

PERFORMANCE AUDIT

DEPARTMENT OF REHABILITATION SERVICES

For the period July 1, 2013 through June 30, 2016



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Department of Rehabilitation Services**

**For the Period
July 1, 2013 through June 30, 2016**



Oklahoma State Auditor & Inspector

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June 8, 2017

TO GOVERNOR MARY FALLIN

This is the audit report of the Department of Rehabilitation Services for the period July 1, 2013 through June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style with a long, sweeping underline.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Department of Rehabilitation Services Performance Audit

Background

The Oklahoma Department of Rehabilitation Services (DRS) expands opportunities for employment, independent life, and economic self-sufficiency by helping Oklahomans with disabilities bridge barriers to success in the workplace, school, and at home. DRS is composed of five program divisions: Vocational Rehabilitation (VR), Visual Services (VS), Disability Determination, Oklahoma School for the Blind, and Oklahoma School for the Deaf. DRS also relies on Support Services to handle administrative functions. Support Services comprises the Executive Division, Financial Services Division, and Management Services Division.

The mission of DRS is to provide opportunities for individuals with disabilities to achieve productivity, independence, and an enriched quality of life.

The VR and VS Specialists (also referred to as Counselors) help Oklahomans with disabilities to prepare for, obtain, keep, or advance in jobs. Clients receive career counseling, vocational education and training, or medical services if it is determined it will help them find employment. However, other services may also be provided as needed for an individual to compensate for, correct, or prevent disability-based barriers to employment. The services eligible consumers may receive can include, but are not limited to:

- Physical or mental restoration;
- Vocational, college, or other training, career counseling, and guidance;
- Assistive technology evaluations, equipment, and training;
- Information on disability resources;
- Personal assistance services while receiving VR services;
- Transportation in connection with VR services being provided;
- Supported employment;
- Self-employment assistance;
- Specialized services for people who are blind, deaf, hard of hearing, or deaf/blind, and those with speech impairments;
- Transition school-to-work services for youth with disabilities; and
- Other services based on individual needs.

For the most current year of the audit (FY 2016), there were approximately 131 counselors throughout the state, with 105 assisting VR clients and 26 assisting VS clients. The majority of funding for VR and VS is eligible for a federal/state match of 78.7 percent/21.3 percent.

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VR and VS Actual Expenditures by State Fiscal Year			
	2014	2015	2016
State	\$ 14,138,000	\$ 14,718,000	\$ 13,911,000
Federal	\$ 37,831,000	\$ 43,644,000	\$ 47,000,000
Inter-Agency	\$ -	\$ 73,000	\$ 96,000
Other	\$ 610,000	\$ 537,000	\$ 564,000
Total	\$ 52,579,000	\$ 58,972,000	\$ 61,571,000

Source: DRS 2014, 2015, and 2016 Annual Reports

One of the primary focuses of this audit related to VR and VS clients who received training services from out-of-state vendors. All out-of-state vendors must have a current contract with DRS and renew annually. In reviewing the VR and VS client data, which is maintained in the Agency's AWARE information system, we observed payments to entities in 34 states, including Oklahoma.

Out-of-State - Training and School						
	2014		2015		2016	
	Total	Cases	Total	Cases	Total	Cases
VR	\$ 243,054	32	\$ 195,164	32	\$ 217,899	34
VS	\$ 274,370	24	\$ 438,824	30	\$ 592,412	40
Total	\$ 517,424	56	\$ 633,989	62	\$ 810,310	74

Source: DRS AWARE Database

Training centers teach the blind how to live independently, performing activities such as doing laundry, cooking, and woodworking, and provide technical device assistance. There are currently seven out-of-state long-term training facilities contracted with DRS. They include the following: Colorado Center for the Blind, Blind (Blindness Learning in New Dimensions) Inc., Louisiana Center for the Blind, The Carroll Center for the Blind, Affiliated Blind of Louisiana Training Center, Whitby Road Alliance, Inc., and World Services for the Blind.

According to VS counselors, the foremost reason a VS client would be referred to an out-of-state facility would be for long-term training, which is not offered in the state. Client choice for a particular center is usually based on distance and how much independence the client is comfortable with. The long-term training centers are a campus-like atmosphere where the client lives in a dorm while they complete their training. Processes are different for each center as to oversight and individual independence.

The motive for a VR client to attend an out-of-state public or private institution of higher education could be based on reasons such as client choice, location of school or training facility being close to the client's home, or programs being offered that are not offered at an in-state school. If the client decides to attend an out-of-state school, DRS only pays the in-state rate and the student is responsible for the remaining costs.

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The commission is the governing board for DRS. According to 74 O.S. § 166.5, the Commission has the powers and duties to appoint and remove the Director, approve programs, policy, and budget, and perform the necessary functions of a governing board for the State Department of Rehabilitation Services. According to 74 O.S. § 166.3, the Commission meets a minimum of ten times per calendar year.

The Commission consists of three members, each appointed for a three-year term. One is appointed by the President Pro Tempore of the Oklahoma State Senate, one by the Speaker of the Oklahoma House of Representatives, and one by the Governor.

Board members as of May 2017 are:

Jack Tucker..... Chair
April Danahy Vice-Chair
Lynda Collins Member

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The following table summarizes the DRS's revenues and expenditures of funds for fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016).

Revenue and Expenditures for FY 2015 and FY 2016

	2015	2016
Revenue:		
Appropriations (In/Out)	\$ 30,544,887.73	\$ 28,778,923.75
Payroll Transfer (In/Out)	\$ (60,351.70)	\$ (1,026.56)
Taxes	570,979.40	493,779.08
Licenses, Permits, Fees	18,560.00	18,040.00
Income from Money and Property	22,710.67	22,788.05
Grants, Refunds and Reimbursements	90,509,634.04	95,383,398.05
Sales and Services	655,128.34	752,832.15
Non Revenue Receipts	44,193.86	43,580.13
Total Revenue	<u>\$ 122,305,742.34</u>	<u>\$ 125,492,314.65</u>
Expenditures:		
Personnel Services	\$ 69,978,864.88	\$ 69,507,898.20
Professional Services	5,500,853.46	6,487,902.57
Travel	1,827,543.51	1,390,305.49
Administrative Expenses	9,552,468.98	9,633,169.13
Property, Furniture, Equipment	3,832,685.38	3,869,008.45
Assistance, Payments to Local Govn'ts	32,609,225.15	35,345,762.89
Transfers and Other Disbursements	2,273.72	3,714.51
Total Expenditures	<u>\$ 123,303,915.09</u>	<u>\$ 126,237,761.24</u>

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

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Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212(C) and 213.2(B).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the Agency's internal controls related to administrative expenditures, the reasonableness of those expenditures, and the internal controls for referring patients to out-of-state service providers in lieu of in-state public, private, or non-profit providers. The audit period included July 1, 2013 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the DRS operations. We utilized professional judgment when determining the number of transactions to review in order to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE I

Determine whether the Agency's internal controls provide reasonable assurance that administrative expenditures are accurately reported in the agency accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) were accurately reported in the accounting records. However, this assurance is overshadowed by serious risks related to the Agency's control environment and internal communication.

FINDINGS AND RECOMMENDATIONS

High Risks in
Control
Environment and
Communication

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 Revision)¹ provides that an effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within the organization. Key factors in this system are the environment established by management and effective information and communication to achieve the Agency's objectives. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components. In addition, Agency management needs to access relevant and reliable communication related to internal as well as external events.

In contrast to specific control procedures (like checking the mathematical accuracy of vendor invoices) that focus on a single processing stream, the control environment has a *pervasive* influence that affects all business decisions and activities of the organization. The governing board, chief executive officer, and the entire management team all contribute to creating a positive control environment or "tone at the top." The governing board sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow, and requires appropriate conduct from everyone in the organization. Management's philosophy and methods of employee direction and development also greatly influence this environment.

Tone at the top and throughout the Agency is fundamental to the functioning of an internal control system. Without strong ethical leadership, awareness of risk can be undermined, responses to risk may be inappropriate, control activities may be ill-defined or not followed, information and communication may falter, and feedback from monitoring activities may not be heard or acted upon. Therefore, tone can be either a driver or a barrier to internal control, influencing the control consciousness of all employees.

As part of our assessment of the Agency's control environment, we distributed 149 surveys to a random selection of employees throughout the Agency and evaluated responses in the 65 that were returned. We also interviewed an additional 17 employees and considered information received from phone interviews with previous employees. The following response rates reflect general concerns expressed about the Agency and

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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about both the previous executive director and current interim director (percentages represent the rate of negative responses):

- The previous executive director (percentages represent the rate of negative responses):
 - Demonstrates high ethical standards (41.3%)
 - Gives support when and where needed (35.1%)
 - Maintains a balance between people issues and organization issues (42.4%)
 - Encourages others to express different ideas and perspectives (40%)
 - Treats employees fairly, without favoritism (51.6%)
 - Acts consistently with the stated values and conduct expected of all other employees (48.3%)
 - Was a role model for continuous improvement (46.8%)
 - Provided a clear sense of purpose and direction (45.5%)
 - Strived to comply with laws, rules, and regulations affecting the organization (33.3%)

- The interim executive director (percentages represent the rate of negative responses):
 - Demonstrates high ethical standards (17.5%)
 - Gives support when and where needed (17%)
 - Maintains a balance between people issues and organization issues (15.3%)
 - Encourages others to express different ideas and perspectives (23.8%)
 - Treats employees fairly, without favoritism (32.4%)
 - Acts consistently with the stated values and conduct expected of all other employees (25%)
 - Maintains a balance between people issues and organization issues (15%)
 - Provides a clear sense of direction (17%)

- General agency environment (percentages represent the rate of negative responses):
 - An atmosphere of mutual trust and open communication has been established within the organization (25.5%)
 - Communication across departmental boundaries enables employees to perform their jobs effectively (25.5%)
 - Employees who report suspected improprieties are protected from reprisal (18%)
 - Management effectively communicates its decisions to all employees (27%)
 - Workplace is free from harassment (16%)

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While negative feelings toward the Agency can impact others' morale and increase risk, the rate of negative responses appears to not only be a red flag about the Agency's general environment and tone at the top but also validates that this is a real and pervasive issue. A negative impact on the Agency's control environment has a universal impact on the overall system of internal control, which increases the risk of errors, misappropriation of assets, and decreased quality of services provided. At a time of extreme statewide budget issues, a positive work environment and employee satisfaction are integral to retaining staff and maintaining the quality of services provided.

Recommendation

We recommend the Commission recognize the risk associated with this type of environment and work towards evaluating and addressing the situation to ensure the mission of the Agency is accomplished in the most efficient manner possible. In addition, they should be cognizant of the risk associated with ineffective communication within the Agency and work to eliminate any such barriers in an impartial manner.

We further recommend management perform some level of continuous monitoring, communicate its expectations for internal controls to all employees, and establish a system of clear communication that relays information from the bottom of the organization to the top and vice versa. The tone at the top regarding internal controls will determine to a great extent the success of the various elements of the internal control framework.

Views of Responsible Officials

The Commission agrees that a positive work environment and effective communication are integral to maintaining positive employee satisfaction and the provision of quality services. The Commission is responsible for formulating policies and adopting rules for the effective administration of the Agency. When the Interim director, Noel Tyler, was appointed, she was directed, by the Commissioners, to insure that the Oklahoma schools for the blind and deaf were in compliance with the Oklahoma Department of Education standards and the vocational rehabilitation field operations were in compliance with the Rehabilitation Services Administration standards. Ms. Tyler has carried out these directives. The Commission concurs that the administration of the Agency can be made more efficient by a detailed evaluation of management communications and internal controls pertaining to the sharing of information from bottom to top and vice versa. The evaluation will be followed with the implementation of a more effective communication environment in an impartial manner.

OBJECTIVE II Analyze the administrative expenditures and determine reasonableness given the statutory responsibility and authority of the Agency.

Conclusion Administrative expenditures appear reasonable given the statutory responsibility and authority of the Agency.

To accomplish our objective, we performed the following:

- Analyzed the administrative expenditures occurring in the Agency to identify the major areas of spending and other items significant for further review;
- Reviewed the top 25 vendors based on expenditure amount for each year of the audit period; and
- Performed a Benford's² analysis on administrative expenditures for each year of the audit period.

No exceptions or findings were noted as a result of these procedures.

OBJECTIVE III Determine whether internal controls are properly designed and operating for referring patients to out-of-state rehabilitation service providers in lieu of referrals to in-state public, private, or non-profit provider agencies.

Conclusion Internal controls are not operating effectively for referring patients to out-of-service providers in lieu of referrals to in-state public, private, or non-profit provider agencies. In addition, operations did not comply with Oklahoma Administrative Code 612:10-7-157(d), which requires approved justification for out-of-state training.

With respect to the 42 case files reviewed for compliance in our testwork, an adequate amount of information was documented in each file to justify sending the client to an out-of-state provider. Therefore, none of the services provided for those 42 cases was questioned. However, as not all case files receive detailed review for this purpose as part of the Agency's typical process, a consistent and reliable control is necessary to ensure all out-of-state referrals are justified appropriately.

² The Benford's Law and Fraud Detection Analysis enables you to graph a data set against a Benford's law curve to find abnormalities within the data. This enables you to quickly ascertain the anomalous results, which is particularly helpful for detecting fraud in various business data such as check payment amounts.

FINDINGS AND RECOMMENDATIONS

Lack of Controls and Noncompliance with Completing Out-of-State Justification Forms

The GAO *Standards for Internal Control* state, "Management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations," and that, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

In addition, Oklahoma Administrative Code 612:10-7-157(d), "Out-of-state training," dictates that prior to a client's enrollment at a facility located in another state, an approved Justification for Out-of-State Training form must be submitted to the DRS State Office.

The Out-of-State Justification form (C-47) provides information justifying the need for services to be provided by an out-of-state vendor. Prior to the client receiving those services, the form must be approved by the counselor, program manager, and the applicable division administrator (VR/VS), and then submitted to the DRS State Office. Out of 192 client receiving out-of-state training services during the audit period, our testwork included a random sample of 52 client case files (twelve of which were reviewed preliminarily to determine whether controls were implemented, and 42 of which were reviewed in further detail to test for statutory compliance), and the following conflicts were noted:

- For 29 of the 52 cases, the Out-of-State Justification forms could not be provided; and
- An additional 6 forms did not include the appropriate signatures for approval.

Failure to maintain documentation of transactions increases the risk of unapproved payments being made without being detected, and impedes the ability of auditors or other independent parties to verify the appropriateness of transactions. It also places the Agency out of compliance with applicable laws, regulations, policies, and procedures. Further, without a control to ensure service referrals are properly justified, management lacks assurance that the referrals are reasonable, as discussed in the next section of this report.

Recommendation

To ensure the Agency is complying with applicable laws, regulations, policies, and procedures, we recommend management ensure the Out-of-State Justification form is properly approved and maintained and readily available for examination.

Views of Responsible Officials

DRS conduct ongoing program training for new and tenured staff in all of divisions and schools. For DRS VR/VS divisions, training has been scheduled for the summer and fall to address case related issues with staff. The Out-of-State Justification form (C-47) issues found in the audit will be added to the topics for training. Additionally, the scanning documentation will be reviewed to achieve accuracy, consistency and timeliness of document storage. It is anticipated that staff will be fully trained regarding this matter by December 2017 and subsequently annually.

OBJECTIVE IV

Determine the reasonableness and cost effectiveness of referring eligible participants to out-of-state rehabilitation service providers in lieu of in-state public, private, or non-profit provider agencies.

Conclusion

We were unable to assess the cost effectiveness of referring eligible participants to out-of-state rehabilitation service providers in lieu of in-state provider agencies, due to inadequate client outcome data collected by the Agency.

Further, due to the control weakness detailed under the previous objective, management does not have assurance that referrals are reasonable. While the referrals documented in the 42 case files we reviewed in detail appeared reasonable, without an effective control in place we cannot project this assurance onto all referrals.

FINDINGS AND RECOMMENDATIONS

Improved Data Needed to Assess Cost Effectiveness; Controls Not In Place to Assure Reasonableness

The GAO *Standards for Internal Control* state, "Management designs the entity's information system to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. An information system represents the life cycle of information used for the entity's operational processes that enables the entity to obtain, store, and process quality information. . . ."

DRS's processes for collecting employment status after a case is closed are insufficient to measure the cost-effectiveness of services provided by an out-of-state provider versus an in-state provider. According to multiple discussions with DRS management, a client's case is closed four months

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after the client becomes employed and no follow-up is performed to ensure employment continues long-term. In addition, management does not use data to make cost-effectiveness decisions about the services provided.

Without adequate data to analyze, procedures to determine the cost-effectiveness of services provided by out-of-state providers could not be performed.

As discussed in our previous finding, while the 42 case files we reviewed in detail reflected case notes justifying out-of-state referrals for each client, a control is not operating effectively to ensure *all* referrals are supported by approved justifications. Without such a control, unreasonable referrals could occur.

Recommendation

We recommend management consider analyzing training services provided to clients by both out-of-state and in-state providers. In order to perform this analysis, additional data would need to be collected (such as whether employment is maintained, and whether the client returns for additional services). With this type of data and established cost-effectiveness measures, management could determine the cost-effectiveness of the services that have been provided by in-state and out-of-state providers. The results of this analysis could provide cost savings methods to both the Agency and the taxpayers of Oklahoma.

Views of Responsible Officials

DRS has been, for the latter part of a decade, involved in the national ROI study as it applies to all the VR services offered by DRS. This has been spearheaded by the University of Virginia and has involved data from many States. Due to the complexity of identifying and capturing objective, relevant and consistent data, over a long period of time, a useable model continues to be under development. While the cost effectiveness of the service is not fully identifiable, the option of doing nothing to serve consumers eligible for the VR program, does have much higher long-term costs. These are costs seen in the form of higher social supports for individuals who are untrained and unemployed. DRS's focus has been on the value the program has to the consumer as they achieve independence. Cost effectiveness discussions will continue and DRS will strive to find solid data that appropriately illustrates the effectiveness of the programs.



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