 employees who stated that they had worked on other programs. The department is requesting for names and individual amounts which was used to determine the total questioned personal services costs in order to fairly support a qualified response to the individual allegations reasonably.

The department concurs with the finding that one employee spent only 50% of her time working on the Rehabilitation Services program. The department has an agreement with the Social Security Administration regarding this matter. This employee has a dual responsibility of 50% of her time spent and charged to the VR Basic Support Program and another 50% of her time is spent and charged to the Disability Determination Services Program which is 100% federally funded by the Department of Health and Human Services. (See Atch 7)

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Finding:

Questioned personal services costs of \$4,408 for the employee who was neither at work or on approved leave.

Response:

The employee mentioned as spending 100 percent of her time working on Rehabilitation Services yet had not been to work because of an accident, was given work assignments by her immediate supervisor, to be completed at home. This was only for intermittent periods between June 1994 to August 1994, which terminated when the employee could no longer complete her tasks productively as a result of the injuries she received from the accident. Subsequently, the employee was placed on leave status. When she exhausted all her annual and sick leave, she was loaned additional leave hours from other co-workers within the department who offered their leave via the Government of Guam leave sharing policies and procedures. Later, the employee's brother utilized his excess leave to carry her through till the effective date of her disability retirement. (See Atch 8)

Recommendation:

1. Develop and implement written procedures which ensure that personal services costs are documented and charged to Federal grants in accordance with the requirements of U.S. Office of Management and Budget circular A-87.

Response:

The department has policies and procedures in place which were made effective in fiscal year 1994. The problems encountered in the implementation process, was due to the three-year budget that the department was operating under, which did not

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accommodate for salaries and benefits to be paid out of the local programs. As stated earlier, this was corrected in the submission of the fiscal year 1996 budget documents. The staff of the department are now utilizing time records to report their time directly to the individual programs for which time is spent. There are only up to 10% of staff who spend time on programs other than VR. (See Atch 5)

Recommendation:

2. Advise Region IX, U.S. Department of Education, of the questioned costs and either resolve the questioned costs or arrange for repayment.

Response:

The department will seek resolution to the questioned costs before forfeiting any federal dollars.

Recommendation:

3. Request that the Guam Attorney General determine the propriety of the payments made to the employee who was neither at work nor on approved leave and, if the payments are determined to have been improper, determine whether the Department has a legal basis to seek recovery of the funds.

Response:

The department has conferred with the Attorney General's Office concerning this matter. The department's response to the questioned personal services costs of \$4,408 for this employee was also communicated to the AG's Office.

OTHER MATTERS (p. 11)

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In regards to the obligations which incurred beyond the 90 days after the end of the funding period, the following explanation is provided:

In Fiscal Year 1992, the department did obtain approval from U.S. DOE to carry unliquidated obligations beyond the 90-day requirement due to non-receipt of invoices from the various vendors who performed services. However, in Fiscal Year 1993 and all subsequent years, the department had carried over federal dollars into the subsequent year. As such, the funds were available for obligation for an additional year. As far as the agreement between DVR and KGTF, the funds were obligated on September 30, 1992, however, payment was made in increments upon delivery of services. One of the delayed service was the production of the annual reports for the department. The department was not pleased with the draft reports and returned them to the vendor for additional information to be included. As such, payment was rendered when the final product was delivered to the department's satisfaction in accordance with the agreement.

The Department of Vocational Rehabilitation has gone without any technical assistance regarding financial matters from the USDOE/RSA Region IX Office for the past five years. The Financial Specialist position at Region IX was recently filled by Mr. Joe Pepin in February 1997.

Furthermore, in July 1997, Mr. Joseph Cameron, DVR Director, Rita Sotomayor, DVR Administrative Services Officer and Peter Aguon, Accountant, Department of Administration, Division of Accounts, met with Financial Specialists from the Central and Regional Offices of the U.S. DOE, Rehabilitation Services Administration, in Washington, D.C., to revise SF 269 Financial Status Reports dating as far back as fiscal year 1992. The department was advised that they were reporting the match incorrectly and instead had been overmatching the federal grant dollars in addition to being penalized for not meeting the maintenance of effort. These issues were corrected and the reports restructured. (See Atch 9)

In conclusion, we would like to express our appreciation for the opportunity to respond to the draft audit report.

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Those issues needing further clarification will be responded to within 90 days from receipt of the information. Mr. Albert T. San Augustine, Acting VR Administrator, for the Division of Vocational Rehabilitation, will be responsible for ensuring that implementation and action is completed in a timely manner.

Please feel free to contact Mr. San Augustine at (671) 475-4636/7, if you have any questions or if you would like to discuss the response further.


JOSEPH ARTERO-CAMERON
Director

9 Attachments
as stated

[ATTACHMENTS NOT INCLUDED BY OFFICE OF INSPECTOR GENERAL.]

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1	Management concurs; additional information needed.	Provide a copy of the policy and procedures relating to the maintenance of effort and of grantor agency resolution of the maintenance of effort deficiencies for locally funded programs.
A.2 and B.2	Management concurs; additional information needed.	Provide documentation that Region IX, U.S. Department of Education, has been advised of the questioned costs and the target date to either resolve the questioned costs or arrange for repayment.
B.1	Management concurs; additional information needed.	Provide a copy of policy and procedures relating to personal services costs.
B.3	Management concurs; additional information needed.	Provide a copy of the Guam Attorney General's opinion regarding payments made to the employee who was neither at work nor on approved leave.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL BY:**

Sending written documents to:

Calling:

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341
Washington, D.C. 20240

Our 24-hour
Telephone HOTLINE
1-800-424-5081 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420 or
1-800-354-0996

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Office of Inspector General
Eastern Division - Investigations
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Arlington, Virginia 22209

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U.S. Department of the Interior
Office of Inspector General
North Pacific Region
238 Archbishop F.C. Flores Street
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