AN EVALUATION

Division of Vocational Rehabilitation

Department of Workforce Development

00-11

October 2000

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to Leg.Audit.Info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab/windex.htm.

State Auditor - Janice Mueller

Editor of Publications - Jeanne Thieme

Audit Prepared by

Kate Wade, Director and Contact Person
Dean Swenson
James (Joe) Chrisman
Conor Smyth
Robert Sommerfeld

TABLE OF CONTENTS

APPENDIX I – DIVISION OF VOCATIONAL REHABILITATION DISTRICTS

APPENDIX II – VOCATIONAL REHABILITATION PROGRAM SERVICE EXPENDITURES AND INDIVIDUALS SERVED

APPENDIX III – RESPONSE FROM THE DEPARTMENT OF WORKFORCE DEVELOPMENT

****

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

October 12, 2000

Senator Gary R. George and
Representative Carol Kelso, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Kelso:

We have completed an evaluation of the Department of Workforce Development's Division of Vocational Rehabilitation, as requested by the Joint Legislative Audit Committee. In state fiscal year (FY) 1999-2000, the Vocational Rehabilitation program spent $66.3 million, including $10.6 million in general purpose revenue, to serve approximately 35,000 disabled individuals.

We analyzed the program's success in serving the disabled and found that in federal fiscal year (FFY) 1998-99, 4,155 program participants were successfully rehabilitated, which represents a 17.6 percent decline from the 5,042 participants who were rehabilitated in FFY 1994-95. We also found examples of unequal treatment of participants eligible for similar services and unexpected variation in program expenditures among the Division's districts.

Significant improvements are needed to better manage the program's finances. In part because of inadequate management and financial planning, the Department announced in May 2000 that the program faced a $7.5 million projected funding shortfall. To conserve funds, the Department made changes to the service-delivery process, but this resulted in service disruptions to program participants. The Department ceased to provide program services to new participants in August 2000. It is unclear when the program will have sufficient funds to begin serving individuals who have applied since August 2000.

The Department contracts with other public agencies to provide some services to program participants. The value of these contracts increased from $2.9 million in FFY 1994-95 to $8.1 million in FY 1999-2000. The Department does not maintain the management information needed to oversee these contracts effectively, and we found that contracts have not consistently resulted in cost-effective service delivery.

We appreciate the courtesy and cooperation extended to us by the Department of Workforce Development. The Department's response is Appendix III.

Respectfully submitted,

Janice Mueller
State Auditor

JM/KW/cm

SUMMARY

The Department of Workforce Development administers Wisconsin's Vocational Rehabilitation program—a federal/state program designed to obtain, maintain, and improve employment for people with disabilities—through its Division of Vocational Rehabilitation. Individuals may participate in the program if they have a physical or mental impairment that is a substantial impediment to employment and they can benefit from vocational rehabilitation services, which can include funding for employment guidance and counseling, college and technical school tuition and other training, job placement services, and specialized equipment.

The primary federal aid program pays for 78.7 percent of program services, and state funds provide a 21.3 percent match. The Department spent $66.3 million in fiscal year (FY) 1999-2000, including $10.6 million in general purpose revenue (GPR) and $1.3 million in program revenue, to serve approximately 35,000 disabled individuals. In May 2000, officials in the Department announced a $7.5 million projected funding shortfall in the program, which was subsequently closed to new participants in August 2000 after officials determined funding was sufficient to serve only those individuals already participating in the program.

Numerous questions have been raised about the Department's administration of the program, including the degree to which service delivery has been disrupted because of the projected funding shortfall, whether the program provides the same level of service throughout the state to participants with the same level of need, whether rehabilitation rates have changed over time, whether the Department manages its program finances effectively, and whether the vocational rehabilitation counselors who arrange program services for participants are compensated properly. In response to these concerns, and at the direction of the Joint Legislative Audit Committee, we analyzed how the Department delivers program services, the reasons for the projected financial shortfall in FY 1999-2000, how the Department manages program funding, and counselor employment issues.

Vocational rehabilitation counselors in district offices determine whether disabled individuals are eligible to participate in the program and, if so, assess their vocational needs and work with them to develop participant-directed individualized plans for employment. These plans specify the participants' vocational goals and the particular program services they will receive to help them attain their goals. Under federal law, participants may change their vocational goals at any time. After

participants attain their goals and are employed for at least 90 days, they are determined to be rehabilitated, and their case files are closed.

We reviewed program expenditures and rehabilitation rates for the past five years and found no apparent relationship between the number of program participants and expenditures for program services. Between federal fiscal year (FFY) 1997-98 and FFY 1998-99, the most recent years for which data are available, the number of program participants increased by 3.1 percent to 35,595. Expenditures, however, increased 18.7 percent to $35.6 million. Rehabilitation rates for only those participants with individualized plans for employment in place declined between these two years, from 61.5 percent to 54.2 percent.

Federal law requires that if a state's Vocational Rehabilitation program has insufficient funds to serve everyone eligible to receive services, the state must rank program participants and serve the most significantly disabled first, a process that is known as an order of selection. Since December 1994, the Department has used an order of selection that groups participants in seven categories and has not served those in the seventh category, who have the lowest level of disability. Individuals in the first three categories meet the federal definition of significantly disabled and must be served first. We found that the percentage of significantly disabled participants who were rehabilitated declined from 57.9 percent in FFY 1995-96 to 53.8 percent in FFY 1998-99. Rehabilitation rates for program participants who do not meet the federal definition of significantly disabled also declined during this same period, from 59.3 percent to 56.9 percent.

Concerns have been expressed that the program does not provide a consistent level of services to participants statewide. We analyzed average per person expenditures in the district offices over a five-year period and reviewed the level of direction and oversight provided by program managers. Some variations in expenditures are to be expected based on participants' needs and vocational goals, as well as local cost differences, but we found significant variation in average annual expenditures for program services, which ranged from $859 in the Oshkosh district to $601 in the Milwaukee Northeast district; the statewide average was $752. Furthermore, direction provided by district managers did not appear to result in consistent decisions and expenditure levels for some specific services. For example, for our five-year review period, the Milwaukee Northeast district spent an average of $115 annually for transportation services to each participant who received those services, compared to an average of $636 annually in the Madison West district.

We reviewed 100 case files closed in FFY 1998-99 and noted other concerns with the program's service-delivery process. While counselors must work within federal guidelines that require participants' informed choice, we found instances in which counselors appeared to provide questionable services, given the participants' disabilities and employment goals. In other instances, the program paid for services that the participants' employers may have been obligated to provide under the Americans with Disabilities Act.

Although the Division initiated a reengineering plan in 1998 to streamline the service-delivery process, it has not ensured adequate program oversight. However, in recent months the Department has taken steps to ensure more consistent and equitable delivery of services through district managers' review of a random sample of expenditures on a monthly basis. To ensure better management of the service-delivery process and improve the consistency and equity with which funds are provided, we have recommended that the Department report to the Joint Legislative Audit Committee by March 2001 on the development, implementation, and assessment of policies and procedures that ensure services are provided to participants consistently statewide.

In early 1998, the program faced a projected funding shortfall. At that time, federal auditors raised concerns that services were inappropriately delayed and denied in order to conserve funds. Although officials assured the federal government in August 1999 that the problems noted in 1998 had been corrected, by October 1999 another financial shortfall began to develop. Department officials projected a $7.5 million funding shortfall, and in May 2000 they applied, consistent with statutory authority, other available funds to the program. Officials also told program staff to delay providing services that participants did not need in FY 1999-2000. Despite these measures, available information indicates that in its attempts to conserve funds, the Department delayed or denied services to program participants. For example, program officials told staff to cancel existing requests for services and submit no new requests.

Division officials stated they could not have foreseen the projected shortfall, but we found their financial planning was incomplete, contained errors, and did not rely on the most current data. Even when the projected shortfall became known, officials in the Department and the Division took no formal action to resolve the situation for a number of months. Consistent with federal law, the Department closed the program to all new participants in August 2000, when it became clear that the program did not have sufficient funds to serve all eligible individuals. At this time it is not known when the program will re-open. We have included several recommendations to assist the Legislature in its oversight of the program's financial condition and to allow the Department to better plan for and monitor program expenditures.

Program officials stated they annually allocate funding for vocational rehabilitation services among the districts according to a formula that takes into account the number of disabled individuals living in each district and the number of program applicants and participants in the three prior years. However, officials were unable to provide information showing that they used this allocation formula to distribute funding for program services. We used the allocation formula to estimate amounts that should have been distributed to each district in FY 1998-99 and found those amounts differed considerably from the actual expenditures districts incurred in that year. The reasons for the disparities are not fully known, but they could mean the formula inadequately distributed funds or districts spent excessive amounts for services.

The program's policies require counselors to verify that participants received the services for which the program paid. However, our expenditure review of 50 files found 96 percent of 600 payments made directly to participants were not supported by receipts. We provide a recommendation that the Department require counselors to collect receipts for all services purchased by program participants and ensure program expenditure data accurately reflect amounts spent on each participant.

Federal law allows the Vocational Rehabilitation program to contract with public agencies to provide new or innovative services to participants. These agencies use their own funds to match federal vocational rehabilitation funds. The program relies on these third-party contracts because it has had insufficient GPR to match all available federal funds. The value of the contracts rose steadily from $2.9 million in FFY 1994-95 to $8.1 million in FY 1999-2000. Nevertheless, the Division has exercised only minimal oversight of the contracts and does not maintain basic financial and programmatic information about them.

We also noted that a number of third-party contracts have provided services to fewer participants than originally planned. In FFY 1998-99, 37 contracts provided services to 1,171 participants, but the contracts anticipated serving 1,672 participants. Despite serving fewer participants than anticipated, contracting agencies may bill the program for the full contract amount. As a result, the per person cost of program services is sometimes far higher than originally anticipated. To better manage and oversee the contracts, we include a recommendation that the Department include estimates of the number of participants to be served in all contracts and collect and analyze information about contract expenditures.

The Legislature recently approved two pay increases for the program's 214 authorized vocational rehabilitation counselors, which took effect in June 1999 and July 2000. As a result of the pay increases, the minimum annual pay for Wisconsin counselors was $26,994 as of January 2000, or only slightly less than the average minimum pay of their counterparts in six surrounding midwestern states. However, senior counselors in the six other midwestern states could earn more than senior Wisconsin counselors, who could earn up to $44,458 annually.

The average caseload for Wisconsin counselors was 107.6 in January 2000, which was comparable to the average counselor caseload of 111.3 in six other midwestern states. However, the caseloads reported by program officials varied considerably among Wisconsin's districts. Average caseloads ranged from 142.8 in the Madison East district to 82.9 in the Fond du Lac district.

Counselor turnover rates have been approximately 10 percent in each of the past two years. Program officials anticipate increased counselor retirements in the next several years, and they acknowledge that replacing these experienced counselors will be challenging. Although officials have considered ways to attract and retain qualified counselors and received, in January 2000, a number of recommendations from an internal committee charged to analyze recruitment and retention issues, those recommendations had not been fully implemented in August 2000.

****

INTRODUCTION

The Vocational Rehabilitation program provides employment services to individuals with physical and mental disabilities.

The Department of Workforce Development administers Wisconsin's Vocational Rehabilitation program—a federal/state program designed to obtain, maintain, and improve employment for individuals with disabilities—through its Division of Vocational Rehabilitation. In fiscal year (FY) 1999-2000, the Department was authorized to employ 391.25 full-time equivalent (FTE) Vocational Rehabilitation program staff, including 214 counselors who work with participants to develop individualized plans for finding and keeping jobs. Individuals may participate in the program if they have a physical or mental impairment that is a substantial impediment to employment and they can benefit from vocational rehabilitation services. Services available through the program include employment guidance and counseling; funding for college and technical school tuition and other training; job placement services; specialized equipment, including computers, other assistive technology, and rehabilitative devices; and assistance with transportation, child care, and other needs while receiving program services.

In August 2000 the program was closed to new participants because of a projected funding shortfall.

In FY 1999-2000, the Vocational Rehabilitation program spent $66.3 million and served approximately 35,000 participants. Federal aid funds 78.7 percent of Vocational Rehabilitation program services costs. State funds provide a 21.3 percent match for services funded by federal aid and included $10.6 million in general purpose revenue (GPR) and $1.3 million in program revenue in FY 1999-2000. Program funding was nearly exhausted in FY 1999-2000, and in August 2000 the program was closed to new participants because program officials projected that current caseloads and requests for services would exceed available resources. Active participants at that time are not expected to be affected, but applicants who had not been approved to receive program assistance as of August 21, 2000, have been placed on waiting lists until sufficient federal and state funds become available.

The recent funding crisis focused legislative and public attention on concerns about program operations and management. For example, questions have been raised about whether service delivery was disrupted during the first six months of 2000. Some have also questioned whether the program provides the same level of service throughout the state to participants with the same level of need. Other concerns include whether program finances are managed effectively and whether contracting with other public agencies for services to program participants is efficient. Finally, some have questioned whether the counselors who assess participants' needs, help them set employment goals, and locate appropriate service providers are compensated properly.

Some concerns about program operations and management are longstanding.

Some of these concerns are longstanding. For example, Audit Bureau reports issued in 1991, 1985, and the mid-1970s found that the program delivered services inequitably throughout the state and that program officials provided staff with inadequate guidance concerning which services should be provided. Our FY 1998-99 single audit (report 00-5), which addresses compliance with federal program requirements, identified concerns with unsupported expenditures for program services and with the Department's reporting of financial information related to contracting.

In response to recent and longstanding concerns, and at the direction of the Joint Legislative Audit Committee, we analyzed:

- how the Department delivers Vocational Rehabilitation program services, including its efforts to comply with federal and state requirements and to deliver services consistently throughout the state;

- reasons for the projected financial shortfall that developed earlier this year, including the Department's efforts to allocate program funding and manage expenditures and its oversight of third-party contracts; and

- employment issues, including counselor wages and caseloads and the recruitment and retention of counselors.

In conducting this evaluation, we spoke with officials in the Department and the Division, visited the offices of 11 of the 21 Vocational Rehabilitation districts shown in Appendix I, and spoke with 33 counselors and 14 district managers. We also reviewed federal law, prior federal program reviews, and the Department's vocational rehabilitation policies and procedures and analyzed financial and service-delivery data for the past five years. In addition, we randomly selected and examined 100 of the 13,701 case files closed in federal fiscal year (FFY) 1998-99, including each expenditure in 50 of those files, to determine whether program staff followed federal law and the Department's policies and procedures. Finally, we interviewed officials in organizations that represent disabled individuals and service providers; officials at the federal agency that oversees the program and at the Wisconsin Rehabilitation Council, which advises the Department on its operation of the program; and vocational rehabilitation staff in six other midwestern states.

Program Funding and Expenditures

States must provide a 21.3 percent match to receive federal funding for program services.

The federal funds that support approximately 80 percent of program spending become available each October, at the start of the federal fiscal year. To receive funds from the primary federal aid program that supports their services to disabled individuals, states must provide a 21.3 percent match. If a state does not use all of the federal aid available to it, federal program rules allow unused funds to be encumbered for use in the following federal fiscal year. However, after that year, any unused federal funds must be returned.

State matching funds may be provided not only through GPR and program revenue appropriations, but also by the county human services departments, state technical colleges and universities, and other public agencies with which the Department contracts for services to program participants. Third-party contracting plays a significant role in funding program services because GPR and program revenue appropriations for the Vocational Rehabilitation program have typically not been sufficient to capture all available federal aid.

Federal funding for program services has increased, and GPR funding has decreased, since FY 1996-97.

Because federal program funding is provided on a federal fiscal year basis and state funding is provided in fiscal years that begin in July, program budgeting is complex. However, expenditure data, which are presented on a consistent state fiscal year basis, illustrate recent funding trends. As shown in Table 1, federal funding for program services, staffing, and other program costs increased from $48.2 million, which represents 78.6 percent of expenditures in FY 1996-97, to $54.4 million, which represents 82.1 percent of expenditures in FY 1999-2000. In contrast, GPR funding declined from $11.9 million, which was 19.3 percent of expenditures, to $10.6 million, or 16.0 percent, over those four years. Program revenue includes some third-party matching funds from other public agencies and a portion of revenue from the Department's Business Enterprise Program, which allows blind individuals to operate their own businesses.

Table 1

Program Expenditures, by Funding Source

Funding Source	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-2000
Federal	$48,213,611	$49,258,973	$51,497,439	$54,441,314
GPR	11,868,465	10,658,308	10,964,927	10,579,656
Program revenue	1,253,790	1,441,859	859,348	1,277,720
Total	$61,335,866	$61,359,140	$63,321,714	$66,298,690

Table 2 shows spending for the services provided to program participants; staffing; and other program costs, such as office space and equipment. Program services accounted for 60.4 percent of Vocational Rehabilitation expenditures in FY 1999-2000. However, most matching funds provided under third-party contracts are not shown in Table 2 because they were included in the contracting agencies' budgets.

Table 2

Program Expenditures, by Type

Type	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-2000
Services	$34,852,516	$33,986,496	$37,188,311	$40,048,333
Staffing	17,150,699	17,888,671	17,801,451	17,905,478
Other	9,332,651	9,483,973	8,331,952	8,344,879
Total	$61,335,866	$61,359,140	$63,321,714	$66,298,690

Program Services

To retain eligibility for federal program aid, Wisconsin's Vocational Rehabilitation program must comply with the federal Rehabilitation Act of 1973, as amended in 1998. The Rehabilitation Act requires the program "to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice, so that such individuals may prepare for and engage in gainful employment."

Counselors in the district offices of the Department's Division of Vocational Rehabilitation assess disabled individuals' needs and work with them to develop individualized plans for employment. Under federal law, program participants take an active part in the creation and implementation of their plans, which describe specific employment goals based on their individual abilities and interests; the services needed to attain the employment goals; the timetable for providing the services; the service providers, which may be businesses, nonprofit organizations, public institutions of higher education, or state or local agencies; and the criteria for evaluating progress toward achievement of the goals.

After their applications and individualized plans for employment are approved, participants may receive program services for as long as necessary to attain their goals. An individual who needs only minimal assistance, such as a vocational evaluation, help in preparing a résumé, and transportation to several interviews, may achieve his or her goal in a few months. Other participants receive program services for ten years or more. For example, an employment plan may include vocational assessments; tuition, room, and board for a four-year undergraduate degree; vehicle modifications to accommodate a disability; and job placement services. Although many employment plans cost a few thousand dollars, the cost of some exceeds $100,000.

Participants may change their employment goals at any time.

Federal program rules allow participants to change their goals after their employment plans have been approved, which often results in the provision of additional services. Participants may also leave the program without completing their plans. Federal program rules allow those who leave the program—either without completing their plans or because they have achieved their employment goals—to reapply and receive additional services if they are determined eligible.

The counselors who work with participants to develop employment plans also authorize expenditures for services provided under the plans. Expenditure data for services provided in FFY 1998-99 are shown in Table 3.

Table 3

Services Provided, by Type
FFY 1998-99

Type of Service	Expenditures
College and technical school	$ 8,020,032
Employment training	4,879,146
Transportation	3,151,838
Evaluations/assessments	2,904,962
Supported employment	2,759,797
Occupational equipment	2,651,520
Interpreter and reader services	1,872,894
Other goods and services	1,788,630
Maintenance services	1,652,158
Job placement	1,395,207
Hearing aids and prosthetic devices	971,921
Vehicle purchases and modifications	949,393
Adaptive equipment	940,305
Child care	656,782
Unknown	600,244
Medical and psychological treatment	438,882
Total	$35,633,711

Participants receive services for disabilities that include blindness and visual impairments, speech and hearing impairments, and other physical challenges ranging from carpal tunnel syndrome to quadriplegia; mental illnesses and disabilities that can include attention deficit disorder, post-traumatic stress disorder, depression, mental retardation, and brain disorders; chronic diseases and conditions that can include AIDS/HIV, alcohol or other drug disorders, diabetes, heart disease, and muscular dystrophy; and many other disabilities. The Department has categorized individuals served in FFY 1998-99 by primary disability, as shown in Table 4. However, many participants have multiple disabilities.

Table 4

Individuals Served, by Primary Disability
FFY 1998-99

Primary Disability	Individuals Served	Percentage of Total
Amputee and orthopedic	11,456	32.2%
Mental illness	5,781	16.2
Learning disability	4,816	13.5
Mental retardation	2,719	7.6
Other physical disabilities	2,438	6.8
Other mental disabilities	1,564	4.4
Alcoholism	1,165	3.3
Hearing impairment	1,060	3.0
Unknown	914	2.6
Blind	840	2.4
Drug addiction	812	2.3
Deaf	701	2.0
Visual impairment	436	1.2
Epilepsy	366	1.0
Heart disease	341	1.0
Digestive disorder	116	0.3
Speech impairment	70	0.2
Total	35,595	100.0%

Program officials consider a participant to be successfully rehabilitated after he or she has received services outlined in an individualized plan for employment and has been employed for at least 90 days. The case files we reviewed included the following examples of successful rehabilitation:

- An individual with a history of alcohol abuse and bulimia, who received $37,479 in program services from 1993 through 1999, earned a graduate degree and was subsequently employed as a physician assistant, earning $45,000 per year. Program services that were provided included tuition at a state university, funding for child care while the individual attended school, and transportation to school.

- An individual with a significant visual impairment, who received $7,310 in program services from 1993 through 1998, earned a bachelor's degree and subsequently obtained a nursing job that paid $15 per hour. Program services that were provided included funding for housing and meal costs at a state university.

- A blind individual received $61,219 in program services from 1995 through 1999, including tuition assistance at a state technical college, transportation, and assistive technology. The individual earned an associate degree in computer information systems and was subsequently employed as a program analyst, earning $14.25 per hour.

In other cases we reviewed, the success of rehabilitation efforts is more questionable. For example:

- A legally blind individual received $14,012 in program services from 1995 to 1999 that included employment counseling, clerical and computer training, funding for room and board during training, and medical supplies. The individual's employment plan was amended four times, and the employment goals were changed from operating a small business to finding employment as a clerical or customer service worker. After the individual moved out of the state, married, and stopped looking for employment, the employment goal was changed to "homemaker" and the counselor determined that the individual had been rehabilitated and closed the case. Although the counselor recognized the individual's right to change the employment goal, it would appear that the goal was changed to match the individual's circumstances.

- A quadriplegic individual received $29,324 in program services from 1992 through 1998, including home and wheelchair modifications, van modifications, purchase of computer equipment, and printing costs for two marketing brochures. Although expansion of a home-based business was the individual's stated employment goal, neither the number of customers nor the individual's net monthly business income of $75 changed over six years of program participation. It was not clear that the individual's goal to expand the business was met.

- A deaf individual whose employment goal was to become a physical education teacher received $31,436 in program services to attend an out-of-state university. The individual earned a bachelor's degree but not the teaching certificate necessary to achieve the employment goal, found employment as a teacher's aide earning $302 per week, and was considered to be successfully rehabilitated when the case was closed. However, the individual did not achieve the stated goal of becoming a licensed teacher.

****

We focused our expenditure analysis on spending for program services, which accounted for 60.4 percent of all program expenditures in FY 1999-2000 and affects participants most directly. We reviewed expenditures over the past five years and found there is no relationship between the number of program participants and expenditures for program services. In addition, the number of participants who have been rehabilitated has declined over the past five years.

Spending for Program Services

Expenditures have increased, while the number of program participants has remained stable.

As shown in Table 5, the number of program participants has remained relatively constant, but expenditures for services have increased since FFY 1994-95. From FFY 1997-98 to FFY 1998-99, the most recent years for which data exist, the number of program participants increased by 1,065, or 3.1 percent, and service expenditures increased $5.6 million, or 18.7 percent.

Table 5

Participants Served and Related Expenditures

Federal Fiscal Year	Individuals Served	Annual Change	Expenditures for Services	Annual Change
1994-95	36,683	-	$30,423,414	-
1995-96	35,377	(3.6%)	30,927,858	1.7%
1996-97	35,532	0.4	35,118,090	13.5
1997-98	34,530	(2.8)	30,016,402	(14.5)
1998-99	35,595	3.1	35,636,277*	18.7

* This amount does not match the total shown in Table 3 because of limitations in the program's various reporting systems.

Because participation in the Vocational Rehabilitation program is voluntary, and under federal law participants may decline services or change their employment goals several times before leaving the program, the program cannot be evaluated solely by rehabilitation rates. However, rates are used by the federal government and others to help assess program performance. Rehabilitation rates can be calculated in a number of ways, leading to significantly different results.

The number of participants who have been rehabilitated declined 17.6 percent over five years.

The federal government asks states to calculate rehabilitation rates by considering only those individuals who have left the program after the development and initiation of individualized plans for employment. As shown in Table 6, for FFY 1998-99 this calculation results in a rehabilitation rate of 54.2 percent. However, the number of individuals rehabilitated annually declined from 5,042 in FFY 1994-95 to 4,155 in FFY 1998-99, or by 17.6 percent.

Table 6

Rehabilitation Rates as Reported to the Federal Government

Federal Fiscal Year	Number Not Rehabilitated After Employment Plan Created	Number Rehabilitated	Total	Percentage Rehabilitated
1994-95	3,397	5,042	8,439	59.7%
1995-96	3,094	4,299	7,393	58.1
1996-97	2,867	4,247	7,114	59.7
1997-98	2,902	4,643	7,545	61.5
1998-99	3,512	4,155	7,667	54.2

An alternative calculation of rehabilitation rates would consider all those individuals leaving the program after being determined eligible for services. In FFY 1998-99, this calculation would include 3,711 individuals who had been determined eligible but had not developed an individualized plan for employment, 3,512 who left the program during service delivery, and 4,155 who found employment and were rehabilitated. As shown in Table 7, this calculation yields a rehabilitation rate of 36.5 percent in FFY 1998-99. Rehabilitation rates declined fairly steadily over the past five years, particularly from FFY 1997-98 to FFY 1998-99.

Table 7

Rehabilitation Rates for Those Determined Eligible for Program Services

Federal Fiscal Year	Number Eligible with Cases Closed before Employment Plan Created	Number Not Rehabilitated after Employment Plan Created	Number Rehabilitated	Total	Percentage Rehabilitated
1994-95	3,318	3,397	5,042	11,757	42.9%
1995-96	3,074	3,094	4,299	10,467	41.1
1996-97	3,479	2,867	4,247	10,593	40.1
1997-98	3,600	2,902	4,643	11,145	41.7
1998-99	3,711	3,512	4,155	11,378	36.5

Serving Significantly Disabled Individuals

Significantly disabled individuals must be served first under federal law.

If a state's Vocational Rehabilitation program has insufficient funding to serve everyone eligible for services, federal law requires the state to rank program applicants and serve the most significantly disabled first. The process for doing so is known as an order of selection. Federal law defines a significantly disabled individual as someone with a severe physical or mental impairment that seriously limits one or more functional capacities in terms of an employment outcome, and whose rehabilitation is expected to require multiple services over an extended period.

In December 1994, the Department implemented an order of selection process that assigns disabled individuals to one of seven categories during assessment. Counselors determine whether an individual requires multiple services for an extended time—which program officials define as more than 12 months—and the number of his or her limitations in functional areas that include mobility, communication, self-care, self-direction, interpersonal skills, work tolerance, and work skills. The program's seven categories and their criteria are shown in Table 8.

Table 8

Order of Selection Categories

Category	Criteria
A	3 or more severe limitations; requires multiple services for an extended time
B	2 severe limitations; requires multiple services for an extended time
C	1 severe limitation; requires multiple services for an extended time
D	4-7 severe limitations; lacks need for multiple services, services for an extended time, or both
E	1-3 severe limitations; lacks need for multiple services, services for an extended time, or both
F	4-7 non-severe limitations; may or may not require multiple services for an extended time
G	1-3 non-severe limitations; may or may not require multiple services for an extended time

Individuals in categories A, B, and C meet the federal definition of significantly disabled and, therefore, must be served first under federal law. The program does not provide services other than initial assessments to individuals in category G, who are the least-significantly disabled. Appendix II shows expenditures for services and the number of individuals in each order of selection category from FFY 1994-95 through FFY 1998-99.

Rehabilitation rates for significantly disabled individuals can be considered in the manner reported to the federal government and in the alternative manner that considers all individuals leaving the program after being determined eligible for services. As shown in Table 9, regardless of the manner chosen, the percentage of significantly disabled program participants who have been successfully rehabilitated declined from FFY 1997-98 to FFY 1998-99.

It is not known with certainty why the rehabilitation rates declined from FFY 1997-98 to FFY 1998-99. However, rates may have declined because significantly disabled participants represent a population that is difficult to serve. In addition, this population's disabilities may be of increasing magnitude.

Table 9

Rehabilitation Rates for Significantly Disabled Program Participants*

Federal Fiscal Year	Percentage Rehabilitated—As Reported to the Federal Government	Percentage Rehabilitated—All Individuals Eligible for Program Services
1995-96	57.9%	41.3%
1996-97	59.6	40.5
1997-98	60.9	41.7
1998-99	53.8	36.9

* Includes participants categorized as significantly disabled under the order of selection process (categories A through C).

As shown in Table 10, rehabilitation rates for program participants who do not meet the federal definition of significantly disabled also declined during our review period.

Table 10

Rehabilitation Rates for Non-Significantly Disabled Program Participants*

Federal Fiscal Year	Percentage Rehabilitated—As Reported to the Federal Government	Percentage Rehabilitated—All Individuals Eligible for Program Services
1995-96	59.3%	40.0%
1996-97	60.4	37.7
1997-98	66.4	41.5
1998-99	56.9	34.0

* Includes participants categorized as non-significantly disabled under the order of selection process (categories D through F).

Finally, we reviewed the reasons why cases are closed without rehabilitation. As shown in Table 11, many of the cases that were closed without rehabilitation in FFY 1998-99 were closed because participants declined services (42.0 percent) or failed to cooperate with their counselors (19.5 percent).

Table 11

Reasons Cases Were Closed Without Rehabilitation
FFY 1998-99

Reason	Number Closed for this Reason	Percentage of Total
Declined services	4,008	42.0%
Failed to cooperate	1,868	19.5
Unable to locate individual	868	9.1
No vocational disability	295	3.1
Disability too severe	198	2.1
Transfer to another agency	180	1.9
Order of selection	178	1.9
No disability	141	1.5
Institutionalized	94	1.0
Death	89	0.9
Transportation unavailable	3	<0.1
Other	1,624	17.0
Total	9,546	100.0%

****

Legislators, advocates, and others expect that the Vocational Rehabilitation program will provide similar levels of service statewide for similar levels of need and that the services provided will be appropriate within the context of individualized plans for employment. However, we found that the Department does not manage its service-delivery process effectively. As a result, there are significant variations in average per person expenditures among the 21 districts, and questions can be raised about the consistency and appropriateness of some services.

Per Person Expenditures

Direct per person expenditures varied greatly among the districts.

Variations in per person expenditures are to be expected because program participants have different needs and vocational goals, and service costs and availability vary throughout the state. However, unless there is documented significant variation in participants' needs and goals, or in the availability of services, per person expenditures for program services should be similar statewide and over time. From October 1994 through June 1999, the program's annual per person direct expenditures varied considerably, as shown in Table 12. They ranged from an average of $859 in the Oshkosh district to $601 in the Milwaukee Northeast district. Statewide, the average was $752.

Approximately 15 percent of disabled individuals statewide are served by the program.

Using demographic information provided by program staff, we found almost all districts served between 10 percent and 20 percent of the disabled individuals residing within their boundaries in FY 1998-99. The statewide average was approximately 15 percent. However, we noted two exceptions: the Madison East district—which includes Dane County—served almost 35 percent of its disabled residents, while the Madison West district—which includes five counties surrounding Dane County—served about 9 percent.

Table 12

Average Annual per Person Direct Expenditures*
October 1994 through June 1999

District	Average Annual per Person Direct Expenditures
Oshkosh	$859
Spooner	853
Wisconsin Rapids	834
Racine	814
Madison West	813
Madison East	801
Milwaukee Southwest	792
Eau Claire	787
Sheboygan	783
Waukesha	780
Superior	775
Statewide	**752**
Milwaukee Northwest	742
Kenosha	741
La Crosse	723
Green Bay	720
Wausau	718
Rhinelander	712
Fond du Lac	669
Janesville	667
Milwaukee Southeast	605
Milwaukee Northeast	601

* Program officials note that a 1999 reorganization resulted in the creation of 28 districts. However, program information continued to be reported in 2000 for 21 districts.

Inconsistent Service-Delivery Methods

There is concern that vocational rehabilitation services may not be provided consistently throughout the state.

Federal law lists the types of services the Vocational Rehabilitation program may provide to program participants and requires that all services be made available statewide. However, it does not describe under which circumstances services are to be offered to particular participants. These decisions are the responsibility of program officials, who must ensure that counselors provide appropriate services in a consistent manner, recognizing the participants' right to exercise informed choice. Since at least the mid-1980s, there have been concerns that either the program does not provide a consistent level of service statewide or counselors are not consistently following the same guidelines in approving expenditures for services delivered to program participants. Therefore, we reviewed the Department's written guidelines for counselors and the degree to which counselors are consistent in authorizing program services.

Counselor Guidance

It could be expected that counselors are provided with sufficient guidance to authorize program services and to control expenditures according to federal rules and departmental policies. The principal written guidance available to counselors is the Vocational Rehabilitation program's policies and procedures manual, which describes how district staff are to arrange and provide services to program participants. Before October 1998, when it was rewritten, the manual was lengthy and prescriptive, and it contained extensive details on how services were to be provided. Counselors told us the old manual hindered their ability to respond to the particular service needs of disabled individuals. However, they acknowledged that it clearly explained the procedural steps necessary to provide services.

The vocational rehabilitation policies manual provides little guidance to newer counselors.

In October 1998, as part of a reengineering initiative, the vocational rehabilitation policies and procedures manual was shortened from more than 150 pages to fewer than 18. Consequently, the new manual provides only general guidance. More-experienced counselors told us that it is sufficiently detailed for them but often does not provide enough information for less-experienced staff. Nevertheless, several experienced counselors indicated they refer to the previous manual when they are uncertain how to proceed.

Support Services

Federal law allows the Vocational Rehabilitation program to provide support services—such as assistance with transportation and maintenance assistance that can include child care, rent, food, and other basic living expenses—to program participants. Federal law states that transportation assistance will be provided to help an individual attain employment and that maintenance assistance should be available for additional costs incurred while participating in the program. We examined the provision of support services because program officials stated that district staff often disagree about the appropriate amount of these services to provide, and counselors indicated they provide support services in different ways. Program records show the cost of providing support services was at least $5.5 million in FFY 1998-99.

Transportation services are not provided consistently.

Counselors indicated they determine levels of transportation services and funding in a variety of ways. For example, counselors stated they:

- pay for transportation costs based on the cost of bus fares or other public transportation options available where participants live;
- pay a standard 17 cents per mile to participants who use their own vehicles;
- pay for actual gasoline and vehicle-operations costs;
- limit gasoline assistance to $30 per month and provide this assistance only until participants receive two paychecks from their employers;
- help participants purchase used vehicles in rural areas where public transportation is unavailable; and
- never help participants purchase new or used vehicles.

Districts' expenditures for transportation services varied greatly from FFY 1994-95 through FFY 1998-99. For example, Milwaukee Northeast spent an average of $115 annually for each individual who received these services, while Madison West spent an average of $636 annually for each individual. The statewide average was $312 per individual. Four districts—Madison West, Oshkosh, Waukesha, and Spooner—spent more than $450 annually per individual receiving transportation services, while the four Milwaukee districts each spent less than $250 per individual.

Average expenditures for maintenance services varied widely among the districts.

We also found inconsistency in the provision of maintenance assistance. For example, from FFY 1994-95 through FFY 1998-99, the program spent an average of $383 annually for each participant who received maintenance assistance. However, the Milwaukee Northwest district spent an annual average of $153 per participant, while the Sheboygan district spent an annual average of $876 per participant. Four districts—Madison West, Oshkosh, Janesville, and Sheboygan—spent an annual average of more than $600 for each participant, while six districts—the four Milwaukee districts, Waukesha, and Rhinelander—spent less than $300 annually per participant.

Program officials indicated that the variation in transportation expenditures may be explained by the differing availability of public transportation in urban and rural areas of the state. Similarly, officials believe the variation in maintenance expenditures may be explained by the degree to which services are available near the participants' residences. However, we note that a 1993 report by the Division stated that funding equity among the districts was a program goal. Program officials did not provide information indicating that they have examined the reasons for the spending variations since 1993.

Some of the case files we reviewed contained expenditures for transportation or maintenance assistance that did not seem supportable, either because the services did not appear to represent additional costs incurred while participating in the program or because participants provided inadequate documentation for the expenditures. For example:

- A single parent with bipolar disorder and a history of alcohol and drug abuse attended a state university in pursuit of a bachelor's degree. Over approximately six years, the individual received $32,312 in program services, including $15,672 for child care, $2,500 for food and rent, $1,929 for automobile insurance, $700 for automobile repairs, and $500 to purchase a used car. These transportation and maintenance costs accounted for nearly 66 percent of program services received; it is unclear whether all of these expenditures were directly related to the other program services received.

- An individual with a personality disorder attended a state university in pursuit of a bachelor's degree. Over a six-year period, the program paid for $1,661 in clothing costs, $900 for automobile repairs, and $3,623 for books and supplies. Many of the program's expenditures for books and supplies appear questionable because payments were for a standard amount regardless of the number of courses in which the individual enrolled. Payments of fixed amounts that are made directly to individuals raise concerns that actual costs may have been lower than the amounts paid.

In February 2000, program officials in the Division developed a guidance paper to help counselors decide when to authorize maintenance expenditures. The paper states that maintenance assistance should be provided only for expenses incurred as a result of receiving services under an individualized plan for employment. According to the guidance paper, counselors should no longer authorize payment for basic living expenses.

In March 2000, an internal memorandum to all staff stated that individuals who are unable to pay for their own basic maintenance and transportation needs may not be able to participate in the Vocational Rehabilitation program. The March memorandum also explained under which circumstances the program will pay to repair and replace existing vehicles and to purchase new ones, and it stated the program will pay for only extraordinary transportation expenses necessitated by participation in the program.

Counselors interpret additional written guidance in various ways.

While the maintenance guidance paper and memorandum provided more guidance than the program's current policies and procedures manual, some counselors are confused about the Department's official policy. Some told us that the February and March memoranda represent formal program policy, while others believe they are intended only to provide helpful suggestions. Program officials in the Division stated that the two documents were intended to provide guidance to staff, and they are considering whether to include portions of them in the policies and procedures manual.

Financial Liability of Participants

Federal law allows, but does not require, states to consider financial need when providing program services. Wisconsin has chosen to consider financial need when determining the extent to which an individual participant can be expected to contribute toward the cost of program services. However, questions have been raised about whether individual participants are charged consistently for the program services they receive, and counselors indicated to us that the manner in which participants' shares of service costs are determined is sometimes unclear.

Program applicants are asked to provide information about their family income and assets and are encouraged to contribute toward the cost of program services. Counselors determine a monthly contribution, or financial liability, based on a schedule published annually by the Department of Health and Family Services. For example, currently, an applicant who lived alone and had a gross monthly income of $2,000 would be required to contribute $170 per month. The contribution amount, which is detailed on a financial liability form that is supposed to be included in each participant's case file, is to be updated at least annually. When a participant turns 18, parental income is no longer considered in determining liability.

Counselors have stated that the policy for applying the monthly contribution amount is unclear in the case of expensive equipment purchases. Some counselors believe the cost of the equipment and responsibility for payment should be distributed over the life of the individualized plan for employment; for instance, if the duration of the plan is five months, the individual's contribution is to be five times the monthly contribution amount. Other counselors, however, believe participants should be liable for a monthly contribution only in the month in which the purchase was made.

Of the 100 case files we reviewed, 18 did not include monthly financial liability forms, typically because the cases had been closed before individualized plans for employment were developed. Among the remaining 82 files, reported family income averaged approximately $900 monthly, or $10,800 annually. Income sources varied and often included assistance from other government programs. For example, 29 participants reported receiving Supplemental Security Income, and 16 reported Social Security Disability Income.

Ten of the 82 participants were determined to have a financial liability. The average income reported by these participants was $2,879 per month, or $34,548 annually. Their average monthly liability was $194, or 6.7 percent of monthly family income. They received an average of $32,969 each in program services. In most instances, the case files contained information indicating that these participants contributed toward the cost of their services.

Other Service-Delivery Concerns

Our review of 100 case files noted other concerns with the service-delivery process.

During our case file review, we noted a number of other concerns with the service-delivery process, including instances in which program participants appeared to receive questionable services based on their disabilities and employment goals and instances in which the program provided services for which private businesses could have paid.

Each program participant represents a unique case, with individual disabilities, employment goals, and available resources that can present challenges for service delivery. Under federal law, counselors must respond to changes in participants' employment goals and preferences and determine whether other programs, such as Medical Assistance, can instead provide needed services. We found several instances in which counselors used program funds for services that did not appear consistent with the participant's disability, employment goal, or situation. For example:

Services provided to some participants appeared inconsistent with their disabilities or vocational goals.

- An individual with a learning disability, including seventh-grade reading skills, wanted to become a police officer but, according to an independent vocational analysis, lacked the ability to write police reports. Nevertheless, the program paid for three semesters of technical college tuition so that the individual could pursue a criminal justice degree. Tuition, academic support services, books, and related transportation costs totaled $4,774. After failing or not completing several courses and being placed on academic probation, the individual left school and declined additional services.

- The program paid $1,626 in 1998 to purchase new hearing aids for a 70-year-old individual who reported an annual family income of $43,600 and no plans to seek paid employment. This individual, who contributed $789 toward the purchase of the hearing aids, performed part-time volunteer work at a hospital but was unable to use existing hearing aids while talking on the telephone.

- A deaf individual wanted to attend college despite a vocational evaluation that indicated insufficient academic skills for this goal. The program spent more than $50,000 over five years to provide services as the individual attended an out-of-state college for the deaf and an in-state university. The individual struggled academically, dropped out of both schools, and declined additional program services.

- An individual with limb deformities received services over an eight-year period, including financial assistance toward a bachelor's degree and funds to purchase computer equipment. During the final year of college, the program paid $3,948 for a new computer and $1,349 for a laser printer because the individual was concerned about printing quality. Both purchases were intended to help with the individual's academic studies, but given the relatively short period of time before graduation, the purchase of expensive computing equipment can be questioned.

- An individual with an amputated leg, psychological problems, and a history of alcohol and drug abuse wanted to become a vocational rehabilitation counselor and received $34,173 in services from 1991 to 1998. They included financial assistance toward the cost of tuition at a state university, books and supplies, prosthetic replacements, and transportation. Although repeatedly abusing alcohol and drugs while in the program and entering detoxification treatment at least four times, the individual continued to receive services and was given $14,300 to purchase services directly. Before obtaining the degree necessary to become a counselor, the individual was incarcerated for theft and the case was closed.

The program may have paid for services that employers should have provided.

The Americans with Disabilities Act requires businesses to pay for reasonable accommodations for their disabled employees. Typical accommodations might include architectural modifications to allow access to the work site, and specialized equipment to allow work-related responsibilities to be fulfilled. However, current Vocational Rehabilitation program policy is unclear regarding when businesses should pay reasonable accommodations costs. Our file review found instances in which the program may have paid for services that appear to have been employer obligations under federal law. For example:

- An individual with severe back injuries applied to the program, received services, and found employment in sales at a construction supply company. The company agreed to build a suitable workspace to accommodate the individual's needs if the Vocational Rehabilitation program would provide the adjustable workstation furniture; ergonomic chairs; and two identical computer systems, one for use at the company site and one to allow the individual to work at home. As a result, the program purchased $27,807 in furniture and computer equipment.

- After a quadriplegic individual who had received program services over a ten-year period found employment in an office setting, the program paid $2,145 to assess the work site and install automatic doors that allowed building entry and exit in a wheelchair.

- After a quadriplegic individual who had received tuition, transportation, and other program services over an 11-year period earned bachelor's and master's degrees and had obtained a full-time job as a public school teacher, the individual asked the program to pay for a minivan in order to attend field trips, participate in teacher conferences, and perform job-related errands. Although program officials initially stated that paying for the minivan was the employer's responsibility, the program ultimately paid $11,152 to purchase a new minivan, and $24,208 to modify it so that it could accommodate the individual's disability. The individual contributed $11,500 toward the minivan purchase.

Improving Service Delivery

In early 1998, the Division initiated a reengineering plan to streamline the service-delivery process. Program officials hoped this initiative, which was consistent with modifications to the federal Rehabilitation Act, would result in faster program-eligibility decisions, allow participants more input in the service-delivery process, allow counselors to spend more time providing services rather than on administrative duties, and increase the number of disabled individuals who achieve their employment goals.

The Department is taking steps to improve the service-delivery process.

One aspect of the reengineering plan has achieved the desired results. Since 1998, the time between application for and receipt of program services has declined. In January 1998, disabled individuals waited an average of 50 days between the date of application and when they were determined eligible, and after that they waited an additional 4.5 months to receive program services. By June 2000, the average time between application and eligibility determination was 38 days, and the average additional wait for services was 4.0 months.

More recently, the Division has taken steps to ensure more consistent and equitable delivery of program services. For example, in March 1999, the district managers were asked to review a random sample of expenditures each month, to ensure that provided services are consistent with participants' disabilities and vocational goals and that costs are not excessive. District managers have also been instructed to review, on an ongoing basis, a sample of individualized plans for employment to ensure that services are delivered according to the plans. While these reviews should be helpful in ensuring consistent statewide service-delivery decisions, our interviews with counselors indicated continued confusion, and our file review indicated significant inconsistency in the application of program policy.

Additional efforts are needed to ensure effective and consistent service delivery.

Program officials must promulgate policies that permit counselors the flexibility required under federal law to meet the unique service needs of each participant and that facilitate statewide consistency in service-delivery decisions. Officials also need to ensure that counselors follow program policies and that all district managers monitor and evaluate their implementation on a regular basis. Therefore, to improve the consistency and equity with which program services are funded and delivered, *we recommend the Department of Workforce Development report to the Joint Legislative Audit Committee by March 1, 2001, on the development, implementation, and assessment of vocational rehabilitation policies and procedures that will better ensure services are provided to program participants consistently statewide and funds are spent appropriately*.

****

There is concern that the Department does not monitor program expenditures effectively.

The Vocational Rehabilitation program faced a $7.5 million projected funding shortfall in early 2000, and in August 2000 it was closed to new participants for an indefinite period. All available funding is being used to pay for program services for current participants. This financial crisis heightened concerns about the management of both federal and state program resources, including funds that are appropriated directly to the Department and those that become available when it contracts with other public agencies for program services. Of particular concern has been whether the Department:

- monitors program expenditures sufficiently to ensure that services to participants will not be delayed or interrupted because of insufficient funds;
- uses financial records and other data to plan effectively for future service and funding needs;
- distributes funding equitably among the 21 districts that deliver program services; and
- manages third-party contracts effectively, as well as whether the contracts provide program services efficiently.

Therefore, we analyzed management of program funding and expenditures, as well as the Department's use of third-party contracts with other public agencies.

Projected Financial Shortfall in FY 1999-2000

Prior to the start of each federal fiscal year, federal law requires the Department to: 1) determine the amount of funding available to the program; and 2) estimate the cost of providing services to current program participants, assessing all new applicants, serving those determined eligible to receive program services, and administering the program. If insufficient funding is available, the Rehabilitation Act requires the Department to implement an order of selection and to serve the most significantly disabled participants first. Federal law prohibits program officials from disrupting services to individuals already in the program, and except for implementing the order of selection does not allow changes in the type or level of services available.

The Vocational Rehabilitation program's current projected financial shortfall is its second in the last three years. In early 1998, the program faced a $2.8 million projected funding shortfall, and the Department reallocated funds from other federal appropriations to avoid requesting additional state funds. During a 1998 review of the program, federal auditors determined that instead of concentrating services on the most significantly disabled participants, as required by federal law, the Department had conserved funds and tried to serve all program participants, which federal auditors believed resulted in services being inappropriately delayed and denied. Division officials assured federal officials in August 1999 that the problems noted during the 1998 review had been corrected. Nevertheless, by October 1999 the second projected financial shortfall began to develop.

Table 13 provides a chronology of the main events of the projected financial shortfall that developed in FY 1999-2000.

Table 13

Chronology of FY 1999-2000 Projected Financial Shortfall

October 1999	The Department notes in its budget management system that program encumbrances are over budget for FY 1999-2000.
January 2000	Department budget officials notify the Division that the program faces a $1.9 million projected shortfall, including both GPR and federal funds, for FY 1999-2000, based on estimated expenditures and encumbrances.
February	Department budget officials notify the Division that the projected shortfall is $3.3 million, based on estimated expenditures and encumbrances.
March	Department budget officials notify the Division that the projected shortfall is $7.0 million, based on estimated expenditures and encumbrances.
March – April	Division officials consider closing order of selection categories, but the Department instructs them in April not to close categories.
April	The Department transfers $1.5 million GPR from the program's FY 2000-01 appropriation to its FY 1999-2000 appropriation to help cover the projected shortfall.
May	The federal Rehabilitation Services Administration conducts an on-site investigation as part of its routine review of the program's operations.
May	The Department notifies a committee of the Legislature that the program's projected shortfall is $7.5 million but that $8.5 million in federal funds has been applied to cover the projected shortfall. Department officials assure legislators that program finances are under control and services will not be disrupted.
June	Federal Rehabilitation Services Administration officials assert, based on the Department's quarterly reports, that the program has obligated $6.7 million more than available federal funding. The issue remains unresolved.
July	The Department announces the closure of the program to all new participants, effective August 21, 2000.
August	The Department returns the previously transferred $1.5 million GPR to the program's FY 2000-01 appropriation. Program officials indicate the program ends FY 1999-2000 with a $-0- GPR balance.
September	A U.S. Department of Education audit of the program begins.

In late May 2000, the Department developed a forecast of the program's funding, expenditures, and encumbrances from all funding sources for the remainder of FY 1999-2000. As shown in Table 14, the FY 1999-2000 direct services budget, which excludes third-party contracts, was $24.6 million. It may be noted that in Table 2, expenditures for program services were shown to be $40.0 million in FY 1999-2000. However, the amounts in Table 14 include only GPR and federal discretionary aid; the amounts in Table 2 include various other program funds, including some third-party contract expenditures.

Table 14

FY 1999-2000 Projected Financial Shortfall
As of May 23, 2000

Direct services budget	$24,642,723
Expenditures through May 23	(25,444,552)
Encumbrances	(5,764,814)
Estimated additional expenditures	(938,967)
Total expenditures	(32,148,333)
Projected shortfall	(7,505,610)
Social Security reimbursement funds	3,217,000
Federal indirect cost reallocation funds	1,125,000
Additional federal discretionary aid	4,156,690
Surplus	$ 993,080

In May, the Department projected a $7.5 million financial shortfall for FY 1999-2000.

The Department's forecast indicated that program expenditures through May 23, 2000, totaled $25.4 million. An additional $5.8 million was encumbered to pay for services authorized but not yet delivered; however, the Department noted that unanticipated changes in individualized plans for employment would likely result in some portion of that amount not being spent. The Department also estimated the program would spend an additional $939,000 for services not yet encumbered. As a result, the program faced a $7.5 million projected financial shortfall, representing 30.5 percent of its annual budget for services exclusive of third-party contracts. The GPR portion of this projected shortfall was $1.6 million, or 21.3 percent of the total.

To prevent a projected budget deficit, the Department applied $8.5 million in federal funds to support Vocational Rehabilitation program expenditures. Consistent with the Department's authority in s. 16.54(9)(b), Wis. Stats., these funds included $1.1 million in federal indirect cost reallocation funds that the Department receives as payment for administering various federal programs. These funds were matched with $4.2 million in federal vocational rehabilitation funds. Also included in the $8.5 million was $3.2 million in Social Security reimbursement funds, which the federal government provides to the Department after individuals receiving Social Security benefits are successfully rehabilitated and have maintained employment for at least 90 days. The Social Security funds reimburse the Department for its rehabilitation costs. As a result of applying these funds to the program, in May the Department estimated a $993,000 surplus for FY 1999-2000. In August, officials indicated the program ended FY 1999-2000 with a $-0- fund balance.

Consistent with its authority under s. 20.445(5)(bm), Wis. Stats., the Department also transferred GPR designated for program services between the two years of the biennium. In late April 2000, the Department transferred $1.5 million from FY 2000-01 to FY 1999-2000, and officials stated these funds would be used only if all other available funds were exhausted. In August 2000, officials transferred these funds back to the Division's FY 2000-01 appropriation when it was determined that sufficient funds were available in FY 1999-2000 from federal sources.

Delay and Denial of Services

Program officials in the Department and the Division have publicly stated that program services for disabled individuals were not disrupted during the first six months of 2000. Division officials stated that they took a number of actions to conserve program funding, including:

- delaying until FY 2000-01 the purchase of $450,000 in program services not needed during FY 1999-2000;

- eliminating the option of allowing participants to purchase services directly, thereby requiring the Division to buy the services on their behalf beginning in April 2000;

- eliminating payment for participants' basic living expenses, such as food and rent, effective June 2000;

- reducing administrative costs and implementing a hiring freeze for all staff in late April; and

- implementing a $939,000 statewide budget for program services for May and June 2000.

However, officials in the Division also implemented other procedures that appear inconsistent with federal program rules requiring that the delivery of program services not be changed as a result of a projected financial shortfall. For example, before April 2000, counselors could authorize up to $2,000 in program services without obtaining approval from their supervisors. Beginning in early April, counselors were required to obtain the approval of either the Division's administrator or its deputy administrator before any program service could be purchased, regardless of the cost. In early May the procedure was changed again: counselors were allowed to purchase program services costing less than $200, but more expensive purchases required the approval of district managers.

Implementation of this policy resulted in significant delays to necessary approvals and to service delivery. For example, at one point in late April the Division's deputy administrator needed to review 560 authorizations, and in early June one district manager said he was still reviewing service requests that counselors had submitted two months earlier. The Division's central office and district managers indicated in internal correspondence that they were unable to review service requests in a timely manner, and many district managers have acknowledged the review process delayed the delivery of services.

The Division's actions in April and May resulted in service disruptions.

Numerous documents and correspondence from district managers to staff also indicate program services were delayed and likely denied. For example, district managers told staff:

- on April 5 to cancel existing program services that had been authorized but not yet provided and to refrain from requesting additional program services;

- on April 6 to submit no new service requests, including travel, meals, and lodging in support of third-party contracts that still had funds available;

- on April 21 that the program had insufficient funds to maintain current spending levels; and

- on May 8 either to cancel existing purchase orders so the funds could be used for other program services or to inform participants that new services could not be purchased because the program had only a small amount of funds, which were reserved for emergency situations.

On April 20, the Division's administrator directed staff in an e-mail message to review outstanding program service requests and to postpone or cancel them, if possible, and to postpone until after July 1 program services that had been approved but not yet provided. On May 24, the administrator clarified that after funds had been located to cover the projected shortfall, district managers were told to inform staff to ignore his April 20 e-mail message.

We obtained several other documents suggesting services had been delayed or denied. For example, one counselor wrote that her district manager had cancelled all of her outstanding purchase orders and refused to authorize the purchase of any medications, which the Rehabilitation Act of 1973 considers an allowable service. Another counselor wrote that after officials did not approve her service requests, other counselors in her district hesitated to submit requests because they believed the requests would be denied by officials. One district manager wrote to a participant who had been in the program for two years that unresolved budget issues were preventing the program from purchasing a computer the participant needed for a home-based business.

Counselors have been frustrated with the contradictory information they received about the program's financial condition. For example, in May and June 2000, they were instructed to use portions of the $939,000 budget that was implemented in response to the program's projected financial shortfall to provide all necessary services. However, counselors had access to as little as $2,000 each, which they said was inadequate to serve all participants. Program officials in the Department and the Division told us staff had been informed that additional funding was available if needed, but many counselors stated they had been told that no additional funds existed. One document we obtained, written by a district manager, corroborated the counselors' statements, but the district manager instructed counselors not to tell participants that the program had exhausted its funding.

Some counselors believe disabled individuals were placed at risk because of the disruption in program services. For example, a blind diabetic was declared eligible for the program in March 2000, and the participant's counselor requested in late March that the program purchase a $200 piece of equipment to help monitor the participant's blood sugar. Authorization to purchase the equipment, which is consistent with the Rehabilitation Act and would normally have occurred in the district, was not provided by central office officials until late April. This delay jeopardized the individual's health, in the opinion of the counselor.

Improved Planning and Financial Management

Inadequate planning and financial management contributed to the projected shortfall.

Good financial planning requires the receipt of accurate and complete expenditure data and the analysis of those data. While increasing program costs may have helped create the financial crisis, we believe that it could have been minimized if program officials had adequately completed the financial planning required by federal law and if they had effectively managed the program's budget when it became clear in late 1999 that a projected shortfall was developing.

Officials in the Division offer a number of reasons for the program's financial difficulties, including recent funding reductions and increased costs. In addition, they state that the costs of some services, including tuition at post-secondary institutions and rehabilitation technology, are increasing. Finally, they suggest that the federal government has provided insufficient funding to keep the program open to new participants. However, these reasons do not fully explain either why the projected shortfall occurred or the failure to respond promptly.

The projected shortfall is the difference between projected revenues and expenditures. Program officials could have developed reasonable estimates of the cost of services the program would incur by examining past expenditure trends. For example, from FFY 1997-98 to FFY 1998-99, the cost of services increased 18.7 percent, from $30.0 million to $35.6 million. In addition, the average time needed to determine an applicant's eligibility for program services declined from 50 days to 38 days in approximately the same time period. Absent clear direction to counselors to modify procedures, officials should have anticipated these trends would continue during FFY 1999-2000 and result in higher costs.

The program's annual vocational rehabilitation state plan, which was approved by the federal government in October 1999, indicates program officials had completed some of the planning required by federal law. For example, they estimated the program would serve 26,100 individuals in FFY 1999-2000, at a cost of $34.5 million. However, the estimates were flawed because they:

The Department's annual program planning was incomplete and contained errors.

- were based on the number of participants in FFY 1997-98 and failed to account for increasing participation in the first quarters of FFY 1998-99. As a result, the number of participants that officials estimated the program would serve in FFY 1999-2000 was less than the actual number served in FFY 1998-99, which was unlikely to occur.

- did not take into account more than 8,500 participants in FFY 1997-98, who were served at a cost of $5.4 million. This population includes participants who entered the program before an order of selection was implemented in December 1994 and who therefore have not been assigned a category from A through G, as well as individuals in the order of selection category G, who receive initial assessments but no other services.

- did not take into account the cost of serving participants with different levels of disabilities. For example, the 7,070 most-significantly disabled participants each received an average of $1,077 in services in FFY 1997-98, while the 795 least-significantly disabled participants each received an average of $39 in services. An accurate estimation of expenditures is not possible if these cost differences are not included in planning efforts.

- did not estimate the amount of funding that would be available and did not conclude whether available funds would be sufficient to serve all participants.

Available information indicated a shortfall would likely occur in FY 1999-2000.

It would have been possible at the time the state plan was developed to estimate the program's FY 1999-2000 expenditures more accurately. Using the number of participants in the prior two federal fiscal years, and presuming the cost of program services would not increase in FY 1999-2000, we estimated that officials should have known at the start of FY 1999-2000 that the program would face a shortfall of at least $4.5 million, including both federal and state funds.

Our estimate is conservative. To the extent the cost of program services increased, as officials believed was occurring, the shortfall would have been larger. Furthermore, officials should have expected costs to increase as a result of the reengineering initiative, which includes the goals of reducing the time required to make eligibility determinations and to deliver services to eligible applicants for program services.

Program officials in the Division stated that they were unaware of the projected shortfall until late February 2000 because in October 1999, the Department had replaced financial tracking software that was not year 2000 compliant. Although officials in the Department believe the new software provides sufficient financial information, many district managers and staff stated that it does not give them the detailed financial information they need about individuals' cases or the amount of funds encumbered to purchase program services. Officials in the Division believe information that the old software provided is necessary for effective financial management, but the old software did not enable program officials to prevent the 1998 projected shortfall from occurring.

The Department tracked the projected shortfall's development but took no action for months.

Beginning in October 1999, officials in the Department notified the Division that program expenditures and encumbrances were increasing rapidly. As was noted in Table 13, the projected shortfall, which was communicated each month, rose steadily from $1.9 million in January 2000 to $3.3 million in February and to $7.0 million in March. However, despite the apparently escalating fiscal crisis, officials in the Department and the Division took no action until late February 2000.

In late May 2000, officials in the Department indicated to legislators that steps had been taken to ensure future service disruptions were unlikely to occur. Nevertheless, the Department announced in July that it would close the program to new participants on August 21, 2000, because of projections that showed available funds would be exhausted by serving existing program participants. The program continues to serve current participants, but new applicants are placed on a waiting list that ranks them based on their order of selection category. Program officials estimate that category A—the category for the most-significantly disabled—may be reopened in mid-2001, but they state that until the Department is able to determine future program service costs with greater certainty, the program will remain closed to new participants.

It is unclear whether future service disruptions will occur. For example, program officials were concerned during FY 1999-2000 that the program would exhaust its GPR before July 1, 2000, but they erroneously believed that sufficient federal funds were available to serve all current participants and new applicants through September 2000. In addition, it is not known at the present time whether the program will have sufficient GPR to match federal funding for FFY 2000-01, or whether the available federal funding will be sufficient for the entire federal fiscal year. Thus, there continue to be concerns that another projected shortfall could occur in the near future.

Department officials indicate they are monitoring the program's budget on a monthly basis. However, neither they nor officials in the Division can expect to prevent another projected shortfall without adequate planning and detailed and accurate expenditure and encumbrance information. Therefore, to assist the Legislature in its oversight of the program's financial condition, and to allow program officials to better plan for and monitor program expenditures, *we recommend the Department of Workforce Development:*

- *report quarterly to the Joint Legislative Audit Committee and the Joint Committee on Finance on projected revenues and expenses, and develop a reasonable estimate of when the program can be reopened to new participants; and*

- *before the beginning of each federal fiscal year, estimate both the costs of services to be provided and the number of participants it anticipates serving in each order of selection category, and modify those estimates if ongoing planning and financial management indicate available revenues are unlikely to allow the program to serve all eligible participants.*

Allocation of Funding Among Districts

To ensure funding for program services is distributed equitably statewide, program officials stated they annually allocate most funding according to a formula that takes into account demographic information about the number of disabled individuals residing in each district and the number of program applicants and participants in prior years. However, program officials were unable to provide us with information showing that an allocation formula is actually used.

In 1991, when we last analyzed the formula for allocating funding for services among the program's 21 districts, the formula was based solely on estimates of the number of disabled individuals living in each district, and our report (report 91-13) found average per person expenditures for program services varied widely among the districts. That report recommended program officials modify the allocation formula to take into account the actual number of disabled individuals who applied for and received services in each district.

Division officials stated that in response to our report 91-13, they modified the allocation formula in October 1991 so that funds would be distributed according to three factors:

- 1990 census estimates of the number of disabled individuals living in each district, which determined 50 percent of the funding amount that districts received;

- the number of participants who received program services in each district during the prior three years, which determined 40 percent of the funding amount that districts received; and

- the number of program applicants in each district during the prior three years, which determined 10 percent of the funding amount that districts received.

In a 1993 follow-up report, program officials stated that a primary goal of the allocation formula was to ensure funding equity among districts. Their report concluded that the formula had not been in place long enough for definitive conclusions to be made about its effectiveness at meeting this goal.

Program officials could not demonstrate that they use a definable allocation formula to distribute funds to the districts.

Since 1993, program officials have not attempted to analyze the formula's effectiveness at equalizing expenditures. However, they stated that they still use the 1991 formula to allocate funding and that they redistribute funding during the fiscal year if some districts' costs are higher than anticipated. For our current evaluation, program officials were unable to provide information showing how the formula's initial allocation amounts were generated during the past five years. For example, they provided us with internal memoranda showing three separate allocations to the districts during FY 1998-99. However, none of the memoranda demonstrated how the amounts allocated to each district had been determined, nor were officials able to reconcile the total allocated with reported expenditures for program services. They were also unable to provide information on how funds were redistributed among districts throughout each fiscal year as under- or over-spending developed.

To determine spending patterns, we estimated the amounts that would have been distributed to each of the 21 districts at the start of FY 1998-99 if the allocation formula had, in fact, been used, and we compared those amounts to each district's actual expenditures. As shown in Table 15, nine districts spent less than the amounts they should have been allocated by the formula, including five districts—Milwaukee Southeast, Fond du Lac, Milwaukee Northeast, Superior, and Wausau—that spent at least 20 percent less than their formula allocations. In contrast, 12 districts spent more than their allocations. The disparities between the allocations and actual expenditures could mean either that the formula inadequately distributed funds or that districts spent excessive amounts for services. The precise reason for the disparities is not known.

Table 15

Actual Direct Service Expenditures versus Formula Allocations
FY 1998-99

District	Actual Expenditures	Formula Allocations	Difference	Percentage Difference
Milwaukee Southeast	$ 855,523	$ 1,259,158	($403,635)	(47.2%)
Fond du Lac	627,017	918,937	(291,920)	(46.6)
Milwaukee Northeast	1,380,086	1,920,117	(540,031)	(39.1)
Superior	584,514	716,981	(132,467)	(22.7)
Wausau	606,647	731,627	(124,980)	(20.6)
Green Bay	1,653,584	1,917,394	(263,810)	(16.0)
Madison West	1,785,638	1,987,637	(201,999)	(11.3)
Milwaukee Southwest	1,304,243	1,404,784	(100,541)	(7.7)
Kenosha	1,137,065	1,194,947	(57,882)	(5.1)
Janesville	1,491,296	1,469,435	21,861	1.5
Rhinelander	834,444	814,136	20,308	2.4
Racine	1,094,197	1,066,607	27,590	2.5
Sheboygan	848,167	811,431	36,736	4.3
Spooner	819,714	773,603	46,111	5.6
La Crosse	1,765,225	1,622,971	142,254	8.1
Milwaukee Northwest	2,013,128	1,841,265	171,863	8.5
Wisconsin Rapids	994,137	898,743	95,394	9.6
Oshkosh	2,028,212	1,826,084	202,128	10.0
Madison East	1,918,342	1,665,153	253,189	13.2
Waukesha	2,901,566	2,345,933	555,633	19.1
Eau Claire	2,811,980	2,267,782	544,198	19.4
Total	$29,454,725	$29,454,725	$ 0	

Funding allocations for program services should be better managed.

The Department's inability to develop an effective, defensible allocation system is of concern because it may mean that program participants do not receive consistent services. Therefore, *we recommend the Department of Workforce Development*:

- *use the allocation formula to distribute 80 percent of Vocational Rehabilitation program funding for services to each district at the start of each fiscal year, and hold the remaining 20 percent in reserve;*

- *require districts to provide written justification if they need additional funding from amounts held in reserve or do not spend all of their initial allocation; and*

- *assess the allocation formula's effectiveness annually, and determine whether modifications to the formula are necessary to achieve the stated goal of funding equity statewide*.

Documentation of Expenditures

We found poor record-keeping in many of the case files we reviewed. The policies and procedures manual contains provisions that require vocational rehabilitation counselors to verify that program participants received the services for which the program paid. For example, when payments are made directly to participants so they can purchase bus passes, food, transportation, and similar services themselves, the manual requires counselors to document that the funds were spent as intended. Counselors stated that expenditures are typically documented by collecting receipts. However, we found no verification for a significant proportion of the funds provided directly to participants, resulting in concerns that they could have been used inappropriately. In addition, the Division's data on spending for each participant often did not reconcile with the expenditure information documented in the case files we reviewed, resulting in concerns that the Division is unable to budget accurately for program services.

Receipts for 96 percent of 600 payments made to participants were not in the files.

We reviewed the documentation for each expenditure in 50 files closed in FFY 1998-99, but we could not find receipts for 96 percent of 600 payments made directly to participants for their own purchase of program services. The value of the payments unsupported by receipts was $107,879; federal officials may eventually consider these expenditures to be inappropriate. In 18 files, no receipts were included for any of the payments made directly to participants. In some files, the amount of payments unsupported by receipts was significant. For example:

- $18,594, or 96.5 percent of the $19,259 paid to one participant for services such as child care, books and supplies, and transportation, was unsupported by receipts;

- $14,113, or 98.6 percent of the $14,308 paid to another participant for services such as child care, tutoring services, books and supplies, and transportation, was unsupported by receipts; and

- $11,636, or 98.3 percent of the $11,834 paid to a third participant for services such as transportation, books and supplies, clothing, and supplies for an employment search, was unsupported by receipts.

Some counselors stated that they require participants to provide receipts for every program service purchased. However, others reported that they did not always collect receipts, especially if they believed the participants would spend the funds appropriately. For example, one counselor noted that if a participant who had enrolled in school requested payment to purchase textbooks, the counselor would provide the funds and presume they were used appropriately. Another counselor stated that if he gave a participant funds to purchase computer equipment, he would visit the participant and visibly ascertain that the equipment had been purchased, but he would not necessarily request a receipt.

Without adequate documentation such as receipts, it cannot be known whether participants used program funds to purchase the intended program services. It also cannot be known whether the actual costs of program services were the same as the amounts provided to participants. Late in 1999, the Department introduced new financial tracking software that does not allow counselors to request additional services unless they indicate that receipts have been obtained for prior program services; however, the software appears to allow counselors to indicate receipts have been obtained even if they have not.

Summary program expenditure data did not match the amounts indicated in case files.

In addition to the absence of receipts, reports of total expenditures for individual cases often did not match the totals in the case files. Program staff provided data that indicated expenditures in the 50 files we reviewed totaled $992,506. However, our file review indicated $86,604 more than the summary data amount was spent in 21 cases, and our review also indicated $80,189 less than the summary data amount was spent in 18 other cases. In some instances, the discrepancies between the summary data and the amount supported by documentation in the files was considerable. For example, the program reported spending:

- $62,409 for one participant, but our file review identified an additional $64,157 in expenditures;

- $63,370 for one participant, but our review identified an additional $12,203 in expenditures;

- $46,434 for one participant, but our review found documentation indicating only $22,460 in expenditures; and

- $26,029 for one participant, but our review found documentation indicating only $3,453 in expenditures.

Without receipts for program services purchased by participants, program officials cannot be certain funds were spent appropriately. In addition, significant variations between the summary expenditure data and the amounts documented in the case files demonstrate a lack of financial oversight of the program. Without accurate summary data that show the amount spent on each program participant, program officials are unable to plan appropriately for future costs, which increases the likelihood of management decisions leading to financial problems. Therefore, *we recommend the Department of Workforce Development require vocational rehabilitation counselors to consistently collect receipts for all services purchased by program participants and ensure, through periodic reviews by district managers, that expenditure data developed for reporting and management purposes accurately reflect the actual amounts spent on each program participant*.

Third-Party Contracts

The Division contracts with other agencies to provide specialized services.

Federal law allows Vocational Rehabilitation program officials to contract with other public agencies, which are required to contribute their own state funds to provide the 21.3 percent match for the primary federal aid program and to provide new or innovative services to program participants. The program relies on these third-party contracts because it has had insufficient GPR to match all available federal funds, especially after two $500,000 reductions in its GPR appropriation in the 1995-97 and 1997-99 biennial budgets, which were proposed by the Governor and supported by the Legislature.

While program services are provided to participants by these other agencies, federal law requires the Department to maintain oversight. However, program officials have exercised only minimal oversight of the contracts, and a number of contracting agencies have provided services to fewer participants than originally planned but received almost all of their contract amounts.

Under third-party contracts, agencies such as public universities agree to provide specific types of services to program participants during a specified contract period. Contract language prohibits the contracting agencies from using other federal funds as the matching funds. After the contracting agencies provide the services, program officials use federal Vocational Rehabilitation funds matched by the contracts to reimburse the agencies for a portion of the cost of services.

The value of third-party contracts has increased significantly in recent years.

As shown in Table 16, the value of third-party contracts rose steadily since FFY 1994-95. In the six-year period shown, the increase was 184.1 percent. During this period, the proportion of overall expenditures for program services funded by third-party contracts rose from less than 10 percent to approximately 20 percent. In FY 1999-2000, contracting agencies provided $1.7 million in support of the contracts.

Table 16

Third-Party Contract Amounts

	Contracting Agency Funds	Federal Funds	Total
FFY 1994-95	$ 609,200	$2,250,900	$2,860,100
FFY 1995-96	651,800	2,408,300	3,060,100
FFY 1996-97	850,000	3,140,600	3,990,600
Oct. 1997 - June 1998	1,245,800	4,603,000	5,848,800
FY 1998-99	1,557,400	5,754,300	7,311,700
FY 1999-2000	1,730,900	6,395,400	8,126,300

Like expenditure data for vocational rehabilitation services, budget information for third-party contracts began to be reported on a state fiscal year basis beginning in June 1998. However, the actual contracts for that year were in effect for different periods, typically from October 1998 through September 1999. More recent contracts were in effect from October 1999 through June 2000. Staff in the Division have indicated that future contracts will be signed on a state fiscal year basis.

As shown in Table 17, program staff reported that 100 third-party contracts were in effect from October 1999 through June 2000. According to information they provided, third-party contractors included 28 local agencies, such as county departments of social services, which had 38 contracts; 14 technical colleges and University of Wisconsin (UW) campuses, which had 58 contracts; and 3 state agencies—including the departments of Corrections and Commerce, as well as the Department of Workforce Development's Division of Workforce Excellence—which had 4 contracts. The contracts identify the type of services to be provided, such as note-taking or interpreting for program participants enrolled in college courses, assessing participants' vocational skills, and helping participants locate and apply for jobs, for a specified dollar amount.

Table 17

Third-Party Contracts, by Type of Contracting Agency
October 1999 through June 2000

Type of Contracting Agency	Number of Contracts	Contract Amount	Percentage of Total
Post-secondary institutions	58	$4,152,943	49.7%
Local agencies	38	3,165,913	37.9
State agencies	4	1,032,449	12.4
Total	100	$8,351,305	100.0%

Third-party contracts can be advantageous for the program. For example, if program officials determine that interpreters or academic aides will likely be needed for participants enrolled in a post-secondary institution, it is financially beneficial for the program if the institution contributes the 21.3 percent funding match, thereby paying for a portion of the costs. Without such a contract, the Vocational Rehabilitation program would need to pay the 21.3 percent matching amount. On the other hand, without proper planning, the services a contracting agency agrees to provide throughout the contract period may not necessarily be those most needed.

Contract Management Issues

The Division does not collect basic information about its third-party contracts.

The Division's central office is responsible for managing the program's third-party contracts. However, we found that the Division's central office does not maintain basic programmatic and financial information to ensure effective statewide contract management or effective use of program funds. For example, during our evaluation, central office staff were able to provide us with copies of only 19 of the 100 third-party contracts in effect for October 1999 through June 2000, although we requested all contracts. Central office staff do not collect information about the number of participants served under each contract, and since 1999 agencies have not been required to estimate in their contracts the number of participants they plan to serve. In addition, the Division's central office does not produce summary reports on contract activity or determine which particular program services could best be provided by the contracts.

Some district managers stated that they review third-party contracts quarterly and collect information on the number of participants served under each contract, but this information is not sent to the Division's central office. District managers stated that they recommend to the central office which contracts are effective and should therefore be renewed. However, some district managers told us the central office had signed contracts that they consider to be ineffective and unnecessary.

Agencies may be paid the full contract amount even if they serve fewer participants than planned.

Further, FFY 1998-99 contracts were structured so that each contracting agency agreed to provide services to a certain number of participants, typically ranging from about 10 to 100. Regardless of the number of participants actually served, these contracts allow contracting agencies to bill the program for the full contract amount. As a result, on a per person basis the cost of program services could be far higher than originally anticipated, and federal officials could eventually question whether all of these costs were appropriate.

We reviewed summary information for 37 contracts for FFY 1998-99 that provided services to 1,171 participants. These contracts had anticipated serving 1,672 participants. Five agencies in particular received the majority of their FFY 1998-99 contract amounts while serving relatively few participants:

- Milwaukee Area Technical College served 11 of the 100 participants anticipated in its $230,876 contract, or 11.0 percent, and received payment of $210,338, or 91.1 percent of the full contract amount;

- Northeast Technical College served 4 of the 12 participants anticipated in its $39,000 contract, or 33.3 percent, and received payment for the full contract amount;

- Waukesha County Technical College served 19 of the 50 participants anticipated in its $75,909 contract, or 38.0 percent, and received payment of $68,189, or 89.8 percent of the full contract amount;

- UW-Whitewater served 20 of the 50 participants anticipated in its $67,987 contract, or 40.0 percent, and received payment of $63,867, or 93.9 percent of the full contract amount; and

- North Country Independent Living Center served 12 of the 20 participants anticipated in its $50,000 contract, or 60.0 percent, and received payment of $49,994.

As noted, beginning in October 1999 program officials stopped requiring contracting agencies to estimate the number of participants to be served. Instead, contracting agencies are now required to provide a unit cost for their services, such as $2,000 per participant per semester for providing interpreter services. However, current contracts continue to allow agencies to claim the entire contract amount, regardless of the amount of services actually provided.

Some contracting agencies have served more participants than was anticipated in their contracts. During FFY 1998-99, 12 contracts served 595 participants, although they anticipated serving 416. For example, UW-Whitewater provided services to 117 participants under one contract that anticipated serving 60, Gateway Technical College provided services to 117 participants under one contract that anticipated serving 80, and the Brown County Human Services Department provided services to 30 participants under one contract that anticipated serving 11.

The Vocational Rehabilitation program may incur transportation and lodging expenses if participants living in other areas of the state must travel to contracting agencies to receive their services. Counselors indicated that these costs can sometimes be considerable. However, information showing the extent to which such costs are incurred by the program is not available.

The two largest third-party contracts have been with the Department of Commerce.

The program's two largest third-party contracts have been with the Department of Commerce, for efforts to encourage businesses statewide to hire disabled individuals. However, the contracts have resulted in employment for fewer disabled individuals than anticipated and have incurred high costs.

One of these contracts is the Job Creation Program, a $3.9 million contract between the Division and the Department of Commerce that began in October 1996. The Job Creation Program provided funds to businesses that agreed to expand their operations and to reserve newly created jobs for Vocational Rehabilitation program participants. Department of Commerce staff stated that businesses were required to make good-faith efforts to hire participants but could hire non-disabled individuals if necessary.

The Job Creation Program has achieved only modest employment results. Although it continued to incur expenses through September 2000, its expenditures totaled $1.5 million, or 38.5 percent of the contract amount, through June 2000. Available information indicates that 117 participants had been hired at a cost of $12,821 each, which is nearly three times as much as the Vocational Rehabilitation program's average rehabilitation cost in FFY 1998-99. Of the 117 participants hired, 63 were employed for at least 90 days, which Vocational Rehabilitation officials consider to be a successful outcome; 51 participants kept their jobs for an average of 27 days each, and the length of employment for 3 participants is unknown.

Both Vocational Rehabilitation and Department of Commerce officials stated they had concerns about the Job Creation Program's effectiveness at creating jobs at a reasonable cost. As a result, the Job Creation Program was replaced by the Vocational Rehabilitation Economic Development Program in October 1999. This new program has a goal of finding jobs for 50 participants; 40 of these individuals are to be employed for at least 90 days. Under the program, businesses may be reimbursed for up to 75 percent of the wages paid to participants who maintain their employment for at least 90 days.

The Vocational Rehabilitation Economic Development Program's budget for October 1999 through June 2000 was $435,444, including $93,104 in GPR to match federal funds. The program funded 4.2 FTE positions in the Department of Commerce, including one-quarter of a bureau director's position. Department of Commerce staff reported that $157,177, or 36.1 percent of the program's budget, had been spent through June 2000, and six participants had been hired. The contract was extended through December 2000. Program officials in the Division stated the contract will not be extended again.

Better management of third-party contracts is needed.

If the Legislature wishes to eliminate the Vocational Rehabilitation program's reliance on third-party contracts as a means of matching federal funds, it could provide the program with additional GPR. In FY 1999-2000, an additional $1.7 million would have been needed to replace the amount contributed by third-party contracting agencies. However, if the Department continues to rely on third-party contracts to provide program services, we believe it needs to manage the contracts more effectively to ensure cost-effective delivery of high-quality services. Therefore, *we recommend the Department of Workforce Development:*

- *include estimates of the number of Vocational Rehabilitation program participants to be served in all third-party contracts; and*

- *collect and analyze basic programmatic and financial information on third-party contracts, including contract expenditures and a comparison between estimated and actual numbers of program participants served by the contracts.*

****

Concern has been expressed about counselors' salary levels and caseloads.

The Division's vocational rehabilitation counselors determine whether disabled individuals are eligible to receive program services, work with those who are eligible to develop individualized plans for employment, and arrange for services that will allow program participants to attain their employment goals. Some legislators and others have expressed concern that counselors are underpaid and are responsible for too many cases, which they believe has led to difficulties in recruiting and retaining sufficient numbers of qualified counselors. The Legislature recently approved two pay increases for counselors, but the extent to which the increases will help recruitment and retention efforts is not yet known, and continuing management problems will likely challenge efforts to hire sufficient numbers of qualified counselors.

Chapter 457, Wis. Stats., authorizes the Department of Regulation and Licensing to grant professional counselor certificates to applicants with two years of full-time supervised clinical experience and a masters degree or one year of full-time supervised clinical experience and a doctorate degree, as well as successful completion of a State competency examination. The Department employs three types of vocational rehabilitation counselors:

- in-training counselors, who have graduate degrees but do not yet have professional counselor certificates;
- objective counselors, who have professional counselor certificates and are expected to perform their duties with limited supervision; and
- senior counselors, who have professional counselor certificates and are expected to take a lead role in the delivery of services.

Counselor Wages

The Legislature approved a pay increase for counselors in June 1999.

A June 1999 pay increase reduced the gap between in-training counselors' entry-level wages and the wages of their counterparts in six surrounding midwestern states. As shown in Table 18, June 1999 wage increases averaged $4,176 for 27 in-training counselors and about half that amount for both objective and senior counselors. The nine highest-paid counselors did not receive pay increases in June 1999.

Table 18

June 1999 Pay Increase, by Counselor Type

Counselor Type	Number of Counselors*	Average Annual Wage before June 1999	Average Annual Wage in June 1999	Average Increase
In-training	27	$23,928	$28,104	$4,176
Objective	14	28,961	31,090	2,129
Senior	154	36,164	38,336	2,172
Overall	195	33,951	36,394	2,443

* Reflects the number of filled positions; the number of authorized positions is higher.

Entry-level counselors earn as much, on average, as staff in six other states.

As shown in Table 19, seven months after the June 1999 wage increase took effect the minimum annual wage for Wisconsin's in-training counselors exceeded annual minimums in three other midwestern states, but it remained slightly below the average for all six midwestern states.

Table 19

Counselor Annual Pay Ranges
January 2000

	Minimum	Maximum
Illinois	$25,836	$45,828
Indiana	25,064	53,872
Iowa	25,250	38,500
Michigan	30,380	48,734
Minnesota	28,251	48,497
Ohio	28,766	49,254
Average	27,258	47,448
Wisconsin	26,994	41,572

It should be noted that a second pay increase for senior counselors in Wisconsin, which took effect in July 2000, increased their annual earnings to between $34,208 and $44,458. However, the maximum counselor wage in effect as a result of that increase remains below the January 2000 maximum in five of the six other midwestern states. Furthermore, several of the other midwestern states indicated their counselors' wages will increase in 2000.

Some with whom we spoke believe nonprofit organizations, insurance companies, and other private-sector firms pay considerably higher wages to individuals who have qualifications similar to the Vocational Rehabilitation program's counselors. Thirteen of 19 May 1999 graduates of UW-Stout's vocational rehabilitation graduate program accepted employment with nonprofit organizations. School officials reported that their annual wages averaged $31,125, which is 10.7 percent more than the average wage of $28,104 earned by the program's in-training counselors in June 1999. However, comparing wages between the public and private sectors is difficult because of differences in job requirements, fringe benefits, job security, and other factors.

Counselor Caseloads

Based on statewide averages, Wisconsin and other midwestern states had similar caseloads.

Despite differences in wage amounts, we found caseload levels were similar for counselors in Wisconsin and other midwestern states in January 2000. However, considerable differences in average caseloads existed among counselors in Wisconsin's 21 districts.

In Wisconsin, the average caseload was 107.6 in January 2000; in comparison, average caseloads in six other midwestern states were 111.3. Statewide averages were 100 cases per counselor in Michigan and Ohio, 110 cases per counselor in Illinois, 115 cases per counselor in Minnesota, 118 cases per counselor in Indiana, and 125 cases per counselor in Iowa.

Average counselor caseloads varied considerably among the 21 districts.

Although Wisconsin's statewide average of 107.6 cases per counselor was consistent with statewide averages in the Midwest, average caseloads in individual districts in Wisconsin varied considerably. As shown in Table 20, in January 2000, counselors in the Madison East district had an average caseload of 142.8, which was 72.3 percent more than the average caseload of 82.9 in the Fond du Lac district. Average caseloads in four districts exceeded 125, while average caseloads in nine districts were less than 100.

Table 20

Average Counselor Caseloads, by District
January 31, 2000

District	Average Caseload
Madison East	142.8
Rhinelander	128.4
Milwaukee Northeast	125.3
Waukesha	125.1
Madison West	119.1
Milwaukee Northwest	110.9
Wausau	109.0
Statewide	**107.6**
Milwaukee Southeast	107.3
Racine	106.8
La Crosse	106.5
Eau Claire	106.3
Oshkosh	103.5
Janesville	96.6
Sheboygan	94.3
Green Bay	92.8
Superior	92.8
Spooner	90.4
Kenosha	90.3
Wisconsin Rapids	89.7
Milwaukee Southwest	85.3
Fond du Lac	82.9

Staffing and Turnover Levels

As noted, the Department is authorized to employ 391.25 FTE Vocational Rehabilitation program staff, including 214 counselors. Counselors are supervised by program managers in the district offices, and administrative staff provide support to counselors and district office managers. We were told that turnover among staff has been high in recent years and that this turnover has affected the program's ability to serve participants effectively.

As shown in Table 21, the counselor turnover rate was 11.2 percent in 1998, and 9.4 percent in 1999. However, in 1999, turnover among other staff in the Division was much higher, at 20.3 percent.

Table 21

Turnover Rates, by Staff Type

	January 1998 to January 1999	January 1999 to December 1999
Counselors	11.2%	9.4%
All other staff in the Division	9.8	20.3

Turnover among experienced counselors is expected to increase.

Program officials in the Division anticipate that counselor turnover will increase during the next several years because of increased retirements. An average of 6.0 counselors retired each year from 1993 through 1999, but an average of 14.5 counselors are expected to retire each year from 2000 through 2003. Program officials in the Division acknowledge that replacing these experienced counselors may be challenging.

In April 2000, when the Department implemented a hiring freeze in response to the program's projected financial shortfall, 17 of 214 counselor positions, or 7.9 percent, were vacant. In addition, 16.7 percent of district management positions and 13.1 percent of support staff positions were vacant. According to counselors, vacancies in these positions have affected the time they have available to work with program participants, as well as the quality of service the program is able to provide.

The program is considering ways to attract and retain qualified counselors.

In January 2000, a committee of Vocational Rehabilitation program officials and staff completed an analysis of recruitment and retention issues. The committee's suggestions for increasing the number of qualified counselors include:

- extending job offers to individuals nearing completion of their graduate school programs;

- recruiting in other states and from qualified disabled individuals served by the program;

- paying graduate students in vocational rehabilitation programs to work as interns, as occurs in Minnesota;
- creating a comprehensive orientation and training program for new counselors;
- developing more flexible position descriptions, such as permitting more counselors to specialize in particular service areas and allowing flexible work hours and locations; and
- ensuring that new counselors receive the requisite supervised clinical supervision within two years of beginning employment and that senior counselors, rather than district managers who no longer work with participants on a daily basis, provide that supervision.

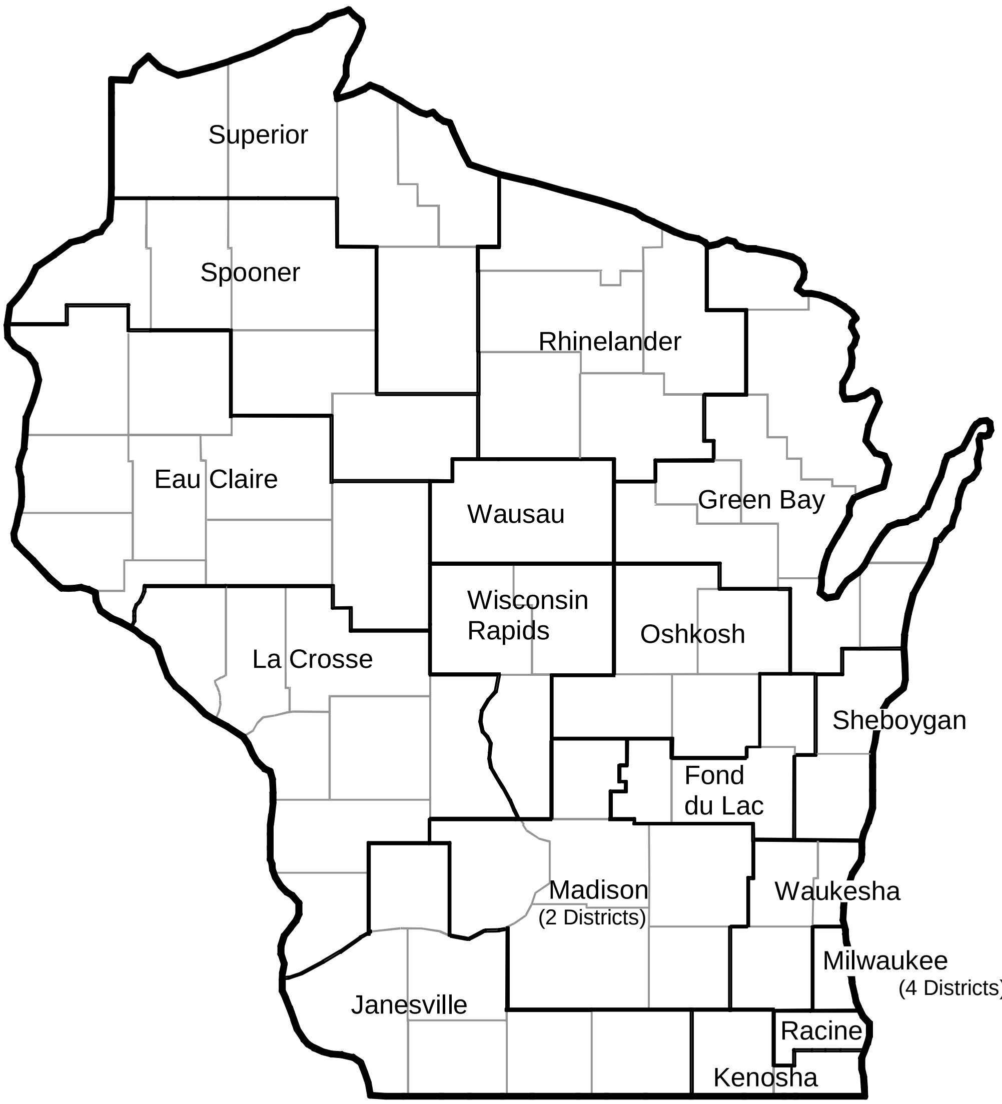
Management problems have made it difficult for the program to attract and retain counselors.

In August, the program began accepting applications from graduate students who had not yet completed their degrees, with the understanding that an advanced degree was a condition for employment. However, none of the other suggestions proposed by the committee had been implemented as of early August. Many counselors have indicated that morale among existing staff is low, that they have been frustrated by recent management efforts to control the program's funding crisis by limiting counselors' ability to authorize program services and expenditures, and that both low morale and inadequate management have affected the program's ability to recruit and retain sufficient numbers of qualified counselors and serve disabled individuals successfully.

****

APPENDIX I

Division of Vocational Rehabilitation Districts



The map shows the location of the Division of Vocational Rehabilitation's 21 districts in effect from FFY 1994-95 through FFY 1999-2000. The Madison East district serves Dane County, while the Madison West district serves the counties surrounding Dane County. Milwaukee County is served by the Milwaukee Northwest, Northeast, Southeast, and Southwest districts.

APPENDIX II

Vocational Rehabilitation Program Service Expenditures and Individuals Served
FFY 1994-95 through FFY 1998-99

Expenditures for Services, by Order of Selection Category*

Category	FFY 1994-95	FFY 1995-96	FFY 1996-97	FFY 1997-98	FFY 1998-99
A	$ 1,690,696	$ 4,958,372	$ 7,763,907	$ 7,615,516	$ 9,680,834
B	1,296,952	3,704,965	6,246,296	6,062,068	7,828,957
C	1,382,239	4,501,229	7,084,660	6,907,714	8,907,350
D	88,998	129,600	253,717	294,487	370,738
E	814,388	2,179,583	2,976,287	2,683,281	3,259,099
F	222,066	722,071	1,121,379	1,101,294	1,483,421
G	80,836	56,729	49,278	30,636	46,439
Unknown**	24,769,596	14,605,091	9,523,127	5,321,406	4,169,255
Total	$30,345,771	$30,857,640	$35,018,651	$30,016,402	$35,746,093

* Expenditure data by order of selection category differ from those provided earlier in the report because of limitations in the program's various reporting systems.

** Individuals who entered the program before December 1994 were not categorized according to order of selection.

Disabled Individuals Served, by Order of Selection Category

Category	FFY 1994-95	FFY 1995-96	FFY 1996-97	FFY 1997-98	FFY 1998-99
A	2,157	4,777	6,307	7,070	7,743
B	2,005	4,336	5,829	6,504	7,083
C	2,354	5,084	6,723	7,509	8,190
D	90	180	282	323	308
E	1,184	2,459	2,983	3,181	3,295
F	390	899	1,219	1,371	1,539
G	491	762	756	795	750
Unknown*	28,012	16,880	11,433	7,777	6,687
Total	36,683	35,377	35,532	34,530	35,595

* Individuals who entered the program before December 1994 were not categorized according to order of selection.

Tommy G. Thompson
Governor

Jennifer Reinert
Secretary

State of Wisconsin
Department of Workforce Development

OFFICE OF THE SECRETARY
201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946
Telephone: (608) 266-7552
Fax: (608) 266-1784
http://www.dwd.state.wi.us/
e-mail: DWDSEC@dwd.state.wi.us

October 9, 2000

Janice Mueller
State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear State Auditor Mueller :

The purpose of this letter is to provide the response of the Department of Workforce Development to the recent audit conducted by the Legislative Audit Bureau (LAB) of our Division of Vocational Rehabilitation.

We would like to express our appreciation to the LAB for this report.

We have established a Vocational Rehabilitation "Strategic Reform Task Force" to fully analyze the contents of the report. The report will be of inestimable value to the task force as it begins its deliberations in the next two weeks.

The task force membership will include, but not be limited to: people with disabilities, representatives of advocacy groups, financial and budgeting experts, DVR managers and counselors, Job Center managers, program managers of related programs from other departments, vocational rehabilitation educators and experts, and others in a position to contribute good ideas to our reform effort.
We expect the task force to take complete advantage of the LAB report in assisting this department to implement needed reforms. The task force will make a set of comprehensive recommendations to the department for the re-establishment of our Division of Vocational Rehabilitation as this country's premier vocational rehabilitation program.

I am grateful to the LAB and its staff for the assistance its report will provide in reaching this important objective, which I want, which the leadership and employees and clients of the DVR want.

And I pledge that we will achieve this objective at the earliest possible time.

Despite numerous instances in which we could quibble with the findings of the LAB report, we choose instead to look to the future in a positive way to promote the reforms necessary to make our program the best it can be. In general, the LAB report will be extremely helpful to us as this department, the division, and its leadership and employees work together to serve our clients in the best and most effective manner possible.

There are; however, several matters of factual inaccuracy in the report which if not corrected will lead to further misunderstanding. These are:

- The LAB report suggests that $8.5 million were used to support DVR expenditures. This is incorrect. In the transmittal letter and throughout the report the Legislative Audit Bureau states the Department projected a $7.5 million financial shortfall. We would like to clarify that the projected shortfall estimated at $1.6 million was in the state matching funds required to support existing encumbrances for the program. Federal funding was always part of the ongoing revenue stream and available to support program expenditures. The approximate $4.2 million in federal vocational rehabilitation funds are part of the annual award that supports the program. The approximate $3.2 million in Social Security reimbursement funds are reimbursements to the Department for costs associated with individuals who were successfully rehabilitated. These federal funds ($4.2 million + $3.2 million = $7.4 million) were not part of a shortfall.

- The LAB report calculates the Rehabilitation Rate in a manner that is not consistent with the requirements of the Rehabilitation Services Administration (RSA). The national vocational rehabilitation program has been evaluated against program evaluation standards since 1975. The RSA Performance Standards and Indicators issued June 5, 2000, have 6 indicators under the employment outcomes standard. The six indicators are:

  1. number of individuals achieving an employment outcome;
  2. percent of all receiving services who achieved an employment outcome;
  3. percent of all achieving an employment outcome in competitive, self or BEP at or above the minimum wage;
  4. percent of indicator number 3 with significant disabilities;
  5. average hourly earnings of those in indicator number 3 divided by the State average hourly earnings and;
  6. of those in indicator number 3, the percent with their own income as the primary source of support at program exit versus program entry.

  Wisconsin exceeded all six performance indicators for Federal Fiscal Year 2000 (October 1999 through September 2000).

In closing, let me express our appreciation once again to the LAB for its report. Be assured that the Department of Workforce Development and the Division of Vocational Rehabilitation will respond with great determination to all of the issues in the report and we will take whatever actions are necessary to provide the highest standards of vocational rehabilitation services to our valued clients.

We look forward to providing a complete report to the LAB and the Legislative Audit Committee on the strategic reforms recommended by our task force. We are also planning to ask for an opportunity in about two months to appear before the audit committee to report on the implementation of these strategic reforms. Our goal is to re-establish Wisconsin's vocational rehabilitation program to its rightful place as the best program of its kind in the country and to assure you that we have done so.

Sincerely,

Jennifer Reinert
Secretary