



Audit  
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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

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August 6, 2001

Control Number ED-OIG/S05-B0031

Douglas L. Burleigh, Ph. D.  
Regional Commissioner  
Rehabilitation Services Administration, Regions V and VII  
U. S. Department of Education  
10220 N. Executive Hills Blvd.  
Kansas City, MO 64153-1367

Dear Dr. Burleigh:

In your email dated June 19, 2000 and subsequent discussions with my staff, you requested an audit of the Wisconsin Department of Workforce Development's (DWD) administration of its Vocational Rehabilitation Grants to States (VR) Program. You specifically asked that we review financial management and reporting, order of selection, and third-party cooperative agreements. We performed a limited scope audit to address your concerns and completed the survey phase of our audit. We did not extend our audit to the detailed audit phase because no findings needed to be developed or quantified.

Our audit did not disclose any reportable findings in addition to those reported by the Wisconsin Legislative Audit Bureau (LAB). LAB has performed several audits of the VR Program and continues to monitor DWD's management of the VR Program. As a result of these audits, DWD has taken actions to address your concerns.

We conducted our field work at the DWD offices in Madison, Wisconsin from September 11, 2000 through November 3, 2000. We interviewed DWD, LAB, Wisconsin Client Assistance Program, and Rehabilitation for Wisconsin, Inc. officials. We reviewed DWD records and information, and reviewed LAB's working papers for its Office of Management and Budget (OMB) Circular A-133 audit for State fiscal year (FY) 1998-99 (year ended June 30, 1999) and program evaluation audit of DWD's Division of Vocational Rehabilitation dated October 2000. We also contacted DWD and LAB officials from December 1, 2000 through May 16, 2001 to update our information and learned that LAB had issued the OMB Circular A-133 audit report for State FY 1999-00 (year ended June 30, 2000). We performed our review in accordance with government auditing standards appropriate to the limited scope of our review.

#### **LAB Audits Addressed Rehabilitation Services Administration's Concerns**

The LAB OMB Circular A-133 audit report for State FY 1998-99 addressed order of selection and Financial Status Reports (FSR). As part of its examination of the FSRs, LAB reviewed data

reliability, period of availability (carry forward/over obligation), and the non-Federal match. LAB reported four findings related to the VR Program: non-Federal match, direct payment expenditure, cash management, and sub-recipient monitoring. DWD took corrective action in each instance.

LAB subsequently performed a program evaluation audit of DWD at the request of the Wisconsin Legislature. LAB's program evaluation audit report addressed service delivery and financial management issues including a projected budget shortfall, order of selection, documentation of expenditures, and increase in third-party cooperative agreements. In response, DWD established a VR "Strategic Reform Task Force" to fully analyze the contents of the report and make comprehensive recommendations.

The LAB OMB Circular A-133 audit report for State FY 1999-00 indicated LAB's continued interest in DWD's management of the VR Program. The report included three monetary findings totaling almost \$600,000 related to the VR Program. We have discussed these findings with Seymour Levy of your staff.

### **Financial Management and Reporting**

The VR Program was transferred from the Wisconsin Department of Health and Family Services (DHFS) to DWD in July 1996. The VR Program continued to use DHFS' accounting system until approximately July 1997 while new systems for case management and remote access to the RAPIDS procurement system were developed. The new systems came on-line in August and October 1999, respectively.

This change in systems was partially responsible for the FSR related problems, such as the \$6.7 million over obligation and late filing of reports. Prior to the FSR for the quarter ended December 31, 1999, DWD officials only reported obligations up to the authorized budget amounts because they knew the accounting system contained many obligations that would not be incurred. DWD officials stated that they were then instructed by the Rehabilitation Services Administration and LAB to report all obligations on the system resulting in a large over obligation of VR funds. Once DWD assured itself that it had not lapsed Federal VR funds, it de-obligated many of the third-party cooperative agreements and re-obligated them in Federal FY 1999-00 (year ended September 30, 2000). Our review disclosed no indication that Federal FY 1999-00 funds were used to pay for services received in Federal FY 1998-99 (year ended September 30, 1999).

After converting to the new systems, DWD personnel performed analyses to assure themselves of the accuracy of the information being reported and this delayed the submission of some FSRs. DWD wanted to ensure that it did not lapse Federal VR funds by failing to meet the non-Federal match; so, it manually obligated many of its third-party cooperative agreements near the end of the quarter ended September 30, 1999. In addition, during the system change over DWD did not input many encumbrances but waited until the new system was on-line. This backlog further delayed preparing the FSRs timely.

In response to LAB's financial management concerns, DWD has implemented several corrective measures: (1) a DWD budget analyst monitors the VR budget, (2) District Directors review

monthly expenditures, and (3) counselors more closely monitor obligations. The effectiveness of these measures cannot be determined at this time. LAB continues to monitor the situation through its audits.

### **Order of Selection**

Effective August 21, 2000, DWD closed all categories under order of selection. Therefore, your concern about whether order of selection needed to be implemented was not relevant when we started our review. A May 2001 newspaper article reported that more than 6,100 people had been removed from the waiting list since January 2001. LAB recommended in its program evaluation audit that DWD estimate the costs of services to be provided and the number of clients it anticipates serving, to determine whether all eligible clients can be served.

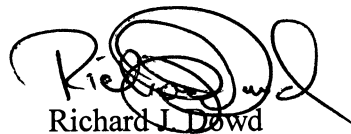
### **Third-Party Cooperative Agreements**

The dollar value of third-party cooperative agreements has increased steadily since Federal FY 1994-95 (year ended September 30, 1995) because state appropriated General Purpose Revenue funds used for non-Federal matching have decreased. LAB was critical of DWD's oversight of these agreements in its program evaluation audit. DWD assigned a staff member the responsibility for monitoring these agreements in July 2000. We cannot determine the effectiveness of this monitoring but LAB is aware of concerns regarding third-party cooperative agreements.

You were also concerned whether costs associated with an agreement with a private, non-profit entity called Badger were used as non-Federal matching under a third-party cooperative agreement. Under the VR regulations only a state agency or local public agency may enter into a third-party cooperative agreement used for non-Federal matching. We determined that DWD did not claim any non-Federal matching for costs associated with an agreement with Badger. Also, Badger was not among the third-party cooperative agreements for Federal FY 1999-00.

I hope you find this information helpful. If you have any questions, please contact me at (312) 886-6503.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. Dowd", with a large, stylized flourish at the end.

Richard J. Dowd  
Regional Inspector General  
for Audit – Region V

cc: Richard Rasa, Director, State and Local Advisory and Assistance