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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



HUMAN RESOURCES  
DIVISION

NOV 26 1976

B-164031(1)

The Honorable  
The Secretary of Health,  
Education, and Welfare

Dear Mr. Secretary:

We surveyed the use of cooperative agreements in the vocational rehabilitation program administered by the Rehabilitation Services Administration. The survey's purpose was to determine whether the provisions of the Rehabilitation Act of 1973 and applicable regulations and directives issued by the Rehabilitation Services Administration were being followed in administering cooperative agreements in Indiana.

This report discusses problems, which we believe warrant immediate corrective action, in administering cooperative agreements between the State vocational rehabilitation agency and 33 school corporations. In fiscal year 1976 the State agency reported expenditures of \$598,000 for rehabilitation services under these agreements.

BACKGROUND

To increase the number of rehabilitations, Rehabilitation Services Administration guidelines allow State vocational rehabilitation agencies to make cooperative agreements with State or local public agencies to use third-party funds. The State agency reports the third-party funds as part of its matching share or as program costs eligible for Federal reimbursement.

The Indiana rehabilitation agency first entered into cooperative agreements with school corporations 1/ in 1967. Under these agreements, students in special education programs (a course of instruction for the disadvantaged or

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1/A single public high school or a number of public high schools within certain political boundaries.

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handicapped) entering their sophomore year are considered for the rehabilitation program. Based on a psychological examination, the State agency determines the student's eligibility for the vocational rehabilitation program. For each eligible student, the State agency authorizes \$150 for tuition per semester for the school's special education program. The school corporations certify that this money will be used for purposes clearly identified with the rehabilitation program and not for services that are the mandated responsibility of the school program.

Also, each school corporation must provide, as its matching share, 20 percent of the cost of rehabilitation services performed under these agreements. The school corporations assure that specific teachers, whose salaries are paid by State funds, are devoting their time to the vocational rehabilitation program. The State agency uses the amount of these teachers' certified salaries as matching funds to obtain Federal vocational rehabilitation program dollars.

Each cooperative agreement states that the agreement may be ended at any time before the completion date due to (1) failure to meet the agreement's terms, (2) unavailability of Federal funds to the State agency, or (3) mutual agreement of the school corporation and the State agency.

During the past 5 school years, the number of cooperative agreements ranged from 27 to 35. In fiscal year 1976, the State agency had cooperative agreements with 33 school corporations, involving 1,749 students. In that year, the total cost for services provided under these agreements was about \$598,000, including about \$120,000 certified as teachers' salaries and \$478,000 in Federal program funds for services provided for the 1,749 students.

#### SCOPE

Our survey was conducted at the Rehabilitation Services Administration headquarters; the Indiana Division of Vocational Rehabilitation, Indianapolis, Indiana; and selected district offices and school corporations in Indiana. To determine if the cooperative agreements between the State agency and the school corporations were administered according to Federal regulations and guidelines established by the Rehabilitation Services Administration, we reviewed the standard written agreement used in the 33 programs; visited 2 of the 33 school corporations; and talked with rehabilitation counselors, directors of the special education programs, and

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teachers whose salaries were certified for matching purposes. We also analyzed the schools' financial records and the case files of 31 participating students.

SERVICES PROVIDED NOT ELIGIBLE FOR  
REHABILITATION PROGRAM FINANCING

Federal regulations and Rehabilitation Services Administration guidelines specify that expenditures for services provided under a cooperative third-party agreement must be (1) made under the control of the State rehabilitation agency and (2) for vocational rehabilitation services which

- are new services or patterns of services compared to existing services of the cooperating agency and
- are not services of the cooperating agency which handicapped persons would be entitled to if not applicants or clients of the rehabilitation agency.

Under the cooperative agreements with the 33 Indiana school corporations, the State rehabilitation agency was purchasing educational services which were the school corporations' legal responsibility. These services were not new services, but those which the individuals were entitled, regardless of their enrollment in the vocational rehabilitation program. Also, expenditures made under these cooperative agreements were not controlled by the State rehabilitation agency.

Officials at the two school corporations visited said that the students were participating in the schools' work-study program, and that no other special services were provided by the schools. They also said that these students were receiving the same services as special education students not in the vocational rehabilitation program. In 28 of 31 case files reviewed, no evidence showed that vocational rehabilitation counselors had personal contact with the students, and the only "service" provided was paying tuition for the schools' special education program.

Both school corporations had special education programs before the State agency cooperative agreement, and officials at both said they would continue to have the same program without vocational rehabilitation involvement. These officials viewed vocational rehabilitation as a source of funding for their special education programs. One official stated that he did not believe vocational rehabilitation should be involved in an education program; however, as a

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school administrator, he was glad to have the vocational rehabilitation funds to subsidize his special education program.

Services that are the responsibility of school corporations are included in the House Enrolled Act No. 1071, passed in 1969 by the Indiana General Assembly. This law requires all Indiana school corporations to provide a special education program to serve all handicapped children between the ages of 6 and 18 years. Thus, the services being questioned are those that the State must provide as part of its special education program.

A Department of Health, Education, and Welfare General Counsel's opinion, dated February 1964, stated that:

"It is generally recognized that the State and local educational system is responsible for education through the high school level in all States. This responsibility embraces general education, vocational educational (sic) and special education, and it is not the function of the vocational rehabilitation agency to conduct or finance part of the education system of the State \* \* \* except in unusual circumstances such as that of an adult \* \* \* who is not already enrolled in high school and would not receive instruction under educational auspices except as a rehabilitation client."

Rehabilitation Services Administration headquarters officials said that program policy on this issue has not changed since the 1964 opinion.

#### HOW FUNDS WERE SPENT

In fiscal years 1975 and 1976, the two school corporations received \$37,940 from the State rehabilitation agency. Selected purchase orders and vouchers were reviewed to determine how the vocational rehabilitation funds were spent. It was found that the State rehabilitation agency was improperly subsidizing an ~~education~~ program. At both school corporations, the vocational rehabilitation funds were spent on

- educational materials and supplies, such as textbooks, paper, and pens;
- equipment for the schools, such as chairs and typewriters;

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--food for home economics classes; and

--administrative supplies, such as typewriter ribbons.

These purchases seem to be the same as those made for the schools' normal programs. This is further evidence that Federal vocational rehabilitation funds should not have been used to finance these costs.

The director of special education for each school corporation was supposed to approve expenditures made under these agreements; however, at one school corporation, various persons could order and purchase supplies. Although expenditures made under these agreements were required to be under the State rehabilitation agency's control, neither school corporation consulted with nor informed the State agency of expenditures before they were made.

Also, one school corporation did not use \$6,930 (44 percent) of the funds paid by the State rehabilitation agency during this same period. These funds were retained by the school corporation and carried over to the next school year. A school official said, in addition, some of the items now being funded by rehabilitation money are considered "frosting" and could be dropped without drastically changing their special education program.

Officials at both school corporations stated that, other than a review of their annual financial report, no one from the State rehabilitation agency ever reviewed the expenditures of funds they received from the State rehabilitation agency. State agency officials said that their evaluation of these cooperative programs was limited to the review of the annual program and financial reports submitted by each of the school corporations. Program and financial reports submitted by the two school corporations were reviewed and, in one case, the Federal funds received and the expenditures made during the school year were unable to be reconciled.

An official from the Rehabilitation Services Administration, region V, said that they had never made an indepth review of these cooperative agreements with the Indiana school corporations.

**AMOUNTS CERTIFIED AS THIRD-PARTY MATCHING  
FUNDS NOT USED FOR VOCATIONAL REHABILITATION**

The State rehabilitation agency requires that participating school corporations certify to the State rehabilitation

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agency an amount of money to be used for Federal matching purposes. This amount must equal 20 percent of the total Federal and State funds expended for rehabilitation services at each school corporation. The agreement specifies that the salaries and percentages of time certified for matching funds must be for personnel involved with rehabilitation. Salaries of other personnel are not eligible. In fiscal year 1976 the State rehabilitation agency reported for Federal matching purposes about \$120,000 in teachers' salaries.

Rehabilitation Services Administration guidelines state that:

"A teenager in a special school setting, \* \* \* who is found while there to be eligible for vocational rehabilitation services is entitled to complete the sequence of services provided by that agency under its control and at its expense. Funds expended by the third-party in behalf of an individual who is a vocational rehabilitation client do not constitute vocational rehabilitation expenditures just because a service within the vocational rehabilitation service definition is involved. If the expenditure is made pursuant to a program devoted to furnishing that service irrespective of whether the individual is a vocational rehabilitation client, the fact that the person is a rehabilitation client does not make the cost transferrable as a cost of vocational rehabilitation services. \* \* \* Therefore, the expense of providing them cannot be certified for vocational rehabilitation matching \* \* \*."

Certifications made by the school corporations under the cooperative agreements between the Indiana State agency and the school corporations are contrary to these provisions. At the two school corporations, nine individuals were spoken to whose salaries were certified to the State agency--one director of special education, two work-study coordinators, and six teachers. Interviews with these individuals showed that:

--Only the director and the two work-study coordinators had any knowledge of the vocational rehabilitation program.

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- None of the six teachers were aware of the program or that their salaries were certified to the State agency.
- None of the nine performed any duties different from the normal duties which they were hired by the schools to perform.
- Only one of the nine was familiar with the State rehabilitation agency plan for services for the State agency clients/students.

Also, the two school corporations received other Federal funds to support their special education programs. These funds came from one or more of the following programs--the Elementary and Secondary Education Act (titles I and IV C), Education of the Handicapped Act (title VI B), and the Vocational Education Act. The salary of one individual which was certified to the vocational rehabilitation program was paid by one of these Federal grant programs.

Before fiscal year 1976, funds certified under these cooperative agreements were also used to obtain Federal matching funds for use in other areas of the State rehabilitation program. For example, in fiscal year 1975, certifications of \$527,000 were made by the school corporations and used by the State rehabilitation agency to obtain \$2.1 million in Federal matching funds. About \$571,000 of the Federal funds were expended in the school programs and \$1.5 million in other areas of the overall State rehabilitation program. Because of the problems concerning certifications made in fiscal year 1976 and the use of similar cooperative agreements with school corporations in fiscal years 1974 and 1975, the documentation and justification for the certifications made in those fiscal years should be reviewed.

#### HEW AND STATE COMMENTS

Our findings were discussed with Rehabilitation Services Administration headquarters officials, the Executive Director of the Indiana Rehabilitation Services Board, members of his staff, and the Rehabilitation Services Administration official in the Department of Health, Education, and Welfare's Chicago regional office responsible for program operations in Indiana. They generally agreed with our findings.

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The executive director stated that he decided about 3 years ago that the role of the State rehabilitation agency should change, and he proposed to immediately withdraw from the cooperative agreements with the school corporations. However, because of pressure from education interest groups in Indiana, he agreed to gradually phase out these agreements and terminate State agency involvement at the end of fiscal year 1978.

#### CONCLUSIONS AND RECOMMENDATIONS

The cooperative agreements involving third-party funds between the Indiana rehabilitation agency and the two school corporations investigated are not being administered according to Federal regulations and Rehabilitation Services Administration guidelines. It may be that the cooperative agreements with some or all of the remaining 31 school corporations are also not being administered according to the regulations and guidelines. As a result, we question the validity of the \$478,000 of Federal program expenditures made during fiscal year 1976 and Federal expenditures made during fiscal years 1974 and 1975 under similar agreements.

Further, the State rehabilitation agency can terminate the agreement due to failure of the cooperating agency to comply with the agreement's terms. Although these agreements are scheduled to be phased out at the end of fiscal year 1978, the agreements which have resulted in the improper use of Federal funds should be terminated immediately.

Accordingly, we recommend that the Secretary of Health, Education, and Welfare direct the Commissioner of the Rehabilitation Services Administration to

--review the expenditures made under all cooperative agreements for fiscal years 1974, 1975, and 1976 and, if warranted, recover from the Indiana Division of Vocational Rehabilitation, Federal funds identified as improperly used during these 3 fiscal years and

--assure that the cooperative agreements involving the improper use of Federal funds between the Indiana Division of Vocational Rehabilitation and the Indiana school corporations for fiscal year 1977 are discontinued promptly.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the House and Senate Committees on Appropriations and Government Operations; the appropriate legislative committees of the Congress; the Director, Office of Management and Budget; the Executive Director of the Indiana Rehabilitation Services Board; the Assistant Secretary for Human Development; the Commissioner of the Rehabilitation Services Administration; and the Director of the Department of Health, Education, and Welfare's region V office.

Sincerely yours,

  
Gregory A. Ahart  
Director