

**DOCUMENT RESUME**

05614 - [B0965898]

**Third Party Funding Agreements: No Longer Appropriate for Serving the Handicapped Through the Vocational Rehabilitation Program. HRD-78-7; B-164031(1). April 4, 1978. 77 pp. + 4 appendices (5 pp.).**

**Report to the Congress; by Elmer B. Staats, Comptroller General.**

**Issue Area: Federally Sponsored or Assisted Employment and Training Programs (3200); Employment and Training Programs: Employability of Selected Target Groups (3201).**

**Contact: Human Resources Div.**

**Budget Function: Education, Manpower, and Social Services: Other Labor Services (505).**

**Organization Concerned: Department of Health, Education, and Welfare.**

**Congressional Relevance: House Committee on Education and Labor; Senate Committee on Human Resources; Congress.**

**Authority: Smith-Pess Act [of] 1920 (41 Stat. 735).**

**Rehabilitation Act of 1973 (29 U.S.C. 701). Education of the Handicapped Amendments of 1974 (P.L. 93-380). Education for All Handicapped Children Act (P.L. 94-142). Education of the Handicapped Act. P.L. 91-230. =45 C.F.R. 1361.**

The vocational rehabilitation program operates as a Federal-State program, the Federal government supplying leadership and the States administering the program. State vocational rehabilitation agencies may enter into agreements with other State and local agencies to establish joint programs of service for the handicapped. These "third party" agreements have been used to financially expand the program by providing States with additional matching funds and have acted as a means of expanding services to the handicapped and establishing cooperation between agencies. Findings/Conclusions: At present, agencies are not complying with Federal regulations, and expenditures are being used to subsidize third party programs. As a result, many State agencies are not meeting the program's mandatory matching requirements. Services provided in cooperative programs often duplicate services provided by the cooperating agency. Many persons served under these agreements are only marginally handicapped, contrary to legislative requirements for priority to be given to the most severely handicapped. Costs and accomplishments of third party programs often are not accurately reported. State rehabilitation agencies are reporting only a portion of the expenditures on clients and claiming expenditures made by other agencies for costs they would normally incur for required services. The validity of "successful" rehabilitations attributed to the cooperative programs is questionable. Recommendations: State rehabilitation agencies should continue to cooperate with other agencies, but staffing, referral, and service delivery patterns established through the use of third party funding agreements should be

modified. The Department of Health, Education, and Welfare (HEW) should: review expenditures made under third party agreements and, if warranted, recover Federal funds spent which did not comply with Federal regulations from State rehabilitation agencies; take the administrative steps necessary to see that third party funding agreements involving the improper use of Federal funds are discontinued; strengthen coordination at the Federal level with other agencies providing services to the handicapped and provide policy guidance to States; provide guidance to the State rehabilitation agencies in developing cooperative relationships; and, for State rehabilitation agencies formerly committed to third party funding programs, provide guidance in developing recommended modifications.  
(Author/HTW)

58818  
BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Third Party Funding Agreements: No Longer Appropriate For Serving The Handicapped Through The Vocational Rehabilitation Program

"Third party" funding agreements between State vocational rehabilitation agencies and other State and local agencies serving the handicapped no longer provide all their former benefits to the rehabilitation program.

State agencies have not complied with Federal regulations and program guidelines. Expenditures intended for vocational rehabilitation services were used to subsidize basic programs of other State and local agencies.

The Department of Health, Education, and Welfare should (1) revise the Federal regulations and program guidelines to phase out third party expenditures as a source of meeting Federal matching requirements and (2) provide leadership and policy guidance to State agencies in reviewing and revising their referral, staffing, and service delivery patterns.



HRD-78-7

APRIL 4, 1978



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164031(1)

To the President of the Senate and the  
Speaker of the House of Representatives

The vocational rehabilitation program, administered by the Rehabilitation Services Administration of the Office of Human Development Services, Department of Health, Education, and Welfare, is intended to prepare handicapped persons for gainful employment. This report discusses problems in the use of third party funding agreements between the State vocational rehabilitation agencies and other State and local agencies serving the handicapped and describes actions which the Department of Health, Education, and Welfare may take to strengthen the provision of services to the handicapped through the vocational rehabilitation program.

Our review was made because of the (1) increasing congressional and public concern over the administration of State and Federal programs that provide rehabilitation program services to handicapped individuals and (2) large expenditures of program funds for providing such services. We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The Department of Health, Education, and Welfare generally agreed with the thrust of our findings and conclusions but preferred to defer commenting on our recommendations until the results are available from the Department's national survey of third party funding agreements initiated on July 20, 1977. We have considered in the report comments we received from State officials.

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of Health, Education, and Welfare.

A handwritten signature in black ink, reading "Luther B. Steele".

Comptroller General  
of the United States

D I G E S T

Since the 1960s, "third party" funding agreements between State vocational rehabilitation agencies and other State and local agencies serving the handicapped have been used to financially expand the program. They provided States matching funds which otherwise may not have been available. The agreements were also a means of expanding services to the handicapped and establishing cooperation and understanding between agencies.

Today, however, agencies are not complying with Federal regulations. Expenditures are being used to subsidize third party programs. As a result, many State agencies are not meeting the program's mandatory matching requirements. Vocational rehabilitation personnel assigned to cooperative programs are providing services identical or similar to the basic services provided by the cooperating agency. Also, many persons served under these agreements are only marginally handicapped. The Rehabilitation Act of 1973 requires that priority be given to the most severely handicapped.

Costs and accomplishments of third party programs often are not accurately reported. State rehabilitation agencies are reporting only a portion of the expenditures on clients and claiming expenditures made by other agencies for costs the agencies would normally incur for services they are required to provide. The validity of "successful" rehabilitations attributed to these cooperative programs is questionable. In many of these cases, individuals obtained jobs on their own or returned to their previous jobs after receiving primarily the services of the third party agency.

Because the third party funding agreements GAO reviewed included the use of Federal and State expenditures which did not comply with Federal regulations and program guidelines, GAO recommends that the Department of Health, Education, and Welfare (HEW):

--Review the expenditures made under all third party agreements not barred by a statute of limitations and, if warranted, recover Federal funds spent which did not comply with Federal regulations and program requirements from State rehabilitation agencies.

--Take the administrative steps necessary to see that the third party funding agreements involving the improper use of Federal funds are discontinued.

GAO believes that State rehabilitation agencies should continue to cooperate and coordinate with other State and local agencies serving the handicapped. However, the staffing, referral, and service delivery patterns established through the use of third party funding agreements should be modified by the State agencies. If they are not

--counselors could lose control over the selection of clients to be served and the services provided and

--vocational rehabilitation counselors could be left with little to do as third party agencies assume more responsibility in serving the handicapped.

GAO recommends that HEW:

--Strengthen coordination at the Federal level with other agencies providing services to handicapped groups, and provide policy guidance to States outlining the role of vocational rehabilitation agencies in serving target groups, such as school aged children, inmates in correctional institutions, and patients in general medical hospitals.

--Provide guidance and leadership to the State rehabilitation agencies in developing cooperative relationships with other State agencies that serve the handicapped.

For the State rehabilitation agencies formerly committed to third party funding programs, GAO recommends that HEW:

--Provide guidance to the rehabilitation agencies in reviewing and revising their referral, staffing, and service delivery patterns to help insure efficient use of program resources and increased emphasis on serving the severely disabled.

HEW generally agreed with the thrust of GAO's findings and conclusions. However, HEW preferred to defer commenting on GAO recommendations until the results are available on a national survey of third party funding agreements initiated by the Office of Human Development Services on July 20, 1977. (See app. I.)

Four of the five States generally agreed with GAO's analysis of the problems involved in the use of third party funding agreements, and have taken or plan to take actions to phase out or reduce their use of third party expenditures as a source of meeting the Federal matching requirements. Two of the four States expressed the concern that if the regulations are revised to no longer allow the use of third party expenditures for matching purposes, the rehabilitation program would be adversely affected unless adequate time was provided to replace these matching sources with State appropriations.

The fifth State commented that the GAO findings and conclusions do not truly represent the accomplishments of the third party funding agreements and that it would be too drastic a step to revise the regulations to phase out the use of these expenditures as matching funds because of "slight errors discovered in some program procedures." Instead, the State commented that firm guidelines and regulations should be provided to insure adherence to program principles.

# C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Program administration	1
	Program funding	2
	Cooperative programs using third party funds	3
	Scope of review	5
2	PROGRAM CHANGES ALTER RESPONSIBILITIES FOR SERVICES PROVIDED BY THIRD PARTY FUNDING AGREEMENTS	7
	Elementary and secondary schools	7
	Correctional institutions	27
3	VOCATIONAL REHABILITATION FUNDS USED TO SUBSIDIZE OTHER STATE PROGRAMS	33
	Kentucky	34
	Mississippi	40
4	REHABILITATION SERVICES EXPANDED BUT CERTIFIED EXPENDITURES NOT ELIGIBLE FOR FEDERAL MATCHING	43
	Missouri	43
	Kentucky	46
5	ADVERSE EFFECT OF THIRD PARTY FUNDING AGREEMENTS ON VOCATIONAL REHABILITATION PROGRAM GOALS	48
	Third party funding agreements limit program's service to severely handicapped	48
	Costs and accomplishments of third party funding programs not accurately reported	51
	Program resources could be used more effectively	59



	<u>Page</u>	
CHAPTER		
6	HEW AUDIT AGENCY ACTIONS CONCERNING THIRD PARTY FUNDING AGREEMENTS	63
	Agreements involving public schools	63
	Agreements involving correctional institutions	66
	Agreement involving a general hospital	68
	Agreement involving a mental hospital	69
	Rehabilitation program funds used to subsidize other State programs	70
7	CONCLUSIONS AND RECOMMENDATIONS	72
	Conclusions	72
	Recommendations	73
	Agency comments	74
	State comments	75

APPENDIX

I	Letter dated November 21, 1977, from the Inspector General, HEW	78
II	Certified third party expenditures reported as matching for fiscal year 1976	79
III	Matching funds and expenditures for total basic vocational rehabilitation program and third party funded programs in States reviewed--fiscal year 1976	80
IV	Principal HEW officials responsible for administering activities discussed in the report	81

ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
RSA	Rehabilitation Services Administration

## CHAPTER 1

### INTRODUCTION

The vocational rehabilitation program was established by the Smith-Fess Act, June 2, 1920 (41 Stat. 735), to prepare handicapped individuals for gainful employment. The program initially offered limited services for the physically handicapped. Each client was eligible for training, counseling, and placement services. However, subsequent laws broadened program eligibility to include persons with handicaps, many of the type classified as mentally disabled. Services have also been expanded to include a broad range of diagnostic evaluation and related activities, counseling, training and training supplies, medical consultation and treatment, physical restoration devices and occupational licenses, tools, equipment, and job placement.

Assistance available to States has also been broadened. Grants are now available for (1) research, demonstration, and training; (2) planning and conducting training and related activities to increase the numbers of trained rehabilitation personnel; and (3) constructing or expanding facilities.

On September 26, 1973, the Rehabilitation Act of 1973 (29 U.S.C. 701) was signed into law. The act mandated that special emphasis be placed on serving the severely handicapped. Before services can be provided, a person must meet the following criteria:

- The person must be physically or mentally disabled.
- The disability must impose a substantial handicap to employment.
- There must be a reasonable expectation that vocational rehabilitation services will make the person fit to engage in a gainful occupation.

### PROGRAM ADMINISTRATION

The vocational rehabilitation program has historically operated as a Federal-State program. The Federal role has been one of leadership and provision of resources, while the States have been concerned with actual administration of the program.

The Rehabilitation Services Administration (RSA), Administration for Handicapped Individuals, Office of Human Development Services, Department of Health, Education, and Welfare (HEW), administers the program at the Federal level. RSA, through the

HEW regional offices, is responsible for providing leadership to the States in planning, developing, and coordinating their overall programs and evaluating their program performance. Each fiscal year, States must submit a vocational rehabilitation services plan for approval. Each State is required to designate an agency as the sole State agency to administer the program or to supervise its administration through local agencies or district offices within the State. The State agency and local or district offices are responsible for providing or arranging for all services and assistance to the handicapped under this program.

### PROGRAM FUNDING

The role of the Federal Government in the rehabilitation program includes the provision of Federal funds apportioned among the States on the basis of population and per capita income. The costs of the rehabilitation program initially were shared equally by Federal and State governments. However, the Federal share of costs is now 80 percent for most aspects of the program.

Most program funds are spent for basic support services--services rendered directly for handicapped persons--and for certain other administrative and construction activities. For fiscal years 1974 through 1976, Federal expenditures for basic support services authorized by the Rehabilitation Act of 1973 were about 90 percent of the total Federal funds authorized for all program activities. The remaining 10 percent was authorized under other sections of the act for assisting States in developing new methods or techniques for (1) providing services, especially to individuals with the most severe handicaps; (2) research, demonstration and training; (3) constructing or expanding rehabilitation facilities; (4) recruiting and training individuals for career opportunities; and (5) other special programs to improve or expand services to handicapped individuals.

From the beginning of the program in 1920 through fiscal year 1976, the Federal Government's share of basic support services costs has been about \$5.9 billion. About 83 percent of this total was spent during the last 10 years. State and Federal costs for basic support services for fiscal years 1967 through 1976 are shown in the following table.

<u>Fiscal year</u>	<u>State share</u>	<u>Federal share</u>	<u>Total cost</u>
	(millions)		
1967	\$ 78.6	\$225.3	\$303.9
1968	95.3	282.3	377.6
1969	115.0	340.9	455.9
1970	125.9	431.8	557.7
1971	142.3	489.1	631.4
1972	149.0	547.8	696.8
1973	157.3	572.3	729.6
1974	173.8	635.8	809.6
1975	195.7	673.1	868.8
1976	197.7	699.8	897.5

The State share of the cost comes from several sources. The largest portion comes from State appropriations made directly to the State vocational rehabilitation agency. Another source of matching is "third party funds"--resources provided by other public agencies as part of a cooperative program with the State vocational rehabilitation agency. State agencies are also authorized to use contributions from other public and nonprofit organizations.

COOPERATIVE PROGRAMS USING  
THIRD PARTY FUNDS

State vocational rehabilitation agencies may enter into agreements with other State and local agencies to establish joint programs of service for the handicapped. Through these agreements, the services of the "third party" can be expanded to include vocational rehabilitation services. When the cooperating agency contributes toward the cost of adding a rehabilitation component to its existing program, the State rehabilitation agency can use these third party expenditures to match Federal program dollars. The third party may share in the cost of the vocational rehabilitation services either by transferring funds to the State rehabilitation agency (cash matching), or by expending funds directly for the vocational rehabilitation activities under the cooperative arrangement. In the latter case, the third party agency must document and separately account for all costs connected with the agreement and must certify to the State rehabilitation agency that the expenditures reported were made in accordance with the cooperative agreement.

Federal regulations (45 CFR 1361.13) and guidelines provide that when State vocational rehabilitation agencies enter into cooperative programs that involve the use of third

party funds, such cooperative programs are to be based on written agreements. These written agreements are required to describe the activities to be undertaken and the goals to be achieved and provide for annual budget and annual expenditure reports. All expenditures for vocational rehabilitation services and their administration are to be under the control and at the discretion of the State rehabilitation agency and used only for handicapped individuals who are applicants or clients of the rehabilitation agency.

The key provisions of these regulations and guidelines specify that third party funds, accepted under cooperative agreements to earn Federal dollars, must be used to provide vocational rehabilitation services which are

--new services or patterns of services compared to existing services of the cooperating agency and

--not services of the cooperating agency which handicapped persons would receive whether or not they were applicants or clients of the rehabilitation agency.

In the mid-1960s, RSA encouraged State rehabilitation agencies to enter into third party funding agreements because these cooperative efforts were a means of expanding the vocational rehabilitation program. Third party funding agreements were a means of establishing cooperation in providing services to the handicapped. Third party agencies, such as elementary and secondary schools, general and mental hospitals, and correctional institutions were a potential source of many "successful rehabilitations." The certified third party expenditures could increase the amount of State matching funds available and thus provide the States with the means to meet the State matching requirements, which were increasing at a rate approximately proportionate to the large growth in the Federal funds appropriated for the program.

In fiscal year 1976, RSA reported that 41 State vocational rehabilitation agencies had cooperative agreements with other State and local agencies, involving \$27.8 million in certified third party expenditures used to match Federal program dollars under the 1973 act. (See app. II.) We were not able to obtain meaningful information on the total number of States that had third party agreements involving cash transfers. Neither RSA headquarters nor the regional offices maintained information on the types of third party agencies involved, the clients served, or the Federal vocational rehabilitation funds expended on these cooperative programs.

The five States included in our review--Indiana, Kentucky, Mississippi, Missouri, and Texas--accounted for \$10.3 million of the \$27.8 million in certified third party matching. In addition, these States used \$1.2 million in cash transferred from other State and local agencies as part of their matching funds in fiscal year 1976. (See app. III.)

### SCOPE OF REVIEW

We evaluated the administration of cooperative third party funding agreements and the effectiveness of these agreements in meeting the objectives of the vocational rehabilitation program. Our findings and conclusions are based principally on reviews of Federal and State legislation concerning the vocational rehabilitation program and the handicapped; Federal regulations; RSA policies and procedures for the administration and operation of the vocational rehabilitation program; and analyses of selected cooperative agreements in Indiana, Kentucky, Mississippi, Missouri, and Texas. We also examined program evaluation reports, including those prepared by individual States, HEW regional offices, and the HEW Audit Agency for selected States for September 1973 to September 1976.

We evaluated program activities at RSA headquarters in Washington, D.C.; HEW regional offices in Atlanta (region 4), Chicago (region 5), Dallas (region 6), and Kansas City (region 7); State rehabilitation agencies; and 36 State and local public agencies involved in cooperative programs in the 5 States. These agencies included 26 schools, 3 general medical hospitals, 5 mental health facilities, and 2 correctional institutions. At each location we reviewed the written agreement and budget information for the cooperative program, talked with third party agency and vocational rehabilitation personnel, and reviewed randomly selected client case files.

State rehabilitation agency officials provided us with a list of all clients who were in an active status and those whose cases were closed during fiscal year 1976 for each cooperative agreement reviewed. Using a random number table, we selected the cases included in our review. In certain instances where the number of available cases were minimal, we reviewed each case. A total of 388 cases were reviewed in the 5 States.

We discussed our findings with State and Federal officials. We also discussed the use of third party funding agreements with officials of State rehabilitation agencies

in Nebraska and Ohio--States which have recently terminated or greatly reduced their involvement in cooperative agreements. Our fieldwork was done between November 1976 and June 1977.

## CHAPTER 2

### PROGRAM CHANGES ALTER

#### RESPONSIBILITIES FOR SERVICES PROVIDED BY

#### THIRD PARTY FUNDING AGREEMENTS

Federal regulations specify that third party funds, accepted under cooperative agreements to earn Federal dollars, must be used to provide vocational rehabilitation services which are not services of the cooperating agency which handicapped persons would receive, regardless of whether they are applicants or clients of the rehabilitation agency. When originally negotiated, cooperative agreements with State and local school systems and State correctional institutions benefited handicapped persons by providing services where none previously existed. However, changes in Federal and State legislation as well as general rehabilitation program changes have expanded the responsibility of these agencies so that the services provided by the third parties no longer meet the rehabilitation program matching requirements of the Federal regulations. As such, expenditures certified by the third party for these programs should no longer be used to match Federal rehabilitation program dollars.

These recent changes have created a need to reexamine the relationship between the vocational rehabilitation program and certain third party agencies providing services to the handicapped. We believe that vocational rehabilitation program funds should no longer be used to purchase services which are the responsibility of third party agencies, services which the handicapped individuals would receive regardless of their participation in the vocational rehabilitation program.

#### ELEMENTARY AND SECONDARY SCHOOLS

During the past 16 years, many State rehabilitation agencies and public school systems have worked together to provide vocationally oriented special education programs for handicapped high school students--primarily educable mentally retarded students. These cooperative programs met a need at a time when public schools did not have the responsibility nor the resources for serving the mentally retarded student. The following table shows the costs directly attributable to the cooperative programs for fiscal year 1976 in the five States we reviewed, with the exception of State rehabilitation agency



expenditures for administration, counseling, placement, and other related activities which are not allocated on an individual basis for each cooperative program. The case service expenditures represent the Federal funds spent on rehabilitation clients for rehabilitation program services, such as diagnostic testing and evaluation, physical and mental restoration, training, maintenance, and postemployment services.

<u>State</u>	<u>Number of agree-ments</u>	<u>School expendi-tures used as matching</u>	<u>Federal vocational rehabili-tation case service expendi-tures</u>	<u>Students/clients served</u>	<u>Students/clients rehabili-tated</u>
Indiana	33	\$ 119,620	\$ 478,480	1,749	217
Kentucky	10	161,095	454,919	1,921	355
Mississippi	67	1,263,034	395,291	4,142	358
Missouri	126	930,564	925,969	3,317	743
Texas	850	<u>5,993,009</u>	<u>1,310,362</u>	<u>12,110</u>	<u>3,132</u>
Total		<u>\$8,467,322</u>	<u>\$3,565,021</u>	<u>23,239</u>	<u>4,805</u>

Recent changes in Federal and State education legislation, as well as changes in the Federal vocational rehabilitation program by the 1973 act, as amended, have created a need to reexamine the relationship between the State education and rehabilitation agencies. Public Law 91-230 was enacted April 13, 1970 as the Education of the Handicapped Act. Part B of that act authorized grants to the States to help them initiate, expand, and improve educational programs for handicapped children. In 1974 the role of the Federal Government in the education of handicapped children was increased with the passage of the Education of the Handicapped Amendments of 1974, Public Law 93-380, August 21, 1974. The intent of the amendments was to provide financial assistance to States to (1) identify, locate, and evaluate all handicapped children; (2) establish full educational opportunities for all handicapped children; and (3) establish a full-service timetable. With groundwork laid out by these amendments, the bill that was to become the Education for All Handicapped Children Act of 1975 was introduced in the 94th Congress on January 15, 1975. The act was signed into Public Law 94-142 on November 29, 1975. Generally, the Federal regulations implementing the act require that States insure the availability of

free public education for all handicapped children, aged 3 through 18 by no later than September 1, 1978, and aged 3 through 21 by no later than September 1, 1980. This law has authorized large amounts of Federal funds to the States to help educate the handicapped. Proposed funding levels range from \$387 million in fiscal year 1978 to \$3.6 billion in fiscal year 1982. For the period of our review four of the five States reviewed had legislation which required State and public school systems to be responsible for providing special education programs to serve handicapped children. In the States, work-study programs have evolved as an accepted approach toward meeting this responsibility.

Because public school systems are using vocationally oriented programs to meet their legal responsibility of educating the handicapped, school expenditures for these programs should no longer be used to match Federal vocational rehabilitation dollars. We also believe that rehabilitation program funds should no longer be used to purchase services which are now the school's responsibility. However, we believe that State rehabilitation agencies should continue to establish close cooperative relationships with public school systems to insure that those school age students who are eligible for the vocational rehabilitation program will continue to receive a full range of services to enable them to bridge the gap between the public school system and the world of work.

#### School expenditures not eligible for State matching purposes

Rehabilitation Services Administration guidelines provide that expenditures for services which are the responsibility of another public agency and which handicapped individuals would receive regardless of whether or not they are applicants or clients of the State rehabilitation agency are not eligible for matching Federal vocational rehabilitation funds. The rehabilitation guidelines of November 1969 state:

"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 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 transferable as a cost of vocational rehabilitation services. \* \* \* Therefore, the expense of providing them cannot be certified for vocational rehabilitation matching \* \* \*."

Most of the \$8.5 million in school expenditures that the five State rehabilitation agencies used as matching was for salaries of vocational adjustment counselors, special education teachers, and certain school supervisory staff. These salaries were paid from State--and in some cases, Federal--education funds. We believe that public schools would continue to provide these positions as a means of educating the handicapped, regardless of their agreements with State vocational rehabilitation agencies. Some examples follow.

#### Indiana

The Indiana State rehabilitation agency has had cooperative agreements with school corporations (a single public high school or a number of public high schools within certain political boundaries) since 1967. Under these agreements, students in special education programs--a course of instruction for the disadvantaged or handicapped--entering their sophomore year were considered for the rehabilitation program. Based on a psychological examination, the State rehabilitation 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 the 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.

Under an Indiana law (House Enrolled Act No. 1071) passed in 1969, all Indiana school corporations are required to provide a special education program to serve all handicapped children between the ages of 6 and 18 years. Officials at the two school corporations we visited said that the cooperative program 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, there was no evidence to show that State agency vocational rehabilitation counselors had personal contact with the students, and the only "service" provided was paying tuition for the schools' special education program.

Officials at both school corporations said they would continue to have the same special education programs without vocational rehabilitation involvement. These officials viewed vocational rehabilitation as a source of funding for their special education programs. The salary of one individual who was certified to the vocational rehabilitation program was paid out of Federal vocational education grant funds which are not available for use to meet local share requirements. One official stated that he did not believe the vocational rehabilitation agency should be involved in an education program; as a school administrator, he was glad to have the vocational rehabilitation funds to subsidize his special education program.

### Texas

The Texas State rehabilitation agency first entered into cooperative agreements with local schools in 1962. At that time, Texas school programs for physically and mentally handicapped students were essentially academically oriented with stress on the specific educational needs imposed by the nature of the handicapping condition. The cooperative program was initiated to supplement the existing State special education program by providing handicapped secondary school students a combination of academic instruction and vocational training tailored to fit their individual needs. The cooperative program was designed to coordinate the efforts and resources of the State's education and rehabilitation agencies and, in effect, called for each entity to provide services consistent with its traditional and legal responsibilities and "work together" while accomplishing that end.

Standardized agreements, revised March 1971, between 850 school districts and the State rehabilitation agency specified that local schools designate a special education teacher to act as a "vocational adjustments coordinator." The vocational adjustments coordinator provided the students with

job orientation, vocational counseling, and job placement. The coordinator's salary was paid by the Texas education agency and was used by the State rehabilitation agency to match Federal rehabilitation funds. The State rehabilitation agency assigned a vocational rehabilitation counselor to cooperating school districts, accepted all cooperative program students as referrals, and, if vocational rehabilitation eligibility requirements were met, provided rehabilitation services not otherwise furnished by the school district.

Changes in Texas State law and education guidelines have made the public school systems responsible for the functions performed by the vocational adjustments coordinator. In 1969, chapter 863, Acts of 61st Legislature, Regular Session, 1969, gave greater responsibility to the school districts for meeting the needs of handicapped children. Goals adopted by the Texas State Board of Education in October 1970 also reflect this responsibility by stating, in part, that public school education in Texas should insure that all students achieve:

"Occupational skills prerequisite to enter and advance in the economic system and/or academic preparation for acquisition of technical or professional skills through post-high school training."

Subsequent State legislation passed in 1975 further defined the responsibilities of the school districts to meet the needs of the handicapped.

Prior to the start of our fieldwork in Texas, the State rehabilitation agency reviewed its policy on the provision of services to school-aged children and altered its delivery of services in the public school setting. In October 1976, citing the requirement that it not pay for services that are the responsibility of other agencies or activities, the Texas rehabilitation agency formally terminated the cooperative programs with the 850 local school districts. Provision of rehabilitation services by the State agency to school-aged children was limited to those services for which the school district does not have responsibility and who meet rehabilitation program eligibility criteria.

### Missouri

The State rehabilitation agency first entered into cooperative agreements with local school districts in 1964. The purpose of the agreements is to establish and operate special vocational rehabilitation units in a school setting

to assist in the rehabilitation of educable mentally retarded and orthopedically handicapped individuals 15 years of age and over. The agreements stress bridging the gap between special education and the world of work by evaluating vocational potential and work adjustment and assisting the student in on-the-job training. The program of services consists of combining those services which are traditionally and legally the function of the education agencies and those which are the function of the rehabilitation agency.

In 1973, Missouri passed legislation which required public schools to provide, as an integral part of the State's education system, special education services sufficient to meet the needs and maximize the capabilities of handicapped and severely handicapped children. Special education services include the provision of diagnostic and evaluation services, student and parent counseling, organized instruction and therapeutic programs, transportation, and corrective and supporting services. The implementing regulations and guidelines developed by the Missouri State Board of Education provide that prevocational and vocational programs of organized instructional experience, training experience, and supportive services should be made available in special education programming at the secondary school level for handicapped students whose future occupational adequacy can be enhanced by such preparatory experiences.

The services available under the cooperative agreements are provided through vocational adjustment coordinators and rehabilitation counselors. At one cooperative program we visited, lower functioning mentally retarded students are generally referred to the State rehabilitation agency for evaluation and work adjustment training during the last year of the student's formal education process. Training facilities provide placements in competitive or sheltered workshop positions. Higher functioning students judged to be ready for employment are provided employment placement assistance by school districts through vocational adjustment coordinators. Some students in this group are provided skill training through vocational rehabilitation support.

Some of these same services were provided to students who were not clients of the State agency. For example, students who are given on-the-job training placement assistance are not clients. This service is provided through two vocational adjustment coordinators whose salaries are certified on a full-time basis. These coordinators told us that they spend about 20 to 30 percent of their time serving rehabilitation agency clients. The majority of their time is spent

assisting nonagency clients in on-the-job training placements. School personnel have been providing this service since 1970.

In commenting on the draft report, the Director of the Missouri rehabilitation agency suggested that the services provided by the vocational adjustment coordinator to non-agency clients were possibly certain academic and/or pre-vocational activities routinely provided through the regular school program. The director stated that it appeared that the State rehabilitation agency was, by implication, assuming service costs for both clients and nonclients of the State agency.

While the State rehabilitation agency was not directly paying for specific services provided to nonagency clients, the State agency was assuming the full salary of the vocational adjustment coordinator which was certified as being used to provide rehabilitation services to clients of the State rehabilitation agency. As a result, the State rehabilitation agency was improperly accepting as State matching funds 70 to 80 percent of the two coordinator salaries which represented the time spent serving nonagency clients. One of the coordinators told us that the nonagency students generally did not require additional services beyond what the school provided and that students who did require additional services were referred to the State rehabilitation agency.

One-half of the salary of a part-time employee was certified to the State rehabilitation agency. This vocational adjustment coordinator assists in the evaluation of students who have speech and hearing impairments. Based on these evaluations, on-the-job training placement assistance, guidance and counseling, and followup services are provided to these students. About 50 percent of the coordinator's time is spent working with students referred to the State rehabilitation agency; otherwise the coordinator provides the same services to agency and nonagency clients.

In contrast, another department of the school district refers students to the rehabilitation agency, although a vocational adjustment coordinator is not involved. The department referred 37 students in fiscal year 1976 for work evaluation, work adjustment training, and subsequent placement. Although a vocational adjustment coordinator was not involved in the referrals, the administrator of this department told us the process was not hampered.

At a second cooperative program we visited, services are offered to special education students who desire to participate in the rehabilitation program. The school generally relies on the State agency for training fees, tuition, and services requiring financial resources. Three of the five vocational adjustment coordinators whose salaries were being certified, told us that they also provide on-the-job training, placement assistance, counseling and guidance, and followup to special education students who are not rehabilitation program clients. One coordinator estimated that 50 percent of the students he served are not rehabilitation clients and about 40 percent of his time is spent serving these students. Another vocational adjustment coordinator estimated that over 40 percent of his students are not rehabilitation program clients representing about 50 percent of his time. One coordinator estimated that 25 percent of his students were not rehabilitation clients and about 15 percent of his time is spent serving these students.

Again, the vocational adjustment coordinators are providing rehabilitation-type services through the school setting to persons who are not clients of the State rehabilitation agency as well as those who are clients. Thus, while the State rehabilitation agency is not paying for specific costs of services to nonclients, the agency is accepting as State matching, the full certified salaries of the coordinator even though they are providing similiar services for clients and nonclients of the State agency.

At a third cooperative program, the primary services provided were on-the-job training, placement assistance, guidance and counseling, and followup. The services are provided to special education students who are 16 years of age or older and are judged ready for this type of experience. The vocational adjustment coordinator said that he only serves rehabilitation program clients and that if a student is going to participate in a work-study arrangement, he or she must become a rehabilitation program client. The coordinator said that he had been hired by the school district for the coordinator's position when the cooperative program was started in 1964 and that he was personally involved in guidance and counseling, on-the-job placement activities, and determining the appropriate goals for clients.



## Kentucky and Mississippi

Kentucky and Mississippi have cooperative school programs similar to the other States. The programs operate basically in the same manner and serve the same type of students. Kentucky has State legislation and guidelines which make the schools responsible for educating all handicapped children. The State's special education guidelines show that the work-study program is an accepted means of meeting this responsibility. However, the Director of the Kentucky rehabilitation agency stated that the guidelines and implementation procedures are not clear with respect to educational services which have an impact on rehabilitation services.

Mississippi legislation concerning the education of handicapped children is not as specific as that in the other States reviewed, and we cannot say conclusively that the functions performed by the special education teachers represent the legal responsibility of the public school system. The purpose of the cooperative agreements and the delivery of services in Mississippi is similar to the programs operated in the other States. Special education teachers are designated to function as vocational adjustment coordinators in providing services to educable mentally retarded students. Since the cooperative programs between Mississippi's rehabilitation agency and schools began in 1963, the functions performed by these special education teachers can no longer be considered "new services or new patterns of service" after 14 years. In addition, Mississippi has applied for Federal funds under the Education For All Handicapped Children Act. To be eligible for these funds, Mississippi schools will have to legally assume the responsibility for many of the services provided under the cooperative programs. As a result, we believe that the salaries of these teachers may not be certified for vocational rehabilitation matching.

We also found that two teachers' salaries were paid from a grant under Title I of the Elementary and Secondary Act of 1965, as amended. Such funds are not available to be used to meet local share requirements.

### Vocational rehabilitation expenditures for services to school-aged children should be evaluated

In fiscal year 1976 the State rehabilitation agencies that we reviewed spent about \$3.6 million in Federal vocational rehabilitation funds on services and materials under third party funding agreements with school programs. These expenditures were for

- diagnostic examinations (physical and psychological) needed by the State vocational rehabilitation agency to establish the students' eligibility for the vocational rehabilitation program;
- instructional equipment and supplies;
- fees for on-the-job training, vocational evaluation, and vocational adjustment training; and
- physical restoration services.

In light of the expanded responsibility of public schools in providing services to handicapped children and increasing Federal funding for special education, the services that State rehabilitation agencies can and should provide to school-aged children are an issue that will require guidance from the Rehabilitation Services Administration, and careful evaluation by State agencies.

Some of these expenditures charged to the program, such as those for diagnostic examinations for large numbers of students, may no longer be necessary. The third party funding agreements between schools and the State rehabilitation agencies in Indiana, Texas, and Kentucky encouraged that every student in the work-study program be considered for the vocational rehabilitation program.

Because the regulations require that expenditures under cooperative agreements be made for only clients or applicants of the rehabilitation program, State rehabilitation agencies believe it is necessary to evaluate every student for acceptance in the program. Therefore, substantial amounts of case service expenditures go for these examinations. However, as the vocational rehabilitation counselors at one school program in Kentucky pointed out, the practice of determining every student's eligibility for the vocational rehabilitation program is questionable since many students are not interested in, or no longer need any service from the rehabilitation program; especially since schools are now required to provide many of the services previously considered vocational rehabilitation services.

Other vocational rehabilitation expenditures, such as educational supplies, equipment, and materials appear to be more properly the responsibility of the public school systems in the States. Under the third party agreements in Indiana and Mississippi, State vocational rehabilitation agencies were purchasing

- educational materials and supplies, such as textbooks, paper, pens, and rulers;
- equipment for the schools, such as projectors, desks, chairs, and typewriters; and
- administrative supplies, such as typewriter ribbons.

These purchases were the same as those made for the school's basic programs. Thus, it appears that the State rehabilitation agencies were subsidizing the State education programs.

The Mississippi rehabilitation agency spent \$41,500 on such equipment and supplies in fiscal year 1976. In fiscal years 1975 and 1976, two school corporations we visited in Indiana received \$37,940 from the State rehabilitation agency. 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 that some of the items now being funded by rehabilitation program money are considered "frosting" and could be dropped without drastically changing their special education program.

On-the-job training, vocational evaluation, and vocational adjustment were services previously available to students through the vocational rehabilitation program. However, these services are now being incorporated into many school curriculums. Vocational rehabilitation expenditures for such services are now questionable and should be evaluated by RSA and State rehabilitation agencies. A major consideration in evaluating the appropriateness of these expenditures is the 1973 Rehabilitation Act and implementing regulations, especially the provisions which provide that

- vocational rehabilitation resources be used to serve the most severely handicapped and
- resources from other programs be used before expending vocational rehabilitation dollars.

Another consideration is that vocational rehabilitation expenditures for on-the-job training provided to high school students are hard to control and susceptible to problems.

As pointed out in our May 1977 report to the Congress, 1/ vocational rehabilitation counselors have minimal participation in arranging for and monitoring this training. We noted instances where

- providers of training did not adhere to agreements for training students,
- rehabilitation agency payments duplicated payments of other agencies, and
- the rehabilitation agency paid vendors for training students in jobs which these students had held for long periods of time before being made eligible for the vocational rehabilitation program.

### State comments

Each of the five States was given an opportunity to comment on our findings and conclusions; their comments and our evaluations, where appropriate, are summarized below. Also, actions taken by the States based on an evaluation of their cooperative agreements with school systems and their role in serving school-aged children is included.

#### Indiana

In 1973 the director of the Indiana rehabilitation agency decided that the role of the State rehabilitation agency should change, and proposed to immediately withdraw from the cooperative agreements with the school corporations. However, because of pressure from educational interest groups in Indiana, he agreed to gradually phase out these agreements and terminate State agency involvement at the end of fiscal year 1978. In a November 1976 letter to the Secretary of HEW, we recommended that the Indiana school agreements be terminated immediately. Following meetings with the RSA Chicago regional office staff in early December 1976, the Indiana rehabilitation agency stopped all payments under these agreements effective December 8, 1976.

---

1/ "Controls Over Vocational Rehabilitation Training Services Need Improvement," (HRD-76-167, May 5, 1977).

Following an analysis of these cooperative programs, the Indiana rehabilitation agency determined that third party funding agreements will not be used with public schools in the future. In place of these programs, the Indiana rehabilitation agency will be substituting a youth service program. In a letter dated June 13, 1977, to the Director of the HEW Chicago regional office, the director of the Indiana rehabilitation agency stated that the service program:

"\* \* \*will be purely a coordinating effort without financial involvement. Vocational rehabilitation counselors will work closely with the schools in the identification of potential vocational rehabilitation clients, particularly those handicapped students who are approaching graduation or who are planning to drop out of school. The vocational rehabilitation plan of service, however, will be strictly that provided any other eligible vocational rehabilitation client and not a service provided by the school.

"We will maintain our interest in handicapped students in the schools, will offer professional advice and counsel, will work closely with the schools in identifying potential clients, but will not purchase services from the schools."

#### Texas

The director of the State rehabilitation agency reaffirmed that he recognized the problems discussed in our draft report prior to the start of our fieldwork in Texas. As a result, the State rehabilitation agency reviewed its policy on the provision of services to school-aged children and altered its delivery of services in the public school setting. Provision of rehabilitation services by the State agency to school-aged children was limited to those services for which the school district does not have responsibility and who meet rehabilitation program eligibility criteria. The State agency's policy included in an August 24, 1976, memorandum to its regional directors, stated:

"Since 1969, several legislative acts have been passed giving more responsibilities to the independent school districts in meeting the needs of handicapped students. In keeping with the renewed Commission philosophy of utilizing all available resources before expending funds on behalf of clients, it is the purpose of this memorandum to provide guidance to field staff regarding the provision of services to public school students. \* \* \*From State and Federal legislation, it has been interpreted that independent school districts have the responsibility of meeting the educational needs of each student between the ages of 3 and 21. In the spectrum of services frequently needed by students enrolled in the public schools, it has been interpreted from legislation that school districts have the responsibility to provide the following services:

1. Counseling
2. Guidance
3. Diagnostics
4. Vocational Assessment
5. Training (Including on-campus and off-campus training; this may include on-the-job training.)
6. Job Placement
7. Interpreter Services
8. Tools and Supplies while in a Training Program
9. Transportation
10. Follow-up

Services that may be needed by the students which are not a responsibility of the independent school districts may include the following:

1. Physical Restoration
2. Assistive Devices
3. Room and Board
4. Tools, Supplies, and Licenses used for employment purposes

It is the Commission's position that counselors should not provide services to public school students when such services are the responsibility of the school district."

In October 1976, citing the requirement that it not pay for services that are the responsibility of other agencies or activities, the Texas rehabilitation agency formally terminated the cooperative programs with the local school districts.

### Kentucky

The director of the Kentucky rehabilitation agency agreed that the roles of the State education program and the rehabilitation program in serving the mentally retarded student are not yet well defined. The State director believes that a basic difference exists between an educational plan for a handicapped individual and a plan for vocational rehabilitation services leading to appropriate employment and that definitions of services as they pertain to each program may be quite different although the same terminology is used. However, he agreed that there should not be a duplication of services and that similar benefits from education-based services should be used by the rehabilitation program whenever and wherever possible. The director also stated that he believes school districts are not prepared to provide the necessary services to enable severely handicapped individuals to enter gainful employment without a comprehensive individual rehabilitation plan. He stated that any attempts to serve such handicapped young adults based solely on results of education-based services and evaluations would provide insufficient information for rehabilitation success. The director also concluded that if the education-based services are not adequate, timely, or otherwise substantially interfere with achieving the rehabilitation objective of the individual, another course of action should be permissible. We agree with the director that each student's need should be evaluated on an individual basis and that the vocational rehabilitation program should work closely with the public school systems to insure a coordinated service delivery system which provides a continuity of each program's service.

Based on the above conclusions and a conviction that the young handicapped adult must not be overlooked for rehabilitation services, the Kentucky State director has recommended the following actions:

- The State rehabilitation agency will not use any certified personnel and/or in-kind matching for third party programs after July 1, 1978. The State director states that this will insure

that no public school employee has any salary paid by rehabilitation program funds, nor will any salaries of school personnel be used as a matching base for Federal funds.

- The State agency will discontinue, if possible, all use of third party cash matching funds from school programs in the next State budget period. The director stated that this will give the rehabilitation agency unquestioned control of such cooperative programs.
- The State agency will request clarification of the roles of rehabilitation agencies and public school programs with respect to services to handicapped school age individuals. The request will be directed to RSA and the Office of Education. The director stated that present guidelines are inadequate to structure services.
- The State agency will continue cooperative school relationships to insure that eligible handicapped young adults will be provided vocational rehabilitation services, and will immediately take steps to insure that the severely handicapped receive priority of services.
- State rehabilitation agency officials and administrative staff of involved local education agencies with the assistance of RSA regional officials will conduct a study of Kentucky cooperative school relationships within the guidelines available.

The State director concluded that the cooperative school programs are designed to provide new patterns of services which would not be available to handicapped youth if they were not participants in a cooperative public school-rehabilitation setting. He said that if, after official clarification of roles and study of individual programs, it is shown that the State rehabilitation agency's pattern of cooperative school relationships is not allowable, then major restructuring would be in order. He believes that the State's study of individual school programs is likely to indicate insufficient referrals of severely handicapped individuals to continue special programs in some districts. The director concluded, and we agree, that it is likely that cooperative relationships need to exist or be strengthened in all school districts of the State in order to coordinate delivery of services to handicapped individuals.



## Mississippi

The director of the State rehabilitation agency agreed that there is a question as to the appropriateness of the vocational rehabilitation program continuing the use of third party funding agreements. He said that one of the recommendations from a report on the "Evaluation of the Cooperative Special Education Program in 1976" conducted by the State rehabilitation agency's evaluation unit stated:

"That the long-range effects of Public Law 94-112, Education of all Handicapped Children Act of 1975, on the Cooperative Program be carefully studied. If it appears that the Vocational Rehabilitation program in the schools will duplicate services required to be provided by the school system, it is recommended that plans be developed to phase out this program by 1980."

The director expressed concern over a phasing out of the cooperative school program. He stated that the State rehabilitation agency would lose a large part of its funds if they were not allowed to phase out of the agreements in a reasonable time frame and that the education agencies would be affected if they were forced to terminate their agreements.

He stated that recent legislation gives all handicapped children the right to an education and that it should lessen the need for the State rehabilitation agency to be involved in cooperative school programs. However, the director believes that the public schools are not staffed and equipped to provide rehabilitation services for all handicapped at this time. Therefore, he believes that a gradual phasing out of rehabilitation agency participation would help to compensate for shortages in staff and equipment needed to serve the handicapped students. He believes that a phasing out of third party agreements over a 2- to 4-year time frame would be workable and should result in a minimum of interruption in services to the students. He stated that this approach would enable the State agency time to work toward informing the State Legislature of the necessity to appropriate funds to replace those lost as a result of terminating third party funding agreements.

## Missouri

The director of the Missouri vocational rehabilitation program stated that while changes in State and Federal laws

have created a somewhat different environment for provision of services to the handicapped than existed at the time third party programs were promulgated, it must be recognized that statutes pertaining to education do not necessarily embody a vocational rehabilitation oriented program.

In referring to clients served in the Missouri cooperative school agreements, the director stated that in 1965 only seven mentally retarded persons were carried on the Missouri caseload roster; however, he noted that in 1976, of a total of 1,668 closures, 1,472 were rehabilitated of which 743 were rehabilitated through the efforts expended in the cooperative school-work program and 729 in the general program. The director believes that the majority of these students would not have been rehabilitated without the benefits and services brought to them through their cooperative school-work activities.

The director stated that while it is true that both State and Federal legislation have mandated greater responsibility to the public education system for pre-vocational preparation of the handicapped, a wide disparity exists between the academic and the vocational rehabilitation orientation. The director states that on one hand, there exists an academic program with inexperienced personnel, a diversity of programs and approaches, and in many instances, an inability to carry a student forward to successful participation in the total life of the community. The director stated that on the other hand, there exists a program of mutual effort in which the student-client relationship is preserved in its optimal form so that the handicapped individual achieves an integral balance in his vocational-social life.

In referring to the discussion of the Missouri cooperative school program on page 14 in which 37 students were referred for rehabilitation services without the involvement of a vocational adjustment coordinator, the director stated that this should not be considered improper because

- any person, group, agency, or institution is free to refer persons to the State rehabilitation agency for services,
- this situation occurred as a result of internal administrative realignments within the special district, and

--if the internal administrative situation had not occurred and unclear procedures had been clarified, a vocational adjustment coordinator would have been involved and the State agency would have been free to claim that person's salary for matching purposes.

In this example, it is not our intent to imply that the referral of school-age handicapped to the vocational rehabilitation program is improper but rather to show that services should continue to be available on a case-by-case basis regardless of the use of third party funding agreements.

The director stated that the cooperative school program was never intended to serve all handicapped students of special education districts and that it has not. He said that rehabilitation services have been provided only to those who are eligible for the rehabilitation program. He stated that other services provided routinely by the special school district may be considered adjunctive services and constitute utilization of other available resources in conformance with the rehabilitation legislation.

We believe that services routinely provided to the handicapped by public schools should represent the primary source of resources for serving school-aged clients but that changes in legislation have caused confusion over what services should appropriately be provided by vocational rehabilitation agencies, by education agencies, or by the two agencies working cooperatively. We believe that once the roles of the two agencies have been identified and clearly defined, the rehabilitation agency, through a coordinated and cooperative effort, can establish a service delivery system to insure a continuity of services for school-aged individuals who are eligible for the vocational rehabilitation program.

- - - -

Although Ohio was not one of the States we reviewed, the State rehabilitation agency's January 23, 1975, policy statement on serving school-aged youth provides added insight into the program changes being made by individual States as a result of the recent legislation. The policy statement points out that there are many handicapped people in the school population who can benefit from vocational rehabilitation services. The policy statement attempts to assure that rehabilitation funds are not used to subsidize activities which are the responsibility of other public agencies. The policy states that

"\* \* \* In view of the fact that every school age person is entitled to an adequate, free public education and because of the clear mandate of the Federal Register governing the administration of the national vocational rehabilitation program there clearly are certain kinds of activity that are not eligible for VR [Vocational Rehabilitation] funding.

"In the area of public schools VR should not participate in the cost of providing remedial education or skill training. These are services which, by their very nature, are the responsibility of the public school and may not be funded by VR simply because the persons served happened to be handicapped. Nor may they be funded by VR just because the public schools have failed to adequately provide financing for such services.

"When work evaluation and work adjustment are provided as part of the school curriculum, whether in-school or purchased from community rehabilitation facilities, Vocational Rehabilitation will not participate in the financing of such services. \* \* \*"

\* \* \* \* \*

"The philosophy expressed in the foregoing paragraphs derives from the mandate of Congress, as expressed in the Rehabilitation Act of 1973 and the implementing regulations for that law, that VR should provide a service only if there is no other resource or agency mandated to provide such a service. \* \* \*"

"What this means to the Counselor is that before providing a service we must determine if any other program or resource is available and if so then the other resource must be utilized first before expending VR dollars \* \* \*."

#### CORRECTIONAL INSTITUTIONS

The State rehabilitation agencies in Kentucky and Mississippi had third party agreements during fiscal year 1976 with their respective State correctional agencies to provide vocational rehabilitation services to prison inmates.

Because State correctional facilities are now responsible for providing vocational training and related services to inmates, the State vocational rehabilitation agencies are either duplicating services provided by the prisons or are providing services that the prisons should be providing as part of the State corrections program. Most of the persons served by the Kentucky vocational rehabilitation program under these agreements have a disability classified as a "personality disorder" and are considered only marginally handicapped according to rehabilitation program criteria. Kentucky rehabilitation agency officials estimated that only about 3 to 5 percent of the prison population served in Kentucky was severely disabled. A summary of the programs in Kentucky and Mississippi follows.

### Kentucky

The Kentucky rehabilitation agency entered into a third party funding agreement with the Kentucky Bureau of Vocational Education and the Kentucky Bureau of Corrections in 1967. The purpose of this agreement was to establish and operate a coordinated program of vocational rehabilitation services for eligible public offenders in the Kentucky correctional system.

In fiscal year 1976, the State agency had vocational rehabilitation units in five State correctional facilities and spent a total of \$341,286 in Federal rehabilitation program funds--\$131,371 on case services for 925 inmates and \$209,915 for administrative costs. For the same period, the Bureau of Corrections' expenditures used for matching for this cooperative program totaled \$55,707, consisting of \$40,000 in cash transferred to the State rehabilitation agency, and \$15,707 in certified expenditures.

State rehabilitation agency officials explained that there were two primary reasons for entering this cooperative program.

1. Vocational rehabilitation guidelines at the time the agreements were initiated emphasized serving persons with "behavioral and personality disorders."
2. Kentucky's correctional facilities had no vocational training or other vocationally oriented services for inmates.

The director of the State rehabilitation agency stated that, when he assumed his position in July 1976, he was aware

that the State agency should not be at the correctional institution. He said that changes in Federal and State legislation as well as an expanding concept of rehabilitation in the State correctional agency, have shifted the responsibility for the delivery of rehabilitation services from the Kentucky rehabilitation agency to the State correctional agency.

A State rehabilitation agency study of the agreement with the Bureau of Corrections, begun in September 1976, concluded that the vocational rehabilitation program's involvement was no longer appropriate and that the Bureau of Corrections' certified expenditures were ineligible for matching Federal vocational rehabilitation funds. These certified expenditures were for salaries of corrections personnel--mostly classification and treatment officers--who would perform the same duties if the vocational rehabilitation unit was not involved in the corrections system.

We could see little change in the services provided to inmates if this agreement were terminated. The "Goals and Performance Objectives" of the Kentucky Bureau of Corrections state that one of the Bureau's missions is to establish "comprehensive career development and incentive level programs which encourage the return of inmates to open community." Other key goals stated in this document are to

- develop a comprehensive job readiness prerelease program,
- support and extend the job placement skills the client develops while in the institution, and
- develop, deliver, and monitor programs that provide the offender with the opportunity to acquire the academic, vocational, and social skills necessary to make it in a free society.

The vocational training was being provided by the State Bureau of Vocational Education. This training would be continued, as would the vocational counseling which is not the Bureau of Corrections' responsibility.

Recognizing the changes in legislation and program responsibilities, the Kentucky rehabilitation agency began de-emphasizing its role in the correctional program in fiscal year 1977. At the end of fiscal year 1977, the State agency had vocational rehabilitation units in two

facilities which spent \$249,756 for 998 clients. The budget for fiscal year 1978 correctional rehabilitation programs is \$125,000 with plans to serve 344 clients for whom cases have already been established. Corrections' certified expenditures were discontinued for matching purposes as of July 1, 1976. The director of the State rehabilitation agency reported that staff had been reduced from 42 positions (including certified positions) on June 30, 1976, to 5 positions on July 31, 1977. The director plans to retain one counselor in each of two correctional facilities to provide appropriate services for eligible inmates scheduled for release through parole or who are serving the last 30 days of their sentence. Each of the remaining correctional institutions will be served on an itinerant basis by counselors of the State rehabilitation agency.

We believe that cooperative relationships should be continued between the correctional program and the rehabilitation agency and that all eligible handicapped individuals in need of rehabilitation services should be referred to the rehabilitation agency for provision of services following their release from the correctional institution.

### Mississippi

In June 1967 the State vocational rehabilitation agency initiated a third party funding agreement with the Mississippi State Penitentiary. The purpose of the program was to assist inmates in making the adjustment from prison life back into the "free world" society. Upon release from prison, it was hoped that all inmates would become financially independent members of society. Initially, many of the services provided by the rehabilitation program had never been available to penitentiary inmates. Through the years, however, almost all of these services have been incorporated into the penitentiary's rehabilitation program.

In fiscal year 1976, the total expenditures in the cooperative program totaled \$219,706, including \$84,800 in case service expenditures. As its share, the penitentiary reimbursed the State agency with a cash transfer of \$30,000. Areas where identifiable or similar services were provided by the State agency and the penitentiary include

- general medical examinations,
- psychological and psychiatric evaluations,
- medical services,

- counseling and guidance,
- job placement,
- maintenance and immediate needs money, and
- supplies and materials needed in learning a trade.

In regard to the medical services, the penitentiary maintains a 24-bed hospital at the prison and provides all of the medical needs for each inmate through a staff consisting of doctors, dentists, psychiatrists, psychologists, nurses, and selected consultants.

In addition, the penitentiary operates a shuttle bus 5 days per week between the penitentiary and the University of Mississippi Medical Center in Jackson, Mississippi, where inmates in need of medical services not available at the penitentiary were transported for examination and/or treatment.

We reviewed 20 client case files and found that most of the general medical examinations for these clients were performed by one of the penitentiary staff physicians who was paid \$8 per exam by the State rehabilitation agency. We discussed this practice with a prison physician who stated that medical services required by inmates should be provided by the penitentiary.

In addition to the services provided by the State prison and the State rehabilitation agency, we noted that the prison also provides adult basic education classes where inmates may earn their high school graduate equivalency diploma and vocational education classes where inmates may enroll in one or more classes in which 12 different trades were taught. There were also six different entities at the prison that assisted inmates in locating jobs upon release from prison.

We concluded that this agreement served a useful purpose in its initial years of operation. At the present time, basically all of the services provided by the State rehabilitation agency are the same services offered inmates by the penitentiary. Therefore, we believe that the agreement should be terminated and the State rehabilitation agency employees transferred to locations in which their services can be better utilized. State rehabilitation agency officials were aware, to a limited degree, of this duplication of effort and have greatly reduced office staff during the past 3 fiscal years.



In commenting on our draft report, the director of the State rehabilitation agency acknowledged that he had anticipated for some time having to discontinue third party agreements and had taken steps toward that end. The budget for the agreement with the State penitentiary has been reduced from \$85,000 in fiscal year 1976 to \$39,000 in fiscal year 1977. The personnel in that program has been reduced from 15 in fiscal year 1976 to 3 in fiscal year 1977. The director stated that the Mississippi agency is trying to phase out the agreement with the State penitentiary without creating a void in services.

## CHAPTER 3

### VOCATIONAL REHABILITATION

#### FUNDS USED TO SUBSIDIZE OTHER

##### STATE PROGRAMS

Unlike the agreements with local school systems and correctional institutions where changes in Federal and State legislation and program authorities adversely affected their continued use, agreements, with certain State and local agencies, when initially entered into, were not operated in compliance with Federal regulations and program guidelines. The regulations state that third party funds must be used to provide vocational rehabilitation services which are new services or patterns of services compared to existing services of the cooperating agency and are not services which the handicapped would receive regardless of whether they are applicants or clients of the rehabilitation agency.

Federal regulations define vocational rehabilitation services to include a wide range of goods and services, many of which are no different from those needed by the non-disabled. Hospitalization, for example, is a resource needed by the general public as well as by the handicapped served by State vocational rehabilitation agencies. The guidelines state that one of the distinguishing characteristics of vocational rehabilitation services is that they are a part of a total package of planned services, based on an evaluation of an individual's total needs, and not just one aspect of them such as his medical or social needs.

Expenditures under cooperative agreements, involving general medical hospitals in two States we reviewed, were for medical services that were the responsibility of the cooperating third party agency, and which the persons would generally receive even if no agreement existed. As a result, the third party cooperating agency's funds, which were used to match Federal funds, were not spent for valid rehabilitation services in accordance with existing policies and regulations. Also, we question whether many of the Federal vocational rehabilitation funds spent on hospitalization costs under these agreements represent valid rehabilitation program expenditures. Under these agreements, a total of \$912,219 in matching funds were used to obtain Federal vocational rehabilitation dollars, and about \$2,669,181 of Federal rehabilitation funds were expended for case services during fiscal year 1976.

## KENTUCKY

The Kentucky rehabilitation agency entered into a third party funding agreement with a university medical center hospital on April 1, 1965. The medical center hospital was opened in April 1962 and serves patients throughout the Commonwealth of Kentucky offering diagnostic, therapeutic, and hospital services.

The purpose of the joint program offered by the State rehabilitation agency and the medical center hospital was to broaden the services offered to patients at the hospital by providing comprehensive vocational rehabilitation services. In a letter dated June 6, 1969, to the medical center hospital, the Assistant Superintendent for Rehabilitation Services stated, "One of the major objectives of this agreement was to provide vocational rehabilitation services as a post-hospital service \* \* \*."

Under this agreement, State rehabilitation agency personnel screen all inpatient admissions to the medical center hospital, and determine the patient's eligibility for the vocational rehabilitation program. The vocational rehabilitation unit also receives referrals from the outpatient clinics at the hospital. For those patients determined eligible for the vocational rehabilitation program, the State rehabilitation agency and the medical center hospital share the cost of certain medical services (hospitalization, clinic fees, professional fees) on a 65 to 35 basis. Each year, the medical center hospital allocates a given sum of money to finance its share of the medical costs. The State rehabilitation agency uses the hospital's share of these costs as matching funds to obtain Federal dollars for the vocational rehabilitation program at the hospital.

In fiscal year 1976, the State rehabilitation agency reported serving 1,169 persons at the medical center hospital, and successfully rehabilitating 793. The total vocational rehabilitation expenditures for this program in fiscal year 1976 was \$1,054,897 including \$886,391 spent on client services and \$168,506 for administrative costs. For the same period, the State rehabilitation agency determined that the medical center's share of the cost of services under this agreement was \$406,236, of which \$346,270 was used for matching Federal funds.

The only services provided to patients at the hospital under this agreement are medical. Of the total \$886,391 that the State rehabilitation agency spent on services under this agreement in fiscal year 1976, we calculated that \$754,438 (85 percent) was for hospitalization costs and professional services at the medical center. Most of the remaining \$131,953 was also for medical or related services for which the State rehabilitation agency paid the full cost. In 20 randomly selected cases reviewed by us at the medical center hospital, the only expenditures noted were for medical services.

One of the major objectives of the medical center hospital is to provide medical services to the indigent. The medical center hospital completes a "Patient Financial Record" on all patients admitted who do not have medical insurance, Medicaid, or Medicare to pay for the medical services. This financial evaluation determines the patient's liability for the services provided and categorizes the individual as "no pay," "partial pay," or "full pay." For the past several years, the university budgeted about \$4.7 million per year in State funds for the medical center hospital as allowance for "no pay" and "partial pay" patients and to cover those costs not paid by medical insurance, Medicaid, or Medicare.

Hospital officials at the medical center stated that it was the hospital's responsibility to provide medical services to the indigent, and no one would ever be refused services. They viewed the vocational rehabilitation program as helping them meet this responsibility by reducing the hospital's financial burden.

The Director of Financial Aid at the medical center hospital said that persons with "no pay" or "partial pay" status were using up the hospital's budget for indigent patient care and that it was part of his job to minimize the amount of such allowances. He said that he views the State rehabilitation agency and other social agencies as a means of relieving the hospital's financial burden by paying the hospital bills for persons found eligible for their services. He also said that the chief service provided by the State rehabilitation agency was "paying hospital bills."

We noted that although the university annually budgets about \$4.7 million, fiscal year 1976 was the first year that this amount was needed. In fiscal years 1974 and 1975, the hospital used \$3.3 million and \$3.8 million, respectively. For the same 2 years, the Kentucky rehabilitation agency paid \$742,708 and \$567,923, respectively. Because of this third party agreement between the State rehabilitation agency and

the medical center hospital, State funds are being supplanted with Federal funds. For example, in the four cases where we were able to obtain patient financial records, the individuals' liabilities for medical treatment ranged from \$0 to \$50. The actual cost of services to these individuals would have been paid from the State-appropriated allowance. However, the State rehabilitation agency determined that these individuals were eligible for the vocational rehabilitation program and used program funds to pay the patients' medical bills totaling \$1,339.

The State matching funds used under this third party funding agreement are not in compliance with Federal regulations and guidelines which require that such funds must be used to provide vocational rehabilitation services which are new services or patterns of service compared to existing services of the cooperating agency and are not services which the handicapped would receive regardless of whether or not they are applicants or clients of the vocational rehabilitation agency. In addition, we question whether the sole payment of medical bills in this manner should be considered a valid "vocational rehabilitation" service under any circumstances.

Our case review and analysis of the State rehabilitation agency's expenditures under this agreement showed that aside from paying medical bills, the State rehabilitation agency was providing very few other services. Most persons served under this agreement came to the medical center hospital to obtain needed medical service, were admitted for a medical service, and in 25 percent of the cases reviewed received the service prior to being referred to the rehabilitation program. After the person was discharged from the hospital, there were no followup services provided by the State rehabilitation agency. All of the cases' documentation focused on the person's medical needs. In effect, the State rehabilitation agency was merely acting as a bill paying agency for persons needing medical attention and not vocational rehabilitation. Counselors told us that many of their clients would not even be interested in the vocational rehabilitation program if the counselors did not first offer to pay their medical bills.

Similar problems existed with an agreement between the Kentucky rehabilitation agency and a general hospital. Under this agreement, which began in 1969, records of patients entering the hospital were automatically referred to a vocational rehabilitation unit located in the hospital. The State rehabilitation agency paid 55 percent of the cost of hospital services for eligible (determined by rehabilitation counselors) patients. By letter of allotment, the hospital set aside a

given sum of money to finance 45 percent of the cost of medical services provided to eligible vocational rehabilitation clients. The State agency used the hospital's share of these costs as matching funds to obtain Federal vocational rehabilitation dollars.

In fiscal year 1976, the State rehabilitation agency reported serving 1,044 persons at this hospital and successfully rehabilitating 596. The total State agency expenditures for this program in fiscal year 1976 were \$695,692, including \$605,633 spent on client services and \$90,059 for administrative costs. For the same period, the hospital certified that its share of the cost of services provided to rehabilitation clients was \$336,076.

As in the case of the agreements with the medical center hospital discussed earlier, the primary services provided under this agreement were medical services. According to the supervisor of the vocational rehabilitation unit at the hospital, the purpose of that unit is to pay the hospital bills for the inner city poor served by the hospital. Of the \$605,633 in case services expenditures in fiscal year 1976, \$445,445 was paid to the hospital for medical services. In 17 of the 20 cases we reviewed, the State rehabilitation agency made payments to the hospital for medical services.

The general hospital is funded by the city and county and primarily serves indigent persons residing in one of Kentucky's metropolitan areas. The hospital administrator and the hospital's liaison to the vocational rehabilitation program told us that the hospital would have provided the same services to the patients, regardless of whether or not the State rehabilitation agency paid the bills. They added, however, that because of the money received from the State agency, the hospital was able to provide a higher quality of service.

Based on the 20 cases reviewed, it appears that vocational rehabilitation counselors do little if any evaluation of client needs and planning of case services. Many cases referred to the vocational rehabilitation unit were accepted as rehabilitation clients after the service had been provided, thus removing the counselor from the decisionmaking process of determining the nature of services and the extent of the expenditures. For example, in 17 of the 20 cases reviewed, the vocational rehabilitation counselors determined that the individual was eligible for vocational rehabilitation services, and authorized payment of the service either on the same day the service was provided or after the service was provided. The vocational rehabilitation unit supervisor said that it was a common practice

for counselors to backdate the case documentation in order to pay the hospital bills. This was evident from our case review--in seven cases, the date of the hospital service and the date on all the vocational rehabilitation documents fell on a Saturday or Sunday. The unit supervisor told us that the vocational rehabilitation counselors do not work on weekends. Even if the vocational rehabilitation counselor determined the person's eligibility for the program on the dates shown, this would preclude any real planning or evaluation by the vocational rehabilitation unit.

In 18 of the 20 cases reviewed, there was no evidence that the rehabilitation counselor ever saw the patient after the medical services were completed. This is due in part to the type of disabilities involved. Many of the disabilities in the cases reviewed were temporary in nature, requiring short term medical services provided by the hospital. Case records included disabilities, such as two gunshot wounds, one stabbing, one fractured calf, two fractured ankles, and a case of second- and third-degree burns of the legs.

In commenting on our draft report, the director of the Kentucky rehabilitation agency noted that RSA officials had indicated approval of the cooperative agreements as having met requirements of Federal law and regulations before the State agency entered into the agreements with the two hospitals. While the language of agreements may satisfy Federal regulations and program requirements, we found, that the actual day-to-day operation of the cooperative program was not in conformance with Federal regulations.

The director stated that while the hospitals provide medical services which individuals can receive regardless of participation in the vocational rehabilitation program, they do not provide vocational diagnosis, vocational evaluation, training, placement or follow-up services. The director stated that these services are unique services that the rehabilitation program could provide while broadening the services offered by the hospitals through cooperative agreements. The director concluded and we agree that there is a role for the rehabilitation program in providing such services to patients of the hospitals who are determined eligible for the rehabilitation program. However, we believe that these services should be used to broaden the services offered by the hospitals after the client's medical needs have been satisfied.

The director stated that both programs would continue to redirect emphasis toward the more severely handicapped individuals who require extensive vocational services and who

are not eligible for the medical services as allotted by the State legislature or the city/county government to the hospitals. In response to our findings, the director proposed the following steps to insure compliance with the mandate of the Rehabilitation Act of 1973 to serve the severely disabled and to strengthen the program of service delivery at the hospitals.

1. An orderly transfer of all appropriate existing cases and new referrals will be made to field counselors in the client's home area for provision of further evaluation, counseling, training, and/or job placement and follow-up services.

2. Financial payment to the hospitals would be made only for those persons whom the hospital would not in the normal process allow the cost to be taken from its State/city/county allotment. Persons whom the hospitals determine to be "no pay" or "partial pay" would not be eligible for financial payment through the cooperative agreement. If the person is determined to be a full-pay patient by the hospital, the vocational rehabilitation agency may determine the extent the cooperative agreement would pay for services, provided the disabling condition is substantially handicapping in nature.

3. The rehabilitation staff at the hospital will make necessary arrangements to provide post hospital services for persons determined substantially vocationally handicapped. After identifying these persons, they would have an appointment arranged with the field counselor from the person's geographic area. Immediate transfer of appropriate cases to the field counselors will be done after provision of medical services at no cost to the State rehabilitation agency upon the patients' discharge from the hospital. This would include patients who have a substantial handicap to employment and who require vocational evaluation, counseling and placement, but who were not financially eligible for vocational rehabilitation because of the funding arrangements available through the hospital.

4. The hospital receives a large number of accepted cases from the field counseling staff on a temporary transfer basis. All of these cases are for arrangement and payment of medical services for individuals identified as clients by the field counselor. If a hospital financial evaluation is made and the same criteria as above is applied, a majority of these clients will be categorized as "no pay" or "partial pay" by the hospital which would eliminate them from being considered for financial assistance through the joint agreement.



The hospital evaluation differs from the vocational rehabilitation evaluation in that the hospital considers assets and income in a different perspective than the vocational rehabilitation criteria for financial assistance. Such cases would receive medical services at no cost to the State rehabilitation agency and upon discharge would be returned to the initiating field counselor.

5. Cooperative programs shall concentrate on the substantially handicapped individual who requires extensive vocational evaluation, guidance, etc., and who may not be eligible for the medical funds as allotted by the State legislature or city/county government. The initiation of these guidelines would entail a substantial reduction in the provision of medical services and staff as it relates to the present operation of the vocational rehabilitation program at these hospitals. Procedure for the transfer process will be initiated by January 1, 1978.

#### MISSISSIPPI

An agreement between the Mississippi rehabilitation agency and a State medical center was similar to the two agreements discussed above. Under this agreement, which began in 1965, the State rehabilitation agency has been reimbursing the medical center for 80 percent of the cost of medical services provided to patients at the center who were determined to be eligible for the rehabilitation program by vocational rehabilitation counselors. The medical center pays the other 20 percent. The State rehabilitation agency uses the medical center's share as matching of Federal funds. In fiscal year 1976 the total cost of the program was \$1,148,464 of which the hospital paid \$229,873.

Vocational rehabilitation counselors assigned to the medical center in Mississippi received some referrals from rehabilitation counselors in different parts of the State. However, the majority of cases served were sent to the medical center by private physicians. Doctors at the medical center then referred these patients to the vocational rehabilitation counselors who determined whether they were eligible for the rehabilitation program. As in the Kentucky cases, the only expenditure in the 15 cases reviewed was for medical services or a medically related service. A 1950 Mississippi law, which established the medical center, provides that at least 50 percent of the bed capacity at all times would be occupied by indigent patients. Therefore, we believe most of the costs of the medical services should have been borne by the medical center.

In contrast to the situation in Kentucky where no followup vocational rehabilitation services were provided to patients after discharge, cases at the Mississippi medical center were transferred to field counselors throughout the State because the rehabilitation counselors assigned to the medical center stated that they could not "vocationally rehabilitate" clients at the center. Because information such as client name, identification numbers, or location transferred to was not maintained at the medical center, we were not able to identify and follow up on these cases during our fieldwork, and, as a result, we were unable to determine if additional services were provided.

In commenting on our draft report, the director of the State rehabilitation agency stated that he had taken steps to reduce the agency's involvement in the agreement with the medical center. He stated that the budget for the agreement has been reduced from \$1,840,000 in fiscal year 1975 to \$600,000 in fiscal year 1977. The vocational rehabilitation personnel assigned to the medical center has been reduced from eleven to four.

The director of the medical center stated that it would not be feasible to rely solely on State funding for hospitalization costs if Federal funds were not available for rehabilitation patients. The director stated that the State appropriation for fiscal year 1978 to offset the cost of charity cases and bad debts at the medical center had decreased from its fiscal year 1977 level.

The director explained that once a patient surpasses the acute problem causing his hospitalization, the medical portion of his rehabilitation in most cases becomes elective, rather than urgent or emergent. Also rehabilitation medicine often requires more costly procedures than those occurring in other types of hospitalizations (i.e., total hip replacement or neurosurgery). The director stated that the patient in most cases cannot work, and unless he or she has some sort of other third party coverage (vocational rehabilitation program), he or she is more than likely medically indigent. The director stated that to his knowledge there is no State program other than vocational rehabilitation which sponsors hospitalization costs for patients needing rehabilitation medicine. He concluded that there is no guarantee that the medically indigent rehabilitation patient will receive treatment if Federal funds for hospitalization were discontinued under the third party funding agreement with the vocational rehabilitation program.

We agree with the medical center's director that Federal funds for medical services should not be discontinued under the vocational rehabilitation program. We believe, however, that the role of the vocational rehabilitation program should be clearly defined for cases where Federal funds will be used to finance hospitalization and medical services for a hospital patient. In all cases, such services should be a part of a total package of planned services based on an evaluation of an individual's total needs and the availability of assistance from other programs and not just one aspect of them such as his medical or social needs. We question whether any cases involving sole payment to cover acute medical needs, such as gunshot wounds or broken bones, represent valid expenditure of Federal funds under the vocational rehabilitation program. Through the development of strong cooperative relations with local hospitals, the rehabilitation program should be able, on a case-by-case basis, to provide for the hospitalization and medical services needs of clients as part of their ongoing individual rehabilitation plan. We do not believe the discontinued use of a third party funding arrangement should affect the delivery of medical services to clients of the vocational rehabilitation program.

## CHAPTER 4

### REHABILITATION SERVICES EXPANDED

#### BUT CERTIFIED EXPENDITURES NOT

#### ELIGIBLE FOR FEDERAL MATCHING

In some instances, third party funding agreements with State mental hospitals and facilities have expanded the services of the cooperating agency to include vocational rehabilitation services. In these cases, the agreements meet the intent of the regulations and the rehabilitation services provided are in accordance with the established guidelines. However, expenditures certified under these agreements to earn Federal rehabilitation dollars did not meet the Federal regulations which require that the expenditures certified would not be for services which the handicapped persons would receive regardless of whether or not they are applicants or clients of the State rehabilitation agency.

The State rehabilitation agencies in Kentucky and Missouri used \$349,376 in certified salaries of employees at three mental hospitals we visited to match \$1,397,504 in Federal rehabilitation funds. With few exceptions, the hospital employees whose salaries were certified were providing patient care and related hospital services which patients would receive regardless of whether or not they were applicants or clients of the vocational rehabilitation program.

### MISSOURI

We reviewed agreements between the Missouri State rehabilitation agency and two State mental hospitals. The purpose of these agreements, one of which was initiated in 1966 and the other in 1972, was to maintain a vocational rehabilitation unit at each of the facilities. The rehabilitation units are a separate part of the hospitals, and serve patients who live in the units as well as those who live in other areas of the hospital. At one of the hospitals, the State rehabilitation agency also operates a sheltered workshop which is available to all patients who are at least 15 years old and capable of such work activity.

Services provided to the mentally ill and mentally retarded clients under the agreements included work adjustment training, vocational evaluation, guidance and counseling, skill training, job placement, and patient care services.

In fiscal year 1976, 460 patients were clients of the vocational rehabilitation units at the two hospitals. The State rehabilitation agency obligated \$354,441 for case services and \$223,817 for personnel and travel costs. For the same period, the two hospitals certified a total of \$289,836 in salaries and fringe benefits of hospital employees assigned to the vocational rehabilitation unit. The State rehabilitation agency used these certified expenditures to match Federal rehabilitation funds.

The hospital employees included physicians, nurses, psychiatric aids, caseworkers, custodians, and teachers. At one of the Missouri hospitals, we interviewed 18 hospital employees whose salaries were certified to the State rehabilitation agency. Most of the employees interviewed were providing patient care and related hospital services. For example, psychiatric aides, a nurse, and a medical consultant told us they provide the same patient care service in the vocational rehabilitation unit as is provided in other units of the hospital.

During fiscal year 1976, the vocational rehabilitation unit was housed in a building which had about 65 residents. The State rehabilitation agency had administrative responsibility for all residents in the building. However, only about 50 percent of the residents were vocational rehabilitation clients. The hospital staff assigned to this building provided the same services to all residents of the building. The salaries of all hospital staff assigned to the building were certified to the State rehabilitation agency. The use of these certified salaries as part of the State matching did not comply with the Federal regulations which state that services under third party funding agreements must be provided to applicants or clients of the rehabilitation program and must not be services which they would receive regardless of whether or not they are applicants or clients of the rehabilitation agency.

In commenting on our draft report, the director of the Missouri rehabilitation agency stated that the situation has been corrected and that all residents of the rehabilitation unit in this institution are now bona fide rehabilitation program clients. The director stated that his investigation of the situation showed that for the time period covered by our review, 63.9 percent of the building's residents were on the rehabilitation caseload. He stated that two-thirds of the remainder were former clients of the rehabilitation program and the balance were returned patients who had been residents of the building prior to its use by the rehabilitation unit.

He noted that hospital policy mandated that all returned patients be housed in the same building from which they were discharged.

At the other Missouri hospital, we interviewed 26 hospital employees whose salaries are certified to the State rehabilitation agency and found that most of the employees were also providing patient care and related hospital services. Again, psychiatric aides, a nurse, and a doctor interviewed told us they provide basically the same patient care services in the vocational rehabilitation unit as is provided in other units of the hospital. The activity aides and custodians told us that their respective services are also the same in the vocational rehabilitation unit as in other units of the hospital.

State legislation covering Missouri State mental health facilities states that the

"\* \* \* division of mental health of the State department of public health and welfare shall provide appropriate full or part time resident or outpatient care and treatment, examination and report, education and training of persons suffering from mental illness or mental retardation \* \* \*."

We believe that the duties and responsibilities performed by certified personnel in fiscal year 1976 related to patient care and associated activities in the vocational rehabilitation units at both State hospitals are within the responsibilities of the patient care and services described in the legislation. This is evident by the fact that there are similar staffing patterns in other units of the hospitals. Also, certified personnel told us that they were performing the same type of functions in the vocational rehabilitation unit as are performed in other units of the hospital. Thus, the patient would receive the service regardless of whether or not he or she is a client of the State rehabilitation agency.

The director of the Missouri rehabilitation agency does not believe that it is improper to certify the salaries of State hospital staff who are being used in the same capacities and are carrying out the same duties in the rehabilitation unit as if they were assigned to another part of the total hospital program. The director stated that many of the custody, supervision, and treatment aspects carried out by the State hospital personnel while carrying out their work

performed in the treatment units differ radically in the service objectives to be achieved from those performed in the rehabilitation unit. He stated that the hospital personnel worked under the supervision of the rehabilitation staff and performed a cooperative function aimed at achieving a successful vocational rehabilitation objective for clients who are not yet fully prepared for return to the community.

The director said that the agreements spell out the basic duties of all personnel. He noted that a technical situation has occurred in which job duties of hospital personnel assigned to rehabilitation units have not yet been rewritten. The director said that the vocational objective is the goal toward which all personnel in the unit strive. Therefore, the director concludes that the hospital staff's duties are not the same as they would have been in a purely treatment situation. The director stated that the hospital personnel in the rehabilitation unit are guided and directed toward personal and vocational fulfillment of severely disabled persons who require this specialized type of almost one-to-one guidance and direction as a prerequisite to achieving their goals.

Although the cooperative agreements introduced a blending of rehabilitation and hospital resources which required modifications, and in some instances, additions to the duties of some hospital employees, we do not believe that this results in shifting the primary responsibility for the employee's functions from the hospital or institutions to the State rehabilitation agency.

#### KENTUCKY

A third party funding agreement between the Kentucky rehabilitation agency and a Kentucky mental hospital began in 1962. The agreement was essentially the same as those reviewed in Missouri. The Kentucky rehabilitation agency operated a workshop on the hospital grounds and also provided a training facility for home management and a greenhouse program used for vocational evaluation and training. The major difference was that the vocational rehabilitation clients did not reside in a special vocational rehabilitation unit.

In fiscal year 1976, 230 patients were clients of the unit of the hospital, and the Kentucky rehabilitation agency spent \$156,914 on this cooperative program. This total included \$3,858 for case services and \$153,056 for personnel and administrative costs. For the same period, the State rehabilitation agency used \$59,540 in certified hospital

expenditures as Federal matching. This amount included a portion of the salaries of nurses, social workers, psychologists, and psychiatric aides. We interviewed 14 of these employees, and with a few exceptions, they believed they were not doing anything beyond what they are normally required to do as employees of the hospital. The hospital administrator agreed and stated that these hospital personnel do not perform additional duties for the vocational rehabilitation unit. He pointed out that it is the hospital's responsibility to work with other agencies that might benefit the patients.

The director of the State rehabilitation agency said that the agency is attempting to change its funding pattern. The State agency has requested in the biennial budget that State funds be made available to replace certified money as of July 1, 1978. He noted that in the interim, certified matching funds will be strengthened by continuing to review existing certified staff, attempting to increase 100-percent certified personnel which the director states allows for unquestioned vocational rehabilitation supervision, and continuing to define clearly the duties of certified staff.

The director concluded that, if adequate State funding failed to materialize and if the use of certified staff as a method of funding be determined as unacceptable, then there is a strong likelihood that the cooperative program at the mental hospital would have to be dismantled. The director said that such a situation would result in those psychiatrically disabled persons who would have received rehabilitation services in the cooperative program being adversely affected in the denial of the services in many instances.

We believe that in the event that State funds are not made available, the State agency should be able to develop an alternative means of providing rehabilitation services to this target population, many of whom are severely disabled.



## CHAPTER 5

### ADVERSE EFFECT OF THIRD PARTY FUNDING

#### AGREEMENTS ON VOCATIONAL REHABILITATION

##### PROGRAM GOALS

In addition to the problems discussed in previous chapters, there are inherent characteristics of third party funding agreements that adversely affect the vocational rehabilitation program:

- Third party funding agreements, in many cases, commit vocational rehabilitation resources to serving the marginally handicapped and limit the State rehabilitation agency's ability to redirect the program to the most severely handicapped.
- Costs and accomplishments of third party programs are not accurately reported to the Rehabilitation Services Administration, casting doubt on the overall statistics of the vocational rehabilitation program in the five States.
- Vocational rehabilitation personnel assigned to third party facilities are not used in the most effective manner.

##### THIRD PARTY FUNDING AGREEMENTS LIMIT PROGRAM'S SERVICE TO SEVERELY HANDICAPPED

The Rehabilitation Act of 1973 requires that State rehabilitation agencies give priority to serving persons with the most severe handicaps. The RSA manual provides a classification of disabling conditions and identifies certain categories of disabling conditions as meeting the definition of a severe disability. Following the determination of an applicant's eligibility for the rehabilitation program, State agencies use the manual criteria to classify the client as severely or not severely handicapped. State rehabilitation agencies may find it difficult to meet the act's mandate if they continue to commit large amounts of resources to cooperative programs with agencies such as public schools, general hospitals, and correctional facilities because the majority of clientele served by such agencies do not meet the classification of a severe handicap.

## Public schools

Many of the persons served under the cooperative school programs are classified as educable mentally retarded. For example, Mississippi's education policy states that an educable mentally retarded youth is one who because of retarded intellectual development, cannot find success in the usual educational programs designed for persons his age but who can normally be expected to achieve a basic education and eventually to work successfully in any of a variety of jobs not requiring high degrees of technical or academic ability. Indiana's education guidelines state that

"Vocationally, persons with educable intellect have demonstrated the ability to participate successfully in the competitive work market without requiring intensive and constant supervision."

RSA has defined mental retardation in accordance with the definition established by the American Association on Mental Deficiency, a major professional organization in the mental retardation field. The association and RSA defined retardation in terms of subaverage intellectual functioning which originates during the developmental period and is associated with impairment in adaptive behavior. RSA's manual defines severely handicapped as those whose retardation is moderate or severe. We recognize that establishing criteria for defining severe mental handicaps is difficult and that differences of opinion may often exist regarding whether certain mentally disabled persons have severe handicaps. We believe that on the basis of our random sample of client cases in the cooperative school programs we visited that the majority of students served by State rehabilitation agencies through cooperative public school programs do not meet the classification of severely handicapped.

For example, the Missouri rehabilitation agency reported that 3,317 persons were served through the cooperative school programs in fiscal year 1976, and 743 cases were closed as successful rehabilitations. We randomly selected and reviewed 60 cases for the 3 school districts we visited; in 59 cases the disability was classified as mental retardation. The State rehabilitation agency classified 25 cases (42 percent) as severely disabled.

The Indiana rehabilitation agency reported that 1,749 persons were served in the cooperative school programs in fiscal year 1976. In 31 randomly selected cases which we reviewed, 11 persons (36 percent) were classified as severely disabled. In addition to the students classified as educable

mentally retarded, we found that one State was serving large numbers of students through the cooperative school programs who were determined eligible with other disabilities classified as nonsevere.

The Texas rehabilitation agency reported 3,029 successful closures under the cooperative school program in 1976. Sixty-seven percent of these cases were classified as nonsevere, with disabilities stemming from language and/or learning problems, personality and behavioral disorders, and borderline mental retardation.

### Medical hospitals

For the three medical hospitals in Kentucky and Mississippi, the disabilities involved were temporary in nature, requiring short term medical services provided by the hospital. These medical problems were no different than those of millions of other persons requiring hospitalization each year. For example, of the 55 cases reviewed at three Kentucky and Mississippi hospitals, there were

- 4 cases involving broken legs and broken ankles,
- 4 cases involving gunshot or stab wounds,
- 5 cases involving hysterectomies,
- 2 cases involving hernias, and
- 5 cases involving surgery such as removal of gallstones or a breast mass.

Also, the "disabilities" in the hospital cases were not substantial barriers to employment since these individuals either returned or planned to return to their former jobs after receiving medical treatment. This was true in about 85 percent of the 55 cases reviewed at the three medical facilities. For example:

- In a case reviewed at the Mississippi hospital, a licensed practical nurse who was employed at the hospital received vocational rehabilitation services due to a disability of thrombophlebitis of the deep vein system of the right leg. This client's treatment consisted of taking some anticoagulant drugs along with 17-days rest in the hospital. The State rehabilitation agency spent \$2,054 for these services and the client returned to work at the hospital.

--In Kentucky, a patient with a disability listed as "inflammation of the right scrotal area" was admitted to the hospital on April 2, 1976, received treatment, and was discharged on April 4, 1976. The vocational rehabilitation documentation was backdated to April 3, 1976--a Saturday--in order to pay the hospitalization costs. The case notes state that the client worked all his adult life as a production worker and is anxious to return to work. There was no evidence that the counselor had any contact with the individual either during or after the hospitalization.

### Correctional institutions

Kentucky rehabilitation officials stated that about 75 percent of the persons served under the cooperative program with the Bureau of Corrections had disabilities of "personality" or "behavioral" disorders. In 14 of the 20 cases reviewed at the Mississippi correctional facility, the persons served appeared to be only marginally handicapped, if vocationally handicapped at all. Case records listed disabilities such as mild mental retardation and personality disorders described as "socially maladjusted," "anxiety neurosis," and "sociopathic personality."

Kentucky officials acknowledged that many of the persons served under third party funding agreements are only marginally handicapped and that by committing resources to these programs they are limiting their flexibility to direct the vocational rehabilitation program to serve the most severely disabled. In fiscal year 1976, about 50 percent of the 25,080 persons served in Kentucky were served under third party funding programs and about 50 percent of the program's case services expenditures of \$10.2 million were spent on these individuals. Kentucky officials began reviewing third party funding agreements about September 1976. As a result of their study and information from our review they have decided to discontinue the use of third party funding agreements. Also in 1976, the Texas rehabilitation agency began withdrawing from all third party funding agreements in an effort to shift the program emphasis away from the marginally handicapped.

### COSTS AND ACCOMPLISHMENTS OF THIRD PARTY FUNDING PROGRAMS NOT ACCURATELY REPORTED

The costs and accomplishments of third party funding programs are often not accurately reported because State rehabilitation agencies are claiming

- the total clients served and rehabilitated under cooperative programs but only reporting a portion of the expenditures certified by the third party agencies as being spent on these clients,
- expenditures made by other agencies for costs that these agencies would normally incur for services they are required to provide, and
- as "successful rehabilitations" those persons who received primarily services of the third party agency.

These practices cast doubt on the validity of the statistics for the vocational rehabilitation programs in the five States we visited.

All certified expenditures not reported  
as rehabilitation program costs

State rehabilitation agencies report to RSA the expenditures certified by third party agencies--about \$27.8 million nationwide in fiscal year 1976--as part of the total cost borne by the State for providing services to the handicapped under the vocational rehabilitation program. We reviewed expenditures certified by 36 third party agencies amounting to \$1.9 million of the total \$10.3 million reported by the five States. As discussed in previous chapters, our analysis showed that third party expenditures which are supposed to be for vocational rehabilitation services, are often for services that the agency is required to provide and would continue to provide regardless of the third party agreement with the State rehabilitation agency. Such certified expenditures included those made by schools for special education, hospitals for medical services, and mental hospitals for patient care and psychological services.

The regulations state that the certifications must represent costs incurred by the third party in providing new services or patterns of service to clients of the State rehabilitation agencies under a cooperative program. In reporting the numbers of clients served and rehabilitated, the State agency includes all clients served under the cooperative programs on whom the certified expenditures were made. However, in reporting the costs to rehabilitate these clients, the State agencies only report the amount of certifications needed to satisfy the 20-percent State matching share.

The five States in our review received certifications from third party agencies totaling \$12.5 million for fiscal

year 1976 of which \$10.3 million was reported certified. Only one State reported the total amount certified by the third party agencies. The decision on which certifications to report were made arbitrarily. For example:

--The Kentucky agency received \$1,572,980 in certified expenditures from nine cooperative programs. The agency determined that \$1,093,247 of certifications was required in addition to available appropriations from State revenues to meet the 20-percent State matching share. The State agency then arbitrarily deducted about \$59,900 from each of the eight larger third party programs.

--The Missouri rehabilitation agency received certifications of \$1,968,524 from third party programs. The State agency determined that only \$1,555,413 of the total certifications was needed to meet the State matching share reported to RSA. The Missouri agency could not identify which third party funds of the total certified were actually used for matching purposes.

If all the expenditures certified by third party agencies as being spent on rehabilitation clients were for services which are not the responsibility of the third party agency, State rehabilitation agencies are understating the total cost of the rehabilitation program in the States. An RSA official stated that the State agencies are not required to include on their annual reports of program operations the total expenditures certified by third party agencies. He indicated that one reason for the States' actions is a reluctance to raise the level of their maintenance of effort any higher than is required under the minimum State matching requirements of 20 percent.

If the State agencies and RSA believe that the expenditures certified under third party funding agreements meet the Federal requirements for matching purposes and are for valid rehabilitation services for clients of the program, we believe the total amounts certified should be reported as State expenditures for clients under the Federal-State rehabilitation program. The practices in four of the States reviewed whereby the State agency reports the total clients served and rehabilitated but only reports a portion of the expenditures certified, overstates the program's ability to serve and rehabilitate clients with the amounts of Federal and State funds reported.

### Benefits of rehabilitation services overstated

Because in actual practice the use of such certified expenditures does not meet the Federal regulations or program requirements for State matching funds, the State rehabilitation agencies are providing overstated information on the benefits of vocational rehabilitation services provided to the handicapped under the rehabilitation program and are not fulfilling their responsibilities to provide at least 20 percent of the funds spent on the rehabilitation program, thereby causing the Federal Government to assume a proportionately larger share of the costs of the program.

Further, by including ineligible certified expenditures as part of their matching share, State rehabilitation agencies have limited the ability of the rehabilitation program to grow as the Federal expenditures increased, and have limited the services available to the handicapped under the program. This occurs because the clients served by the ineligible certified expenditures would have received the services provided by the cooperating agencies without involvement of the rehabilitation program. If the State rehabilitation agencies had used appropriations from general State revenues or other acceptable methods to meet the program matching requirements, the total Federal-State funds available for rehabilitation activities would be increased--allowing the State rehabilitation agencies to increase and expand rehabilitation services to handicapped individuals who otherwise would not be able to receive such services.

### Successful rehabilitations not accurately reported

The basic objectives of a cooperative program using third party funds are to increase the number and improve the quality of rehabilitations. Successful rehabilitations under cooperative agreements in three of the five States we reviewed accounted for at least 19 percent of the total rehabilitations reported for the State rehabilitation programs for fiscal year 1976. In Kentucky and Texas, for example, over 50 percent of the State rehabilitation agencies' successful closures came from third party programs in fiscal year 1976. Missouri cooperative programs accounted for 19 percent of the successful rehabilitations reported by the State in fiscal year 1976. We believe, however, the number of the "successful rehabilitations" claimed are misleading because in many cases reported as successfully rehabilitated under cooperative programs, the individuals did not receive substantial

services of the State rehabilitation agency. In most of the cases reviewed the clients did receive State rehabilitation agency services, such as general counseling and guidance and the development of a vocational objective. However, these individuals generally found jobs on their own or returned to their jobs after receiving primarily services of the third party agency. Cases closed under cooperative school programs are examples of this situation.

### Public schools

We randomly selected and reviewed 11 cooperative school program cases in Indiana that were closed as "successfully rehabilitated." In 9 of the 11 cases, the only case service provided by the State rehabilitation agency was "tuition" to the high school special education program--a program of services to which these students were entitled. Case records did not show that the vocational rehabilitation counselor ever met the students in 10 of the 11 cases, and the students found their jobs either on their own, or through the high school work-study program. For example:

--A high school student in the work-study program was certified eligible for vocational rehabilitation services on May 23, 1973. The student had an intelligence quotient of 80 and his disability was listed as mental retardation. The student began working with his father as a handyman in February 1974 and dropped out of school in September 1974. Although the case record did not show that the vocational rehabilitation counselor ever met this student and no case services were provided, the counselor closed the case as "successfully rehabilitated" in October 1975.

--A high school student with an intelligence quotient of 75 was certified eligible for vocational rehabilitation services in December 1974 based on a disability of mental retardation. The student dropped out of the work-study program 1 month later in January 1975. The vocational rehabilitation counselor talked with the student's mother in September 1975 and was informed that the client had been working on a farm for about 5 months. The counselor closed the case as "successfully rehabilitated" in October 1975 even though no services were provided and the State rehabilitation agency had nothing to do with the client's employment.



In 19 cooperative school program cases in Texas closed as successful rehabilitations, we found that in 12 instances the only case services provided by the State rehabilitation agency were general medical examinations costing between \$15 and \$25, and in 2 cases, diagnostic battery testing at a cost of \$40 and \$60, respectively. In the other five cases, four clients received training in addition to the general medical examinations and one received medication. In six cases, the students found their jobs either on their own or through the high school work-study program with one person working at the time of referral and acceptance into the rehabilitation program. For example:

--A high school student in the cooperative school program was certified eligible for vocational rehabilitation on November 11, 1974. The student had an intelligence quotient of 89 and was considered to have a language or learning disability. In early 1975, the student made his own application for employment as a mechanic's helper at a local amusement park, and was hired as a temporary employee. Through the efforts of the high school adjustment counselor, the student was made a permanent employee. In February 1976, the vocational rehabilitation counselor closed the case as a successful rehabilitation with the comment, "the services of this agency--have resulted in successful employment." The case record showed that the only case service provided to this client by the vocational rehabilitation counselor was the payment (\$15.00) for a general medical examination prior to the determination of the clients' eligibility for the rehabilitation program.

In commenting on our draft report, the director of the Texas rehabilitation agency said that we may be minimizing the importance of rehabilitation agency services, such as counseling and guidance, in the overall analysis of the cases we reviewed. The director pointed out that in many instances it would be in the clients' interest to attempt to stimulate the individual to find his own job but for the counselor to be of assistance in preparing him for completing job applications and referring him to potential places of employment. Further, the director believes that perhaps the most significant portion of the services received by clients in the rehabilitation program are not charged to the individual client but are expenses of the program, such as salaries, travel, and other operating expenses.

We recognize the importance of services, such as counseling and guidance, and the development of a vocational objective in the overall operation of the vocational rehabilitation program. We believe that the actual case service activities performed and expenditures made by the rehabilitation counselor under the vocational rehabilitation program should be equally considered in relation to other services received by the client when a final determination is made on the manner in which the case will be reported as a closure from the program.

### Hospitals

In Kentucky we noted that 1,389 of its total 9,034 successful closures in fiscal year 1976 came from the two hospitals discussed on pages 34 to 40. Many of the persons in the cases reviewed received only medical services and returned to their homes or the jobs they held at the time of admittance to the hospital.

We randomly selected and reviewed 19 cases closed as successful rehabilitations at the 2 hospitals. We found that

--9 received hospitalization and/or clinical services;

--2 received hospitalization, clinical services, and prostheses;

--4 received prostheses; and

--4 received no vocational rehabilitation case services.

Of the 19 successful rehabilitations reported, 8 were closed as homemakers, 9 returned to the same jobs held prior to receiving the medical services, 1 found employment on his own, and 1 received placement in a job through rehabilitation efforts. For example:

--A woman entering the hospital on February 25, 1976, was determined eligible for the rehabilitation program on March 1 and was discharged from the hospital on March 4. Her disability was diagnosed as a psychotic disorder. The client received diagnostic and evaluation services and therapy provided by the hospital. The client returned to her job as a financial counselor at a State Medical Center. About 3 months after her release from the hospital the rehabilitation counselor telephoned the client, found that she was employed, and closed the case as successfully rehabilitated.

--A woman who was employed as a secretary was hospitalized on September 14, 1975, for an overdose of drugs. She was determined eligible for the rehabilitation program on September 22. She received psychotherapy from the hospital and was released on September 27, 1976. Case records show that the patient told the psychotherapist on September 26, that she was anxious to get back to work on Monday. About 2 months later the rehabilitation counselor telephoned the client who was working as a secretary and closed the case as a successful rehabilitation.

--A welfare recipient was admitted to one of the hospitals and had her gallstones removed. Her hospitalization was paid by Medicaid, and the State rehabilitation agency paid for the surgery. The patient received no other services from the State rehabilitation agency, and was still on welfare when the counselor closed her case as "successfully rehabilitated."

--A woman entered the hospital on Sunday, August 3, 1975, and had a hysterectomy on August 4, 1975. The counselor backdated all documentation to August 3, 1975, and paid \$280 for her surgery. Case records did not show how the client's hospitalization was paid; however, it was apparently paid by Medicaid because the client had a State medical card. The patient was discharged and returned to her home, and although the State rehabilitation agency provided no other case services, the case was closed as "successfully rehabilitated."

Of the 793 successful rehabilitations at one of the hospitals in fiscal year 1976, 501 were women closed as homemakers. Program guidelines permit the State agencies to include persons determined eligible for the program and who have received rehabilitation services to be closed as successful rehabilitations under the category of homemaker. The primary objective of the rehabilitation program, since its establishment in 1920, has been to prepare handicapped persons for gainful employment. While we recognize the importance of homemakers in providing family care and services, as well as being able to live on an independent basis, we do not believe that the large number of reported successful rehabilitations from selected referral sources under the category of homemaker provides a valid measurement of the program's ability to meet its mandated objectives.

## Correctional institution

Of 25 closed cases at a State penitentiary in Mississippi, we randomly selected and reviewed eight cases of clients who were reported as successful rehabilitations through a third party funding program between the State rehabilitation agency and the prison. We found that one client received only general medical and related evaluations and four clients received general medical and related evaluations, maintenance, and immediate needs money and/or transportation expenses away from the prison upon release. The remaining three received arts and crafts and minor personal supplies in addition to the services provided the other five clients.

Case records show that five of the eight clients found jobs on their own, two were closed as homemakers, and one was provided a job through rehabilitation program assistance. For example:

- A male client whose disability was classified as mild mental retardation received general medical and psychological evaluations at a cost of \$38, with transportation, maintenance, and immediate needs money amounting to \$420 paid by the State rehabilitation agency. Part of the latter amount was needed by the client to purchase a one-way plane ticket to Chicago, Illinois, after his release from the penitentiary. Following several telephone calls, by the counselor, the client's case was closed as a successful rehabilitation.
- A male client whose disability was classified as mild mental retardation received general medical and psychological evaluations at the cost of \$38 and maintenance and immediate needs money costing \$250 paid by the State rehabilitation agency. Upon release from the penitentiary, the client returned to work for his former employer in Georgia as an auto mechanic. The client wrote a letter to the rehabilitation counselor stating these facts, and the counselor closed the case as a successful rehabilitation.

## PROGRAM RESOURCES COULD BE USED MORE EFFECTIVELY

Third party funding agreements often provide that State rehabilitation agencies assign personnel to work at the facility of the third party agency and that clients of the

third party be automatically referred to the vocational rehabilitation program. These staffing, referral, and service delivery patterns result in the inefficient use of vocational rehabilitation resources because:

- The vocational rehabilitation counselor assigned to a third party program tends to become an "employee" of the third party agency and loses sight of the regulations and purpose of the vocational rehabilitation program.
- The counselors lose control over the selection of which clients should be served and the services to be provided.
- Vocational rehabilitation counselors assigned to a third party program are left with little to do as third party agencies assume more responsibility in serving the handicapped.

In fiscal year 1976, there were a total of 3 supervisors, 11 counselors, and about 17 administrative staff persons continuously assigned at the 2 Kentucky medical facilities reviewed. The administrative cost of the vocational rehabilitation units at these hospitals was \$258,565. The counselors at these two hospitals believed that their function was to "pay medical bills." At one of the hospitals, counselors felt that in addition to paying medical bills, they were also providing counseling and guidance. However, further discussion with the counselors, and a review of 20 cases showed that the "counseling and guidance" provided by the rehabilitation counselors was not vocational, but medical in nature.

The counselors were physically located at the hospitals, and the counselors did not provide any followup service. We believe the Kentucky State agency could better use its staff at these two facilities in other program areas to better serve those in need of post-hospital services. One or two counselors at each facility could review admission data, and interview patients to identify those that are truly vocationally handicapped. These counselors could then arrange for appointments with field counselors from the patient's geographic area after the patient is discharged.

In another case, counselors assigned to a county school program in Kentucky were of the opinion that third party funding agreements forced vocational rehabilitation personnel to "work within another agency's system." This caused the vocational rehabilitation staff to lose control over the selection

of which clients should be served and the services to be provided. As a result, counselors said the agency more or less dictates the role that vocational rehabilitation will play. To illustrate, they pointed out that

--Teachers determine which students need work evaluation. The vocational rehabilitation staff merely pays for the services.

--The vocational rehabilitation counselors feel pressure to make every work-study student eligible for the vocational rehabilitation program; therefore, they do not screen out those students not wanting or needing services.

Inefficiencies also occur when third party agencies begin to assume more of vocational rehabilitation's responsibility, thereby reducing the vocational rehabilitation staff's duties. For example, at the time of our visit to a Mississippi State prison in March 1977, the staff had been reduced to six employees--two counselors, one counselor's aide, and three secretaries. We talked to five of these six employees about the current staffing level. All five stated the Office was overstaffed and that the Office could function effectively and efficiently with only one counselor and one secretary.

Many handicapped persons are eligible to receive similar or related rehabilitation services from a wide range of Federal, State, or local agencies and organizations. Whether an individual is a teenager in a high school special education program, a patient in a medical or mental facility, or a prisoner in a correctional institution, all are entitled to a full range of services offered by those agencies. Any need for vocational rehabilitation program services would generally occur after the handicapped had successfully benefited from the third party agency's services. However, by placing large numbers of counselors at the third party facility, we believe that State rehabilitation agencies not only make it difficult to effectively provide the additional services, but also increase the chances of duplicating or supplanting services provided by the other agency.

The director of the Missouri rehabilitation agency said that the problem of a counselor tending to become an "employee" of the third party agency is not a problem in Missouri. He stated that the Missouri rehabilitation agency has never assigned personnel to work at or under the control of a third party agency and that the monitoring and control procedures of the State agency would tend to preclude such

a situation from developing. The director also said that counselors in Missouri third party programs find their responsibilities increasing rather than decreasing through natural program growth, direction, and instruction of third party personnel as to rehabilitation policies, procedures, as well as necessary followup procedures on clients.

During our fieldwork, we discussed the use of third party funding agreements with the Director of the Ohio State rehabilitation agency, an agency which at one time was deeply involved in the use of third party agreements. The Director stated that in 1965 the State agency had agreements in the areas of mental hygiene, corrections, and vocational schools. He told us that the State agency began phasing out these agreements in the late 1960s because the State agency was losing control over the expenditure of the funds and they felt that they had very little control over the clients served or the services provided.

## CHAPTER 6

### HEW AUDIT AGENCY

#### ACTIONS CONCERNING THIRD

#### PARTY FUNDING AGREEMENTS

During September 1973 to September 1976, the HEW Audit Agency issued reports which contained audit findings and recommendations concerning the administration of third party cooperative agreements in the vocational rehabilitation programs in six States covering the period July 1969 to December 1974. None of the six States were included in our review. The reports described problems in the operation of third party programs and also identified \$5.7 million in State and Federal program expenditures made under cooperative agreements which did not comply with the Federal regulations because

- State rehabilitation agencies had not retained control over the provision of rehabilitation services to clients,
- the services provided through the cooperating agency were not new services or new patterns of services,
- the types of services provided to clients were available even if the persons were not applicants or clients of the State rehabilitation agencies,
- State rehabilitation agencies had not made periodic evaluations of third party programs, and
- some third party agreements had not been reviewed in years and did not meet State plan requirements.

We believe the problems identified by the HEW Audit Agency are similar to the weaknesses found in the third party programs for the five States we reviewed. Some examples follow.

#### AGREEMENTS INVOLVING PUBLIC SCHOOLS

The Audit Agency identified problems similar to those discussed on pages 7 to 19 involving the use of cooperative programs with public schools in three States, in reports issued between November 1973 and September 1976.



## State A

In a report dated August 27, 1975, the Audit Agency concluded that special education teachers' salaries certified as third party expenditures under cooperative programs with public schools for fiscal years 1970, 1971, and 1972 did not comply with Federal regulations for Federal matching requirements because the expenditures were (1) not made under the control of the State rehabilitation agency, (2) for services that were the responsibility of another public agency, and (3) not for additional and identifiable services readily distinguishable from the existing responsibility of the schools.

The report states that the State rehabilitation agency entered into agreements with several local educational agencies to cooperate in training certain mentally handicapped students. Under these agreements, expenditures incurred by the educational agencies in providing educational services to rehabilitation clients were reported to the State rehabilitation agency for matching purposes. The State rehabilitation agency provided counseling and other services to those students accepted as rehabilitation clients. The majority of the classes provided by these organizations covered generally required courses, such as English, mathematics, and social studies.

The report stated that for fiscal year 1970 the State rehabilitation agency claimed special education teachers' salaries for matching purposes on the basis of the ratio of estimated rehabilitation clients to the total estimated special education students taught during the year by the local educational agencies. The method used assumed that all services provided to students who were rehabilitation clients constituted additional services. However, the report notes that this was not the case since the students would have been eligible to receive the teachers' services whether or not they were rehabilitation clients.

The report also noted that the Audit Agency found no evidence that additional services of a vocational rehabilitation nature were established by the schools to accommodate the rehabilitation program. Also, the schools' patterns of service were not significantly reoriented to vocational rehabilitation rather than educational needs. The report concluded that any limited new patterns of service did not provide obvious contrast favoring vocational rehabilitation activity nor did they lend themselves to measurement so that factual costs could be determined.

## State B

The Audit Agency included a review of cooperative programs involving 10 school districts in a report issued September 24, 1976, on certain aspects of the vocational rehabilitation program in State B. The report stated that costs claimed in school districts under third party agreements primarily represented special educational services provided to high school students. These services were funded in the State educational budget and claimed for matching under the vocational rehabilitation program. School district officials told the Audit Agency staff that all students were eligible for all school district programs and special educational services whether the student was a rehabilitation program client or not. Many of the special educational services provided to rehabilitation clients were the same (mathematics, English, social studies, etc.) as services provided to other students in the school district.

Through interviews with school district officials and employees, the Audit Agency found that (1) new services or new patterns of services were not provided, (2) the school district did not have a copy of the third party agreement, (3) employees did not know the provisions of the agreement nor the basis for the percentages of employees' salaries being certified under the agreement, (4) the school district did not have documentation to support amounts certified, (5) annual budgets were not prepared, (6) certifications submitted were inaccurate because employees were not in all cases working in the capacity being certified, and (7) the State rehabilitation agency did not evaluate the cooperative program. School district personnel also told the Audit Agency staff that the State agency had no control over any services provided and certified by the school district.

## State C

The Audit Agency also noted problems in a November 9, 1973, report involving the cooperative programs with public school districts in State C. The report states that a review of cost reports submitted by 15 school districts for fiscal year 1971 disclosed inconsistent cost reporting and unallowable costs. Eleven of the 15 school districts submitted cost reports claiming only pre-vocational teachers' salaries as the schools' portion of the total program cost. The other four claimed costs, such as janitorial service, travel and communications charges, and rental office and classroom space in addition to the teachers' salaries. Ten of the 15 districts claimed 100 percent of the teachers' salaries as

program costs, while the others claimed 50 percent. The cooperative agreements did not allow more than 50 percent of the salaries to be used for matching. In addition, several of the school districts did not certify expenditures to assure that those funds were not used to match other Federal funds, or that they were not Federal funds obtained under another program.

The Audit Agency noted that the cooperative program at each school was basically the same. The Agency concluded that the inconsistencies indicate that the program was not uniformly applied and the existence of excessive claims indicated that the school districts did not adequately understand their financial responsibilities.

#### AGREEMENTS INVOLVING CORRECTIONAL INSTITUTIONS

The Audit Agency also noted problems in the use of cooperative programs with correctional institutions in the following four States in reports issued between November 1975 and September 1976.

##### State D

In a November 11, 1974, report on certain aspects of the vocational rehabilitation program in State D, the Audit Agency found that expenditures reported to the State rehabilitation agency under a third party agreement with the State Department of Corrections did not pertain to the cooperative program nor did they represent new services provided by the Department of Corrections.

The purpose of the agreement was to provide an ongoing program of vocational rehabilitation services to eligible youth committed to the correctional program who were determined to be minimum security risks and were assigned to designated forestry camps operated by the Department of Corrections. Five of the eight forestry camps operated by Corrections were designated to receive youths determined to meet rehabilitation program eligibility requirements.

The Audit Agency noted that the State rehabilitation agency did not review any of the expenditures of the third party agency to determine the reasonableness and acceptability of the amounts reported. The Audit Agency found that about 40 percent of the \$172,000 in personnel costs charged to the program by the Department of Corrections represented services provided by the Department prior to the joint program. The

Audit Agency also found that some travel expenses charged by Corrections were not related to the cooperative program.

#### State B

In a September 24, 1976, report on the vocational rehabilitation program in State B, the Audit Agency concluded that no new services were provided to rehabilitation clients under a third party agreement with the State prison and that the costs certified did not comply with the Federal regulations for third party matching.

The report states that correctional officers, correctional counselors, social workers, psychologists, and administrative and clerical employees were certified as working with or for rehabilitation clients under the agreements. The report notes that prison officials said that the same services were provided to all inmates and that vocational rehabilitation program clients did not receive any services they were not already entitled to receive. Also, rehabilitation counselors stated that no new services or patterns of services were provided to rehabilitation clients.

In another cooperative program in State B, the Audit Agency concluded that expenditures (certified by the State Juvenile Court) were for services which the juvenile would have received were he not a client or applicant of the rehabilitation program and, therefore, not allowable for third party matching. Court officials told the Audit Agency that expenditures certified by the Court included a \$17.50 estimate of the daily cost of keeping a juvenile in the detention center or shelter home. The amount is then multiplied by the number of days the rehabilitation clients or applicants were in the detention center or shelter home and the total is included in the certifications made to the State agency for matching purposes. The report notes that other expenditures certified by the Court were for the time employees spent working with rehabilitation clients as part of their normal duties. An example given by rehabilitation personnel was a secretary's time spent typing a summons or other document involving a rehabilitation client.

#### State E

A December 1975 report, prepared by the Audit Agency on activities of the rehabilitation program in State E, concluded that salaries paid by the State Division of Corrections to employees of the State penitentiary for fiscal year 1974 and reported to the State rehabilitation agency for matching

purposes were not allowable because the employees were under the administrative control of the penitentiary and their functions were the primary responsibility of the Division of Corrections. The employees were (1) physicians whose function was to provide all inmates' needed medical care, (2) guards whose function was to prevent inmate escapes, and (3) classification personnel who evaluated inmates to determine their appropriate placement within the penitentiary system.

#### State C

A November 9, 1973, report prepared by the Audit Agency on activities of the vocational rehabilitation program in State C stated that during a review of the third party cost reports for the cooperative agreement with the State Corrections Center for fiscal year 1972, the Audit Agency found instances where the State rehabilitation agency was charged for services that were routinely given to all inmates, and other instances where services were furnished for purposes other than vocational rehabilitation. Federal regulations require that allowable services must be those services provided only to rehabilitation clients and not to all inmates of the institution.

In one instance the Corrections Center claimed, as a vocational rehabilitation cost, the examinations performed by the psychiatrist and psychologist on all clients referred to the State rehabilitation agency. The report notes that the services of the psychiatrist and psychologist are routinely provided all resident inmates. In another instance, 6 of 19 inmate referrals to the psychiatrist for a 3-month period were found to be nonvocational rehabilitation referrals. The six were charged as vocational rehabilitation related costs because they were rehabilitation clients and not because the service was provided for the State rehabilitation agency.

#### AGREEMENT INVOLVING A GENERAL HOSPITAL

In an August 27, 1975, report on the vocational rehabilitation program in State A, the Audit Agency concluded that the State rehabilitation agency had not effectively used its resources in providing rehabilitation services under a cooperative agreement with a county general hospital. The report states that the rehabilitation agency spent program funds for alcoholic detoxification services provided by the hospital to patients who were not rehabilitation program clients.

Under the agreement, the State agency reimbursed the hospital a fixed monthly amount, including a sum supplied from county funds, to provide hospital-based physical restoration services following detoxification to persons disabled by alcoholism. During fiscal year 1970, the hospital referred 55 patients to the State agency. These patients were provided a total of 1,219 inpatient days of service at a cost of \$62,000. The Audit Agency's review disclosed that only 285 of the 1,219 inpatient days represented services provided to eligible rehabilitation clients. These services represented a cost of only \$15,174, a resulting excess payment of \$46,826 under the agreement. The Audit Agency concluded that the excessive payments occurred because the State agency did not effectively monitor the services provided under the cooperative agreement.

#### AGREEMENT INVOLVING A MENTAL HOSPITAL

The Audit Agency identified problems in the use of a cooperative agreement between the rehabilitation agency in State E and the State Department of Mental Health for fiscal year 1974 in a report dated December 1975. The report states that the State rehabilitation agency reported for matching purposes costs amounting to about \$200,000 representing salaries paid to employees of four State mental hospitals by the State Department of Mental Health. State agency staff and training facilities were located on the hospital grounds in special rehabilitation buildings. At two of the hospitals, these buildings also served as residences for patients who were rehabilitation program clients.

In addition to the problem of administrative control, the Audit Agency concluded that the activities performed by the staff whose salaries were claimed were the primary responsibility of the hospitals and therefore did not qualify for matching purposes. Although the rehabilitation program introduced new patterns of services and the blending of rehabilitation and hospital resources required modifications, and in some instances, additions to the duties of some hospital employees, the Audit Agency concluded that the modifications and additions did not result in shifting the primary responsibility for the employees' functions from the hospitals to the State agency.

REHABILITATION PROGRAM FUNDS  
USED TO SUBSIDIZE OTHER  
STATE PROGRAMS

On January 16, 1976, the Audit Agency issued a report on the results of its review of cooperative program costs claimed for the vocational rehabilitation program in State F.

The Audit Agency concluded that the cooperative agreements which the State rehabilitation agency executed with the State Department of Institutions did not comply with the requirements of Federal regulations because (1) the State agency did not retain control over the provision of rehabilitation services to institutional clients, (2) service plans were not prepared by the State agency for institutional clients, (3) the services provided through the institutional setting were not new services or new patterns of services, and (4) the types of services provided to clients were available even if the clients were not applicants of the State agency.

The State rehabilitation agency's initial involvement in the cooperative program began with a request from the State Joint Budget Committee to list the rehabilitation type services at the Department of Institutions. The listing showed cooperating agency positions that could be potentially funded by the State rehabilitation agency. Considering the legislative requirements, the State agency entered into the cooperative program with the State Department of Institutions on July 1, 1971. The program was based on a master agreement with subordinate agreements with eight institutions within the Department and continued with agreements for each fiscal year. Each subordinate agreement was supported with a budget showing the positions involved and the cost as determined by the State rehabilitation agency. The participating institutions included a mental health center, a State penitentiary, a State reformatory, a State hospital, and a State home and training school.

The State General Assembly appropriated funds for the State rehabilitation agency to fund existing positions of the Department of Institutions. The result was to recoup 80 percent of these program costs through Federal rehabilitation program participation. The general position of the 1971 State General Assembly session was to minimize general fund expenditures and to shift, where possible, to alternative sources of funding. To provide a direct savings to the State, State dollars were to be replaced with Federal dollars. The policy established to implement the legislative intent was

to supplant \$3,222,207 of State funds with Federal funds. This was accomplished by funding 80 percent of \$4,027,758 of traditional institutional program costs through the State rehabilitation agency.

The audit report concluded that the rehabilitation agency's cooperative program with the Department of Institutions was not under the control of the State agency but under the direct control and at the discretion of the cooperating agency. The location and duties of personnel being funded remained unchanged. There was no provision for control of these personnel by the State agency. The Department of Institutions determined which handicapped individuals were to be referred for rehabilitation services and also determined which services were to be provided to the handicapped individual under the program.

The services provided through the cooperative program were essentially the same as certain traditional institutional services provided prior to July 1, 1971, the effective date of the program. Expenditures under the program represented personnel costs for previously existing positions and related operating costs. The cooperative agreement did not specify any new services or new patterns of services. Institutional and State rehabilitation agency employees confirmed that the services provided did not represent new services or new patterns of services of the cooperating agency.

The services provided under the agreement included services the individual would be entitled to if he were not an applicant or client of the rehabilitation program. These services were essentially the same as those provided to non-vocational rehabilitation residents of the institutions. Furthermore, the services were those traditionally provided by the cooperating agency prior to July 1, 1971, and services the client was entitled to by virtue of being a resident or inmate of the cooperating agency.

Vocational rehabilitation plans were not formulated for all individuals being served. When plans were formulated, determinations of services to be provided were made by the cooperating agency. Federal regulations require that the State rehabilitation agency formulate a vocational rehabilitation plan for each client. Each such plan must specify an objective and all services necessary to accomplish the objective. Services provided under the cooperative program may not always represent all services necessary for the vocational rehabilitation of the handicapped individual. To insure that the services provided represent the total necessary services, a rehabilitation plan should be formulated that meets the client's vocational rehabilitation objective.



## CHAPTER 7

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

In the early 1960s many State rehabilitation agencies started to use third party funding agreements to financially expand the vocational rehabilitation program by providing State matching funds that may not otherwise have been available. These agreements were also a means of establishing cooperation and understanding between agencies and expanding program services to the handicapped. Today, however, the disadvantages to the vocational rehabilitation program of such third party funding arrangements appear to outweigh the benefits derived from them.

Expenditures of third party agencies claimed by State rehabilitation agencies as matching funds often do not comply with Federal regulations because expenditures, such as those made by schools for special education, hospitals for medical services, and mental hospitals for patient care, are for services that are the responsibility of the third party agencies. Many handicapped individuals are eligible for services from both the vocational rehabilitation program and another State or local agency. As such, the individuals receiving the services under the third party program would continue to receive them, even if the State rehabilitation agency was not involved. By claiming expenditures for these services, State rehabilitation agencies are overstating the benefits of vocational rehabilitation services provided to the handicapped, and are causing the Federal Government to assume a share in the cost of the vocational rehabilitation program in excess of that provided for by the Rehabilitation Act of 1973, as amended.

In addition, third party funding agreements also have adverse effects on State rehabilitation agencies and the handicapped in need of their services. Although these agreements were intended to expand or supplement the services of the cooperating agency, in some cases Federal rehabilitation program expenditures are being used to subsidize the basic programs of other State and local agencies. Vocational rehabilitation personnel assigned to cooperative programs are providing similar services to the normal services provided by the cooperating agency. Many persons who are served under third party funding agreements are only marginally handicapped, if vocationally handicapped at all. Commitment of resources to these programs limit State rehabilitation agencies' ability to direct the program to the most severely handicapped as required by the 1973 act.

The validity of "successful rehabilitations" attributed to these cooperative programs is also questionable. In many of these cases, individuals obtained jobs on their own or returned to their previous jobs after receiving primarily services of the third party agency.

HEW audits of third party programs in six States during July 1969 to December 1974 found problems in the operation of the third party funding programs and identified \$5.7 million in State and Federal program expenditures which did not comply with Federal regulations and program requirements. The problems disclosed by the Audit Agency are similar and, in many cases, identical to the weaknesses found in the five States we reviewed, such as (1) State agencies not retaining control over the provision of rehabilitation services of clients, (2) services provided through cooperating agencies which are not new services or new patterns of services, and (3) services available to clients even if the persons were not applicants or clients of the State rehabilitation agencies.

We believe that State rehabilitation agencies should continue to cooperate and coordinate with other State and local agencies in serving the handicapped. However, the staffing, referral, and service delivery patterns established through the use of third party funding agreements should be modified by the State agencies in view of the changing responsibilities of other State agencies providing services to the handicapped and the mandates of the Rehabilitation Act of 1973.

#### RECOMMENDATIONS

We recommend that the Secretary of HEW direct the Commissioner of RSA to:

- Review the expenditures made under all third party agreements, not barred by a statute of limitations and, if warranted, recover Federal funds spent which did not comply with Federal regulations and program requirements from State rehabilitation agencies.
- Take the administrative steps necessary to see that the third party funding agreements involving the improper use of Federal funds are discontinued expeditiously.

We recommend that the Secretary revise the Federal regulations and program guidelines to phase out the use of all third party expenditures made through cooperative agreements as a source of meeting the Federal matching requirements

for the vocational rehabilitation program. This change should not result in any loss of services for handicapped persons presently served under a third party funding agreement or those handicapped eligible for vocational rehabilitation program services who are not yet applicants or clients of the program. These persons should either receive the required services from the third party agency responsible for providing the needed services in the State or from the State rehabilitation agency through its established referral and service delivery systems.

To achieve better use of rehabilitation program resources in serving mutual clients and to provide for the increased expansion of the rehabilitation program, especially in providing services to the severely disabled, we recommend that the Secretary direct the Commissioner of RSA to:

--Strengthen coordination at the Federal level with other agencies providing services to handicapped groups, and provide policy guidance to States outlining the role of vocational rehabilitation agencies in serving target groups such as school-aged children, inmates in correctional institutions, and patients in general medical hospitals.

--Provide guidance and leadership to the State rehabilitation agencies in developing cooperative relationships with other State agencies that serve the handicapped.

For the State rehabilitation agencies formerly committed to third party funding programs, we recommend that the Secretary direct the Commissioner of RSA to provide guidance to the rehabilitation agencies in reviewing and revising their referral, staffing, and service delivery patterns to help insure efficient use of program resources and increased emphasis on serving the severely disabled.

#### AGENCY COMMENTS

HEW, in a November 21, 1977, letter, stated that it is in general agreement with the overall thrust of our findings and conclusions. (See app. I.) However, HEW preferred to defer commenting on the recommendations until it has the results of a national survey of third party agreements which was initiated by the Office of Human Development Services on July 20, 1977. HEW does not believe that it is in a position to adequately address the report's recommendations until the survey's results are received and analyzed.

## STATE COMMENTS

In addition to the comments of the five States that we have included in the prior sections of the report, three of the five States offered the following additional general comments on our conclusions and recommendations. Our evaluations, where appropriate, are also included.

### Mississippi

The director of the State rehabilitation agency acknowledged that there is a question as to the appropriateness of the rehabilitation program continuing to use the third party funding arrangements. If mandated to terminate such agreements, the director requested that consideration be given to the State agency for enough time to dissolve the agreements without seriously impairing the goals and objectives of the program.

The director noted that it has taken several years to develop the third party cooperative program to its present stage in Mississippi. The director stated that it represented a significant part of the State's rehabilitation program activities. The agency has programed its activities in a way that has resulted in the agency's need for these third party agreements for an adequate level of funding. Program financing, staffing, and the provision of services are all vitally affected by the agreements.

The director stated that although the State rehabilitation agency has taken steps to phase out the agreements with the hospital and the State penitentiary, he is greatly concerned with the manner in which the cooperative school program is phased out. He said that the State rehabilitation agency could lose a large part of its funds if it is not allowed to phase out the agreement in a sensible time frame. He also noted that the agencies involved will be affected greatly if they are forced to terminate these agreements.

The director said that this problem should be approached in a spirit of acknowledging that it exists and move forward in trying to correct it. The director stated that, if it is true that third party agreements served a useful purpose and if it is recognized that State rehabilitation agencies could not have logistically terminated such agreements the minute they became questionable, then it seems unreasonable to assume that a program that was providing a useful service during one fiscal year suddenly becomes ineffective during the next fiscal year. The director believes that the Mississippi third party arrangements produced desirable results and that it would not serve a useful purpose to review the expenditures.

## Kentucky

The director of the Kentucky rehabilitation agency said that the agency is committed to a shift of emphasis toward the more severely disabled. The director said that under present Federal-State matching requirements, and should adequate State appropriation not be forthcoming, this shift could result in a reduction of the Kentucky program by as much as 50 percent. He said, however, that should adequate State funding become available, the agency can make such an emphasis shift while sustaining maintenance of effort and realizing a viable vocational rehabilitation program.

The director also noted several recent steps which have been taken to strengthen client services:

1. A unit director position has been assigned to client case monitoring.
2. A unit director position has been assigned to monitor third party contrast programs.
3. A management information supervisor has been employed to assist the agency in better utilization of computer services.

He also noted that the State agency plans to further strengthen the rehabilitation program by:

1. Establishing a quality control unit to evaluate all agency activities, reporting directly to the agency head.
2. Including quality control as a part of field supervisor job description and training field supervisory personnel in proper procedures of quality control.
3. Providing adequate training in all major areas of case work, including a special emphasis on the "How to" of serving the severely disabled.

## Missouri

The director of the Missouri rehabilitation agency said that our findings and conclusions were not truly reflective of the accomplishments of the third-party funding programs

in Missouri. He stated that the State agency, through the use of third party funding agreements, has gained access to funds and severely handicapped clients who otherwise would not have received services or benefits.

While the director recognized that changes in State and Federal laws have created a somewhat different environment for provision of services to the handicapped than existed at the time third party programs were promulgated, he said that it still must be recognized that statutes pertaining to education and/or mental health do not necessarily embody a vocational rehabilitation-oriented program.

The director stated that previous reviews of the Missouri third party programs had resulted in strong endorsement of the program by EEW headquarters and regional office personnel. He also stated that the State agency had always observed the strictest compliance with regulations in the administration of third party funding programs and that to terminate third party funding simply because of slight errors discovered in some procedures is entirely too drastic. He stated that the assumption that necessary services will be fully assumed by presently existing agencies is an unwarranted one. He noted such problems as funding, conflicting responsibilities, and assignment of statutory responsibility without means for carrying it out.

The director said that he believes firm guidelines and regulations should be provided so as to insure adherence to principles and allow services to be continued to those who otherwise would probably not receive them.

We believe that the termination of the use of third party funds through cooperative agreements as a source of State matching should not affect the provision of services to persons who are eligible for the vocational rehabilitation program. Through the continued development of strong cooperative relationships with other agencies and organizations, the State rehabilitation agency should be able to establish service delivery systems which would satisfy the needs of handicapped persons eligible for rehabilitation program services.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20201

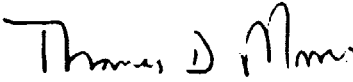
NOV 21 1977

Mr. Gregory J. Ahart  
Director, Human Resources  
Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Third Party Agreements: No Longer Effective for Delivering Services to the Handicapped." As you may know, the Human Development Services Administration is currently carrying out a national survey of third party agreements. It was initiated on July 20, 1977, and its results are due from each of our regional offices by December 31.

We are in general agreement with the overall thrust of your report's findings and conclusions. However, we are not in a position to adequately address the report's recommendations until the survey's results are received and analyzed. We would, of course, prefer to comment on the draft report's recommendations. But, since we understand that you will not be able to hold-up release of the final report until this data is available to us, we defer our comments until the final report. In any case, we very much appreciate the opportunity to review this report in draft form.

  
Thomas D. Morris  
Inspector General

CERTIFIED THIRD PARTY EXPENDITURES  
REPORTED AS MATCHING FOR FISCAL YEAR 1976

<u>State</u>	<u>Amount</u>
	(000 omitted)
Alabama	\$ 70
Arkansas	355
California	882
Colorado	418
Connecticut	132
Delaware	114
District of Columbia	226
Florida	1,148
Idaho	355
Illinois	197
Indiana	120
Iowa	46
Kansas	444
Kentucky	1,093
Louisiana	2,957
Maine	89
Maryland	230
Michigan	593
Minnesota	1,755
Mississippi	1,263
Missouri	1,555
Montana	188
Nevada	70
New Hampshire	236
New Mexico	387
North Carolina	575
North Dakota	293
Ohio	107
Oklahoma	626
Oregon	312
Pennsylvania	702
Rhode Island	102
South Carolina	1,077
Tennessee	277
Texas	6,223
Utah	262
Vermont	231
Virginia	782
Washington	1,024
West Virginia	286
Wyoming	26
	<hr/>
Total	\$27,828
	<hr/>



MATCHING FUNDS AND EXPENDITURES  
FOR TOTAL BASIC VOCATIONAL REHABILITATION  
PROGRAM AND THIRD PARTY PROGRAMS IN  
STATES REVIEWED--FISCAL YEAP 1976

Total Basic Vocational Rehabilitation Program (section 110)  
(note a)

	<u>Indiana</u>	<u>Kentucky</u>	<u>Mississippi</u>	<u>Missouri</u>	<u>Texas</u>	<u>Total</u>
	(000 omitted)					
Total State matching	\$ 2,685	\$ 3,827	\$ 3,565	\$ 3,660	\$ 9,672	\$ 23,409
Federal grant	10,528	15,308	10,415	14,647	38,423	89,316
Total program	\$13,213	\$19,135	\$13,980	\$18,302	\$48,095	\$112,725

Third Party Programs

	<u>Indiana</u>	<u>Kentucky</u>	<u>Mississippi</u>	<u>Missouri</u>	<u>Texas</u>	<u>Total</u>
	(000 omitted)					
Third party expenditures used as matching:						
certified	\$120	\$1,093	\$1,263	\$1,555	\$6,223	\$10,254
cash transfer	0	711	407	0	123	1,241
Federal case service expenditures for third party programs	478	5,102	2,131	2,501	1,673	11,885
Total	\$598	\$6,906	\$3,801	\$4,056	\$8,019	\$23,380

Percent of State matching derived from third party programs 4.5 47 47 43 66

a/Mississippi, Missouri, and Texas also have separate agencies that administer rehabilitation programs for the blind. Figures shown in this table are for the general agencies only.

PRINCIPAL HEW OFFICIALS RESPONSIBLE FOR  
ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<b>SECRETARY OF HEALTH, EDUCATION, AND WELFARE:</b>		
Joseph A. Califano, Jr.	Jan. 1977	Present
F. David Mathews	Aug. 1975	Jan. 1977
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
Robert H. Finch	Jan. 1969	June 1970
Wilbur J. Cohen	Mar. 1968	Jan. 1969
John W. Gardner	Aug. 1965	Mar. 1968
 <b>ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE (note a):</b>		
James S. Dwight, Jr.	June 1973	May 1975
Francis D. DeGeorge (acting)	May 1973	June 1973
Philip J. Rutledge (acting)	Feb. 1973	May 1973
John D. Twiname	Mar. 1970	Feb. 1973
Mary E. Switzer	Aug. 1967	Mar. 1970
 <b>ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT SERVICES (note b):</b>		
Arabella Martinez	Jan. 1977	Present
Stanley B. Thomas, Jr.	Aug. 1973	Jan. 1977
Stanley B. Thomas, Jr. (acting)	Apr. 1973	Aug. 1973
 <b>COMMISSIONER, REHABILITATION SERVICES ADMINISTRATION (note c):</b>		
Robert R. Humphreys	Nov. 1977	Present
Joseph A. Mottola (acting)	Jan. 1977	Nov. 1977
Andrew S. Adams	Apr. 1974	Jan. 1977
James R. Burress (acting)	Jan. 1974	Apr. 1974
Corbett Reedy (acting)	Jan. 1973	Jan. 1974
Edward Newman	Oct. 1969	Jan. 1973
Joseph V. Hunt	Apr. 1968	Oct. 1969
Joseph V. Hunt (acting)	Oct. 1967	Apr. 1968
Mary E. Switzer	Dec. 1950	Aug. 1967

- a/In February 1975, the Rehabilitation Services Administration was transferred from the Social and Rehabilitation Service to the Office of Human Development, headed by the Assistant Secretary for Human Development.
- b/In August 1977, the Office of Human Development became the Office of Human Development Services.
- c/In August 1967, the Vocational Rehabilitation Administration became the Rehabilitation Services Administration.