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Inquiry Into Charges Of Mismanagement In Delaware's Vocational Rehabilitation, Employment, And Social Services Program B-164031(3)

Social And Rehabilitation Service
Department Of Health, Education,
And Welfare

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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APRIL 10, 1974

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

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The Honorable William V. Roth, Jr
United States Senate

Dear Senator Roth

This is our report on our inquiry into charges of mismanagement in Delaware's vocational rehabilitation program. At the Federal level, the Social and Rehabilitation Service of the Department of Health, Education, and Welfare is responsible for administering the program.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

DHSS	Department of Health and Social Services (Delaware)
DSS	Division of Social Services (Delaware Department of Health and Social Services)
DVR	Division of Vocational Rehabilitation, Delaware Department of Labor
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
SRS	Social and Rehabilitation Service
VRESS	Vocational Rehabilitation, Employment and Social Services (Program)

COMPTROLLER GENERAL'S REPORT TO THE HONORABLE WILLIAM V ROTH, JR. UNITED STATES SENATE

INQUIRY INTO CHARGES OF MISMANAGEMENT IN DELAWARE'S VOCATIONAL REHABILITATION, EMPLOYMENT, AND SOCIAL SERVICES PROGRAM
Department of Health, Education, and Welfare B-164031(3)

D I G E S T

WHY THE REVIEW WAS MADE

At Senator Roth's request, GAO inquired into the possible misuse of Federal funds in Delaware's vocational rehabilitation program GAO was asked to examine circumstances regarding five specific charges and a general charge of mismanagement The specific charges were

--61 administrative employees received an average annual salary of $17,200

--Leases for office space were canceled without prior notice to lessors

--Utilities were not turned off when buildings were vacated

--Dictating equipment and furniture were left in vacated buildings

--IBM equipment purchased for $1 million was never used and was left in a vacated building

Background

Before July 1971, Delaware's vocational rehabilitation program had provided services only to persons having physical or mental disabilities which imposed a handicap to employment.

This program was primarily funded by Federal funds under the Vocational Rehabilitation Act and never exceeded $1 1 million annually

In fiscal year 1972 the program was expanded to serve socially disadvantaged persons Financing for this expansion came primarily from another source--title IV of the Social Security Act, which provided unlimited reimbursement to States of 75 percent of eligible social service expenditures

In fiscal year 1972 total Federal funds increased to $4 9 million--of which $4 1 million was social service funds--and total Federal social service funds available to Delaware was $9.8 million. During peak expansion, the number of employees increased from 70 to 220 and the number of persons served increased from 2,200 to about 9,000

The State and Local Fiscal Assistance Act of 1972, enacted in October 1972, placed a national ceiling on Federal expenditures for social services Each State was limited to its share of $2.5 billion on the basis of its proportion of the U.S. population Delaware's annual share was limited to $6.8 million

Because its expenditures during the first quarter of fiscal year 1973 were higher than its first-quarter share of the $2 5 billion, Delaware was given additional funds (about $2 7 million) under the Social Security Amendments of 1972 (Public Law 92-603)

Nonetheless, the portion of title IV social service funds made available for use in Delaware's vocational rehabilitation program was reduced for fiscal year 1973 and eliminated for fiscal year 1974

This action caused cutbacks in Delaware's vocational rehabilitation program involving closing offices, laying off employees, canceling contracts, returning recently leased equipment, and reducing the number of persons served

FINDINGS AND CONCLUSIONS

To place the charges in proper perspective, it is necessary to understand certain significant developments which occurred in the Delaware vocational rehabilitation program (See ch. 2)

The Vocational Rehabilitation, Employment, and Social Services (VRESS) program concept, which was developed at the Governor of Delaware's request, was intended to unify and direct the talents of vocational rehabilitation, employment, and social services personnel and to extend the vocational rehabilitation program to include public assistance recipients

The Delaware General Assembly appropriated additional State funds for the program in order to obtain matching Federal funds The Governor's Task Force on Federal Funding, in December 1971, recommended that Delaware pursue a social service program which in fiscal year 1972 would cost $42 7 million, $40 6 million of which was to be allotted to the VRESS program

The State planned to obtain $30.5 million (75 percent of the total VRESS social service cost of $40.6 million) from the Federal Government, primarily, social service funds under title IV-A of the Social Security Act

To embark on this massive program, large capital expenditures were incurred to support the program in future years. After this build-up started, it became necessary to cut it back because of the ceiling placed on social service expenditures This led to the circumstances which GAO was requested to review.

Information on specific charges

GAO found

--high salary rates.--The highest paid 61 employees in the Division of Vocational Rehabilitation (DVR) were receiving an average annual salary of $17,200 as of February 1973.

Most of these employees directly served clients and would not be characterized as "administrative" personnel About 220 DVR employees were in the program in February 1973

--canceled leases.--In January, February, and March 1973, six offices were closed. Verbal notice and notice by registered mail were given to the landlords in February 1973 The State was obligated under lease to pay rent on all six offices through June 30, 1973

--continuance of utilities.--The landlords were responsible for providing utilities and, as such, tenants were not obligated or authorized to discontinue these services.

--abandoned equipment --Equipment and furniture were left in the six vacant offices until arrangements could be made to move them to a storage site Equipment was removed from four offices within a week after they were closed and from the other two offices 21 and 27 days, respectively, after they were closed.

--unused automatic data processing equipment.--The State did not purchase data processing equipment costing $1 million, as charged. However, 11 contracts totaling over $1 2 million were awarded for data processing programs which were to be run on available State automatic data processing equipment

--Federal and State program controls.--During the program expansion some administrative and financial controls were inadequate or were not adhered to

For example, a State-sponsored audit showed that accounting records for the program were not maintained in accordance with the State Accounting Manual, thereby making it difficult to maintain fiscal control over the program. This was partly because DVR's finance section was not expanded commensurate with the growth of the VRESS program. Equipment inventory records and controls were generally inadequate, and the equipment supplier had to help reconcile the agency's records.

Coordination between Federal and State officials and among State officials was generally lacking HEW could not provide adequate technical assistance to the State because of confusion over the interpretation of social service regulations which were being revised.

AGENCY AND STATE COMMENTS

HEW advised that the findings bearing on mismanagement had been followed up and that it would continue to work with the State in identifying and correcting administrative problems.

State officials commented that the report presented the facts fairly and accurately

CHAPTER 1

INTRODUCTION

At the request of Senator William V Roth, Jr , we inquired into the possible misuse of Federal Funds in Delaware's vocational rehabilitation program. The Senator set forth specific charges regarding the program which had been called to his attention These charges which indicated inefficient and uneconomical actions by the Division of Vocational Rehabilitation (DVR), Delaware Department of Labor, were

- --61 administrative employees received an average annual salary of $17,200.
- --Leases for office space were canceled without prior notice to the lessors
- --Utilities were not turned off when buildings were vacated.
- --Dictating equipment and furniture were left in vacated buildings.
- --Automatic data processing equipment purchased for $1 million was never used and was left in a vacated building

A general charge of "mismanagement" of the program was also made

To gain proper perspective, we believe it is necessary to relate certain significant program developments which have recently occurred to the charges. The program expanded rapidly from July 1971 to August 1972 and then rapidly declined, as shown below.

Fiscal year	Expenditures (millions)	Maximum number of employees	Number of clients served
1970	$1 2	70	2,200
1971	1.5	70	3,600
1972	6 4	180	7,700
1973 (note a)	4 6	220	9,000
1974 (note a)	1 8	90	3,600

[a]Estimated.

Essentially, these statistics reflect Delaware's attempt to expand the traditional concept of vocational rehabilitation to persons who are socially disadvantaged by poverty, discrimination, inadequate education, or whatever factors that have led to chronic dependency on public assistance This broadened program was entitled the Vocational Rehabilitation Employment and Social Services (VRESS) program

Seventy-five percent of the expansion was to be financed by social service funds available under title IV of the Social Security Act which, until October 1972, were available on an open-ended basis At that time, Public Law 92-512, the State and Local Fiscal Assistance Act of 1972, established a national annual ceiling of $2.5 billion for Federal reimbursement of expenditures for social services.

Delaware's total share for fiscal year 1973, including funds provided under the Social Security Act amendments of 1972, was $9 5 million, considerably less than it had planned to spend that year Consequently, it was necessary for Delaware to curtail its planned expansion of vocational rehabilitation Offices were closed, employees were laid off, recently leased equipment was returned, and contracts were canceled By fiscal year 1974 the magnitude of the vocational rehabilitation program will closely resemble the 1970-71 pre-expansion program

ADMINISTRATION OF THE PROGRAM

The Rehabilitation Services Administration, an agency of the Social and Rehabilitation Service (SRS), Department of Health, Education, and Welfare (HEW), is responsible for administering the vocational rehabilitation program at the Federal level The HEW, Region III office, in Philadelphia has Federal responsibility for the Delaware program.

In Delaware DVR manages the vocational rehabilitation program. However, during the period that DVR was serving socially disadvantaged clients, another State agency, the Division of Social Services (DSS) of the Department of Health and Social Services (DHSS) had a prominent part in the program. DSS, as the sole State agency that provides social services under various titles of the Social Security Act, constituted the main source of DVR's funds for providing services to socially disadvantaged clients. The arrangement involved DSS obtaining reimbursement from HEW of eligible expenditures made by or on behalf of DVR.

SCOPE OF REVIEW

We limited our review to an evaluation of the specific charges and to selected areas of the DVR program which, in our opinion, provided the background data essential to understand the specific charges.

Our review was made at the HEW Region III office in Philadelphia and at the State offices of the DVR, DSS, and Office of Administrative Services, Wilmington, Delaware. We reviewed pertinent documents, discussed program activities with personnel at all these locations, and interviewed numerous present and former officials and employees associated with the program.

CHAPTER 2

MAJOR EVENTS IN PROGRAM DEVELOPMENT

The VRESS program, which was officially started on July 1, 1971, was designed to include public assistance recipients who were not necessarily physically or mentally handicapped but who showed some potential to become employable. Plans for the first year of operation were for the program to serve 7,000 clients, 3,500 of whom were to receive public assistance.

Major events in the development and operation of the VRESS program are highlighted in the remainder of this chapter.

January 1971

The VRESS concept was discussed in a January 18 letter from the Governor of Delaware to the Delaware Secretary of Labor. The letter requested

> "Please advise how you * * * would go about rehabilitating welfare recipients if the Vocational Rehabilitation Division had the responsibility to do so."

February 1971

In response to the Governor's inquiry, a prospectus was developed which described a "VR model" that would be feasible to apply to selected public assistance recipients. The model would include testing, diagnosis, training, maintenance, and job placement of welfare recipients. Representatives of Region III, DSS, the Delaware Division of Employment Services, the National Rehabilitation Association, and a private consulting firm helped DVR prepare the prospectus

March 1971

The SRS Regional Commissioner of HEW Region III summarized the Delaware proposal to the SRS Administrator in a letter dated March 5.

April 1971

On April 1 DSS and DVR entered an agreement which provided for DSS to purchase vocational rehabilitation services for public assistance recipients from DVR. DSS agreed to obtain reimbursement for DVR expenditures eligible as social services expenditures from HEW. The funds would then be remitted to DVR.

May 1971

On May 26 the SRS Regional Commissioner, in an address to the Governor, members of his cabinet, the State legislature, and other officials agreed with the Governor's proposal that the VRESS program should, in effect, become a national demonstration. He also said:

> "We are willing to commit ourselves to at least a five year demonstration to get this developed and in place, and to then support you through the years in carrying forward."

HEW officials informed us that at the time of this endorsement they envisioned supporting a relatively small-scale program.

June 1971

The Delaware General Assembly passed legislation to extend vocational rehabilitation services to the socially disadvantaged and appropriated $50,000 to help get the VRESS program started. It also appropriated $400,000 for fiscal year 1972 to rehabilitate public assistance recipients.

July 1971

VRESS was initiated, however, sources of funds for its operation in fiscal year 1972 had not been firmly established. DVR and DSS made a new purchase of service agreement to serve as the mechanism through which DVR could obtain social services funds for providing vocational rehabilitation services to the socially disadvantaged.

Six service centers were opened and three more were scheduled to open by September. (See app. II.)

September 1971

The Governor established a Task Force on Federal Funding to determine "if there are legitimate programs being carried forward in State agencies that could benefit from funding mechanisms incorporated in the Social Security Act " HEW was not represented on the task force. HEW officials informed us that their request to participate had been denied.

November 1971

The VRESS program became fully operational. The program staff expanded from about 70 at the outset to about 135 and 14 DSS social workers and 10 DES employment interviewers joined.

December 1971

In its report to the Governor, the task force recommended that DSS enter into purchase of service agreements totaling an estimated $42.7 million. Of this amount agreements totaling $40.6 million would be with DVR and the remainder would be with other State agencies. The total Federal share of all agreements was estimated at $32 million (75 percent).

The task force recognized the need to rapidly increase the amount of contracts in the event that a ceiling would be placed on the open-ended funding feature for social services under the Social Security Act. Such a ceiling had been proposed for several years and appeared to be gaining support in the Congress as States' social services programs expanded

HEW officials said that their knowledge of the VRESS program during 1971 was generally limited to its conceptual aspects. Delaware had not definitized how it would fund the program and had excluded HEW officials from task force deliberations. HEW regional officials said they were unaware of the magnitude of the expenditures planned for VRESS until early in 1972.

January 1972

In a January 6 letter to the Delaware Secretary of Labor, the SRS Deputy Regional Commissioner reaffirmed HEW's support for VRESS, praised its innovative approach, and cited the national importance of the program.

April and May 1972

During these months the State became increasingly concerned that future Federal social service funds would be limited to a percentage of current-year expenditures.

DVR entered into numerous contracts. One series of contracts, totaling about $1.2 million, was for the design of a software package for an integrated data processing information system. These contracts could be characterized as capital expenditures since they were for systems to support the VRESS program in future years.

In a speech to the Governor and his cabinet on April 26, an SRS Associate Regional Commissioner of Region III commended the VRESS program and reaffirmed SRS' commitment of support.

In May DVR executed purchase of service agreements totaling an estimated $10.7 million with public schools, divisions of DHSS, and private agencies. The intent was for these agencies to certify as social service expenditures to DVR costs that had already been incurred for regular programs. DVR in turn would process a claim through DSS and obtain reimbursement from HEW under title IV of the Social Security Act. Very little reimbursement was obtained under these agreements.

The amount of social services funds that would be available to the State for the last quarter of fiscal year 1972 was uncertain. The State's original estimate of the Federal share for social services expenditures for the quarter of April 1 through June 30 was $11.2 million. On May 12 DSS amended this estimate to $26.7 million. On May 23 representatives of HEW, Region III, DVR, and DSS met and reduced this quarterly estimate to $16 1 million, it was further reduced to $11 million on June 14. According to HEW officials, the State voluntarily revised its estimate downward because it planned to engage in activities which could not be funded by social services moneys.

Administrators of the VRESS program were confronted with the uncertainties associated with the open-ended provision of social services funding, particularly the eligibility of certain groups, and the concept of building a high level of expenditures as a possible basis for subsequent years' funding.

June 1972

DSS notified DVR on June 27 that, effective July 1, 1972, school districts would be negotiating purchase of service agreements directly with DSS rather than through DVR This unilateral action by DSS indicated that it considered the July 1, 1971, purchase of service agreement with DVR to be inoperative. DSS also informed DVR that virtually no social service moneys would be available except that needed to pay current bills. Accordingly, DSS withheld $2,706,399 from DVR which it had already received from HEW on the basis of expenditures certified by DVR.

In meetings in June and July between DSS and DVR, DSS critically reviewed the status of all contracts with DVR, particularly emphasizing those concerning data processing At a July 25 meeting between DVR and DSS and the data processing contractor, final decisions were made on the disposition of the contracts Of the nine contracts reviewed, four were to be completed and five were to be canceled.

For fiscal year 1972, DVR received social service funds from DSS totaling $4 1 million which represented almost two-thirds of the total $6 4 million received by DVR that year. (Total social service funds available to Delaware during fiscal year 1972 was $9 8 million.)

July 1972

The amount of funds originally thought to be available to DVR for fiscal year 1973 was reduced. DSS eliminated DVR's purchase of service agreements with subcontractors, thus decreasing by about $2 million the amount of social service funds which DVR planned to have available.

October 1972

Public Law 92-512, the State and Local Fiscal Assistance Act of 1972, established a national ceiling of $2.5 billion on Federal social service expenditures. Delaware's annual share was $6.8 million. However, because Delaware's expenditures during the first quarter of fiscal year 1973 were higher than its first quarter share of the $2.5 billion, additional funds (about $2.7 million) were provided to the State in the Social Security Amendments of 1972 (Public Law 92-603).

December 1972

The reduction in funds available to DVR created an estimated budget deficit of about $1.1 million for fiscal year 1973 Thus, DVR began planning to reduce client services, cancel contracts, close service centers, and reduce staff.

January 1973

DSS advised DVR that no social service funds would be available in fiscal year 1974.

February 1973

Because of the reduction of available funds, services to clients were reduced. By February 28, 62 employees had been laid off and 5 service centers had been closed.

May and June 1973

For fiscal year 1973, DVR received about $2 million in social service funds and $2.6 million in other revenues, for a total of $4.6 million or 28-percent decrease from fiscal year 1972

DVR estimated that its total revenues to operate the program in fiscal year 1974 would be about $1.8 million To operate within these resources, DVR closed all but 3 of its remaining field offices and laid off 55 more employees.

Thus, the expanded concept--financing under title IV of the Social Security Act--services provided to socially disadvantaged persons was discontinued.

CHAPTER 3

INFORMATION ON SPECIFIC CHARGES

The results of our examination of the circumstances regarding the five specific charges brought to Senator Roth's attention follow

SIXTY-ONE ADMINISTRATIVE EMPLOYEES RECEIVED AN AVERAGE ANNUAL SALARY OF $17,200

This charge was made on the basis of a list requested by and furnished to a State Senator by the acting director of DVR. The list contained the names, annual salaries, and length of residence in Delaware of DVR personnel in the State merit system pay grades 21 through 26, the highest grades for DVR personnel.

The February 26, 1973, list contained the names of 61 of the 220 DVR employees on board at that time The 61 employees had a combined annual salary of $1,050,961 44, or an average annual salary of $17,228 88. The list contained names of professional counselors, program administrators, and administrative personnel. Most of these persons directly served clients and many carried considerable caseloads.

DVR experienced difficulty in having its professional staff incorporated into the State merit system; it experienced no difficulty in bringing nonprofessional employees into the system. Before the State government was reorganized in 1970, DVR was under the Department of Public Instruction Its professional staff was under the pay and leave regulations of the Department's State Board of Vocational Education rather than the merit system

A State law which became effective on July 1, 1970, established a new salary schedule for employees of the State Board of Education and State Board of Vocational Education, including DVR's professional employees This law authorized these boards to revise their salary schedules annually and to pay salary supplements which would bring salaries up to the equivalent of the average of the three highest salaries for like positions paid by school districts

In the State government reorganization which occurred later that year, the Department of Labor was established and DVR was transferred to it. By law, DVR employees were to be brought into the merit system without salary reductions.

Because of the high salary rates, DVR employees' job classifications had to be rewritten to bring them into the merit system at existing salaries. This was accomplished on October 1, 1972. This created problems because DVR professionals were placed in pay grades about two levels higher than persons holding similar positions, such as counselors who were already employed by other State agencies and were under the merit system

Compounding this problem was the rapid increase in professional staff during 1971 and 1972. In June 1971, DVR had 66 employees and by October 1972 it had over 200. These staff members were hired subject to the Department of Public Instruction salary structure Many of the professional staff members hired during this buildup were from other States. According to DVR officials, it was necessary to hire nonresidents because Delaware did not have sufficient trained professionals or a university which offered a curriculum in vocational rehabilitation. DVR apparently had little trouble recruiting qualified professionals, since the program was highly innovative and the salaries were attractive.

Most of the subprofessionals hired during this period were Delaware residents.

DVR CANCELED LEASES WITHOUT GIVING PRIOR NOTICE TO THE LESSORS

In January, February, and March 1973, DVR closed 6 of its 14 operating field offices. (See app. II) The leases for five of these offices stated that DVR could cancel the lease at the end of its funded fiscal year. The sixth office was rented without a lease from another State agency.

The charge of no prior notice of lease cancellations related specifically to the closing of DVR's Georgetown office. Our review showed that prior notice had been given. On February 8 DVR verbally notified the lessor of its intent to cancel the lease. The office was vacated around February 15, and, on February 28, the lessor was notified by registered mail of DVR's intent to cancel the lease. On May 9 the lessor was again notified by registered mail of DVR's intent to terminate the lease on June 30. In any event, DVR was obligated under the lease to pay rent through June 30

The original lease on the Georgetown office was for June 1, 1971, through May 31, 1976, and was for renting 1,570 square feet (approximately half of the building) for $650 a month. This lease was amended in January 1972 to include 3,300 square feet (the entire building) at a cost of $1,364 a month, and the lease was extended to January 18, 1977.

The building owner said the cost for renovating the building to suit DVR amounted to between $20,000 and $30,000. He further stated that some of the renovations, such as two-way mirrors and soundproof walls, made the building attractive only to programs similar to vocational rehabilitation

DVR has been notified that legal action is being contemplated to enforce the lease or to obtain adequate monetary damages This action remains to be litigated. We noted that, in other DVR leases, lessors had added penalty clauses for early termination to protect their investments.

DVR's justification for closing the Georgetown office, rather than the Seaford or Milford offices, which were located in the same part of the State, was based on the caseloads in each of these areas. Also, the rent on the Georgetown office ($1,364 a month) was higher than that of Seaford ($1,000 a month).

Effective June 30, 1973, five of the remaining offices, including Seaford, were closed. Termination notices were sent to the lessors. At the completion of our fieldwork, DVR had three field offices--Wilmington, Newark, and Milford--and its central office in Wilmington

UTILITIES WERE NOT TURNED OFF WHEN BUILDINGS WERE VACATED

This charge also related to the Georgetown office which was closed in February 1973 When we visited the office in May 1973 the utilities were still on.

The lease on the Georgetown office stated that it was the landlord's responsibility to provide heat, air-conditioning, electricity, water, and gas The tenant had no obligation or authority to discontinue any of these services.

DICTATING EQUIPMENT AND FURNITURE WERE LEFT IN VACATED BUILDINGS

DVR officials estimated that the equipment and furniture on hand as of May 1, 1973, was valued at about $700,000, of which $500,000 was for furniture and fixtures About half of the furniture and fixtures were purchased during the program buildup in fiscal year 1972.

Typewriters, dictating, transcribing, and auxillary equipment, valued at about $175,000, were either purchased or being leased by DVR. Under an agreement with the suppliers, the leased equipment would become DVR property after 25 months. Some of this equipment and office furniture were left in closed offices until arrangements could be made to have it moved to storage In four of the six offices closed, the furniture and equipment were moved within a week after the closings In the other two offices, Georgetown and Dover, all furniture and equipment were moved in 21 and 27 days, respectively, after the offices were closed.

As of May 1, 1973, leased equipment valued at $20,000 had been returned to the supplier. It is probable that, after the additional offices were closed on June 30, 1973, significantly more equipment was returned.

DVR also rents 24 IBM magnetic card typewriters at a flat rate of $175 each per month However, since the program has declined, DVR officials estimate that they will retain only 7 of these units

AUTOMATIC DATA PROCESSING EQUIPMENT PURCHASED AT A COST OF $1 MILLION NEVER USED AND LEFT IN A VACATED BUILDING

We found no evidence that DVR purchased automatic data processing equipment costing $1 million. However, there were 11 contracts with one contractor, totaling over

$1.2 million, for purchasing various data processing programs. These programs were to be run on available state automatic data processing equipment. The charge may have been made on the assumption that the software contracts were for computer hardware.

Nine of these contracts were entered in March, April, and May 1972 and were for developing data processing programs which were to provide management with fiscal, reporting, and client information.

In July 1972, at a meeting between officials of DVR, DSS and the software contractor, it was agreed that the contractor would complete only four of these contracts. The remaining contracts, which were from 40 percent to 68 percent complete, were canceled.

CHAPTER 4

FEDERAL AND STATE PROGRAM CONTROLS

General mismanagement of the VRESS program was also charged Although we directed our examination toward the specific charges and program data necessary to place the charges in proper perspective, we did note certain inadequacies in management controls. We limited our review in this area, however, because of audits that had been made by the State Auditor of Accounts and certified public accounting firms.

It appears that the administrative and financial controls exercised within DVR and by other State agencies and HEW were inadequate for the expansion caused by the VRESS program In some instances controls did not exist; in others, established controls were either overlooked or by-passed.

HEW CONTROL

HEW's supervision and audit of the funding of the vocational rehabilitation program was very limited until late in 1972 HEW officials cited the transfer of the regional office from Charlottesville, Virginia, to Philadelphia in 1970 as contributing to this situation According to one official, only a small number of employees elected to transfer and it was some time before the region was able to resume normal operations.

As noted in chapter 2, HEW officials frequently encouraged the VRESS program concept. In addition, Region III assigned an official to act as liaison to the VRESS program. Apparently this was an attempt to establish communication necessary for coordinating the Federal/State program and funding relationships under the VRESS program However, this official said he was denied participation on the Governor's task force and, as a result, several months had elapsed before he became familiar with some of the details relating to Delaware's funding of the VRESS program

Better coordination between HEW and the State may have avoided some of the misunderstandings and varying program expectations which existed among the program participants For example, HEW officials said they were aware of, and supported, the VRESS concept but were not aware of the magnitude of Delaware's planned expenditures until after the program was well expanded.

Because of the States' rapidly expanding social service programs, stemming from the open-ended provisions of the Social Security Act and HEW's extremely broad social service regulations, we doubt whether any particular HEW region could have provided much technical assistance to the States regarding social service funding, purchase of service agreements, and certifications of certain groups of people, such as public assistance recipients or alcoholics. During the program expansion, HEW circulated several versions of proposed social service regulations. According to HEW these were only intended to inform States of HEW's current thinking However, State officials said these draft regulations caused considerable confusion.

The open-ended social service funding and group certification problems have been eliminated The open-ended provisions of the Social Security Act regarding social services were closed by a national ceiling of $2 5 billion Allowable services to groups were clarified in regulations published May 1, 1973 (Because of the controversial aspects of these regulations their effective date was postponed until January 1, 1975, by Public Law 93-233.

STATE CONTROL

We did not examine extensively into the adequacy of the financial and program controls within DVR and between DVR and other State agencies. However, we did review the results of a DVR audit covering fiscal year 1972 and conducted by a certified public accounting firm under an agreement with the State Auditor of Accounts Some of the major findings were

--DVR's books were not maintained in accordance with the State accounting manual Consequently, DVR could not determine the amount of available funds, disbursements, unliquidated encumbrances, and unencumbered balances at any time

--All Federal funds were lumped together in one fund account on the records of the State's central accounting control center

--It was difficult to reconcile the Control Center's records to DVR's records. Neither DVR's nor the Control Center's records and reports reflected correct figures.

--The DVR's finance section was not expanded commensurate with the Program's overall growth. The books and recordkeeping were completely inadequate to cope with the expanded program

--There was much confusion at all levels of administration as to the requirements for obtaining funds under public assistance grants.

--DSS was responsible for monitoring DVR's financial transactions. DSS did not do this and DVR obtained reimbursement for invoices which were recorded in its books but which had not been processed and paid.

--Guidelines and controls in DVR's financial section appeared to be lacking.

--Top-level communication and coordination between DSS and DVR appeared to be lacking. The report notes that this has improved since June 30, 1972

--Many transactions, which would not normally be considered as transactions involving petty cash, were processed through a "petty cash" fund. Further, the State Department of Finance verbally authorized many of these transactions

All of these findings were concurred in by the Delaware Department of Labor and, in most instances, corrective action has been taken.

Another report dated December 28, 1972, issued by a certified public accounting firm on behalf of the Delaware Department of Labor, raised serious doubts as to whether the Northern Data Center, Division of Central Data Processing, Delaware Department of Administrative Services, which was responsible for handling the Department of Labor computer applications had the capability to do so It appears that this capability has improved considerably, but in mid-1971, at the outset of the VRESS program, serious facility and resource problems existed which would have precluded adequate technical support from the Northern Data Center.

During our review at the DVR, we noted that many administrative problems, most of which began during the build-up of the VRESS program, were not resolved For example, DVR was working with equipment suppliers to reconcile inventory records before returning surplus equipment Adequate inventory procedures and practices at the time of receipt would have helped to assure the accuracy of the inventory records

DVR has also been the subject of numerous personnel and legal problems, such as those surrounding the transfer of professional personnel from the Department of Public Instruction to DVR, and the application of the State's bid laws in specific instances which, in our opinion, warrant resolution by the State Personnel Commission, Attorney General, or other appropriate authority in a manner consistent with the handling of such problems with other State agencies

Another problem concerned an equity lease agreement which was not formally bid and has been the subject of charges by the Delaware Auditor of Accounts. In a response to these charges, the Delaware Attorney General ruled on October 16, 1972, that contracts for leasing computer equipment are not required to be advertised or bid Subsequently, the Attorney General took the position that certain leases entered into for material may actually be purchases and, therefore, subject to the State's bidding laws He also questioned whether leases should be exempt from State bidding laws, but noted that this should be a matter to be determined by the legislature

AGENCY COMMENTS AND ACTIONS

By letter dated February 11, 1974, HEW advised us that action was taken to follow up on the findings relating to mismanagement by the State Currently, the State is submitting claims for program reimbursement on a more realistic modified accrual system which HEW believes affords a better degree of accuracy and control

HEW advised that the State's Department of Health and Social Services is no longer submitting claims for Federal social services funds based on activities of the State's Department of Labor.

HEW believes that, if the social service regulations proposed in 1973 had been in force, much of the confusion in the State would have been obviated. HEW stated that it will continue to work with the State in identifying and correcting administrative problems.

STATE COMMENTS

The State Secretaries of the Department of Labor and the Department of Health and Social Services both stated that the report presented the information contained therein in a fair and accurate manner.

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

FEB 11 1974

Mr. Morton E. Henig
Associate Director
Manpower and Welfare Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Henig:

The Secretary asked that I reply to your letter of December 4 transmitting your draft report, "Inquiry Into Charges of Mismanagement in Delaware's Vocational Rehabilitation Employment and Social Services Program." This will also confirm that Department representatives met with your staff to discuss this report, at which time certain modifications were made. In this connection, we are enclosing additional comments you may wish to consider in preparing your final report.

Sincerely yours,

John Young
John D. Young
Assistant Secretary, Comptroller

Enclosure

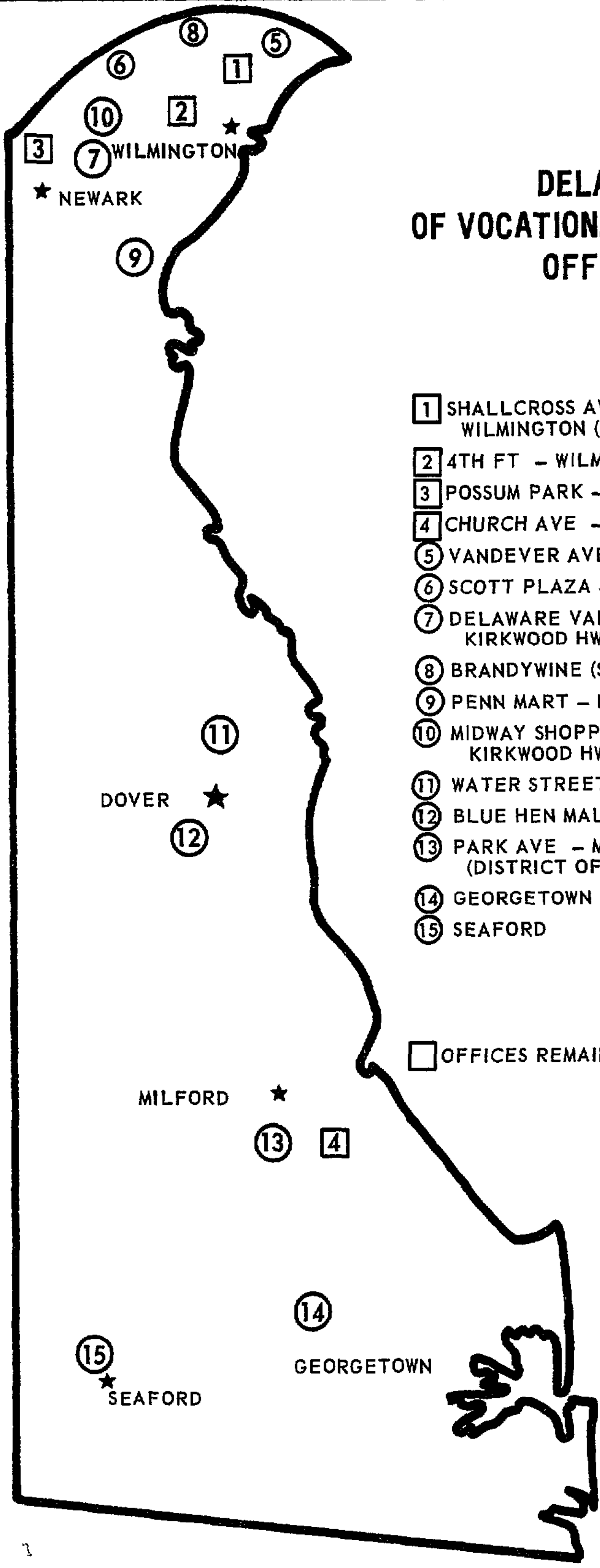
COMMENTS OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE ON A GAO DRAFT REPORT ENTITLED, "INQUIRY INTO DELAWARE'S VOCATIONAL REHABILITATION EMPLOYMENT AND SOCIAL SERVICES PROGRAM"

The report discusses a reduction of $15.7 million that was made in the State's 4th quarter 1972 estimate of the Federal share for social services expenditures. This reduction resulted from a joint Federal-State review of the State's estimate. The review disclosed that the State planned to engage in program activities which could not be funded under Title IV-A of the Social Security Act. The State voluntarily revised its estimate downward.

The report indicates that the expanded concept of financing under Title IV of the Social Security Act services to the socially disadvantaged persons was discontinued. The Department of Social Services is therefore no longer submitting claims based on activities of the Department of Vocational Rehabilitation. The report further indicates that final disposition of all contracts with VR had been made.

The Department has followed up on the findings in the audit bearing on mismanagement by the State. The State of Delaware is now submitting all their claims on a more realistic modified accrual system which affords a better degree of accuracy and control.

If the Social Service Regulations proposed in the Federal Register in 1973 had been in force, much of the confusion in the State of Delaware would have been obviated. With the further delay of implementation of revised Regulations until January 1, 1975, problems may continue to exist in State programs during the interim. The Department will continue to work with the State in identifying and correcting administrative problems.



DELAWARE DIVISION OF VOCATIONAL REHABILITATION – OFFICE LOCATIONS

	DATE OF LEASE	OFFICE CLOSED	LEASE TERMINATED
1 SHALLCROSS AVE – WILMINGTON (CENTRAL OFFICE)	1/31/63	—	—
2 4TH FT – WILMINGTON	6/ 1/71	—	—
3 POSSUM PARK – NEWARK	5/ 1/71	—	—
4 CHURCH AVE – MILFORD	8/ 1/71	—	—
5 VANDEVER AVE – WILMINGTON	7/ 1/72	6/30/73	6/30/73
6 SCOTT PLAZA – WILMINGTON	4/ 1/72	1/22/73	No lease
7 DELAWARE VALLEY PROF PARK KIRKWOOD HWY – NEWARK	3/ 1/72	2/22/73	6/30/73
8 BRANDYWINE (SILVERSIDE MALL)	6/ 1/71	2/23/73	5/31/73
9 PENN MART – NEW CASTLE	7/ 1/71	6/30/73	6/30/73
10 MIDWAY SHOPPING CENTER KIRKWOOD HWY	7/15/71	6/30/73	6/30/73
11 WATER STREET – DOVER	8/ 1/71	6/30/73	6/30/73
12 BLUE HEN MALL – DOVER	7/ 1/72	2/ 9/73	6/30/73
13 PARK AVE – MILFORD (DISTRICT OFFICE)	7/ 1/72	3/ 1/73	6/30/73
14 GEORGETOWN	6/ 1/71	2/25/73	6/30/73
15 SEAFORD	9/ 1/71	6/30/73	6/30/73

☐ OFFICES REMAINING OPEN AFTER JULY 1 1973