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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

CIVIL DIVISION

FEB 20 1969

Dear Miss Switzer

The General Accounting Office has made a limited review of the practices and procedures followed by the Arkansas Rehabilitation Service, Little Rock, Arkansas, in claiming Federal financial participation in certain costs incurred in providing services to handicapped individuals under the Federal-State vocational rehabilitation program. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review was directed primarily toward examining into the practices and procedures followed in making claims for costs incurred by third parties--such as State hospitals--who, under agreements with the Arkansas Rehabilitation Service, provide services and assistance in support of the vocational rehabilitation program.

Our review showed that in its claims for Federal financial participation, the Arkansas Rehabilitation Service had overstated, by about \$396,000, the costs shown as being incurred by the State in support of vocational rehabilitation programs. The overstatement resulted primarily from errors and misunderstandings by the Arkansas State Hospital in computing expenses relating to food services.

On the basis of our review, we believe that the administration of third-party participation in the Federal-State vocational rehabilitation program can be improved by requiring State vocational rehabilitation agencies to include in third-party agreements a description of the specific procedures to be used in arriving at the costs to be claimed for Federal financial participation. In our opinion, the inclusion of such specifics in agreements between State vocational rehabilitation agencies and third parties would aid the Department of Health, Education, and Welfare (HEW) in reviewing the propriety of claims made by the States for Federal financial participation.

BACKGROUND

The Vocational Rehabilitation Act, as amended (29 U.S.C. 31), authorizes grants to assist States in meeting the costs of providing vocational rehabilitation assistance and services to behaviorally, mentally, and physically handicapped individuals. Under this act, the States have primary responsibility for initiating and administering vocational rehabilitation programs. The nature and scope of the State vocational rehabilitation program is contained in the State plan which, after approval by HEW, serves as the basis for Federal grants.

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Beginning in fiscal year 1967, the Federal financial participation in costs incurred by States under approved vocational rehabilitation programs was increased to 75 percent. Federal financial participation is not limited to costs incurred directly by the State rehabilitation agency but may include costs incurred by third parties in providing assistance and services to handicapped individuals on behalf of the State rehabilitation agency. When assistance or service is to be furnished to handicapped individuals by a third party, HEW guidelines to the States suggest that a cooperative agreement or plan be established between the State vocational rehabilitation agency and the third party and that such agreements describe the specific functions and responsibilities of both the agency and the third party.

Two vocational rehabilitation programs of the Arkansas Rehabilitation Service are operated on the grounds of State hospitals at Benton and Little Rock, Arkansas. The hospitals, acting as third parties, provide various services (such as food and laundry services and building maintenance) in support of these vocational rehabilitation programs. The agreement between the Arkansas State Hospital and the rehabilitation service does not specify the procedures for determining the amount and type of services to be provided by the hospital in support of the vocational rehabilitation programs.

At the end of the fiscal year, the administrative office of the Arkansas Rehabilitation Service receives information from the Arkansas State Hospital as to the cost of the supporting services furnished during the year. These costs are then included as part of the State's total financial contribution in carrying out the Federal-State vocational rehabilitation program and earn Federal participation in accordance with the provisions of the act.

#### ERRORS IN COMPUTING THIRD-PARTY EXPENDITURES

Our review of selected third-party expenditures claimed for Federal financial participation by the Arkansas Rehabilitation Service for fiscal years 1966 and 1967, showed that errors and misunderstandings on the part of the State hospital in computing costs relating to food services resulted in overstatements of about \$365,000 being made for expenses incurred in support of the vocational rehabilitation program.

We found that during fiscal years 1966 and 1967 the Arkansas State Hospital at Benton and at Little Rock claimed 334,987 rations (three meals equals one ration) in excess of the number of rations actually furnished to vocational rehabilitation clients. This error resulted because expenses were being reported by the hospital on the basis of the number of meals rather than on the number of rations. On the basis of the unit cost per ration (computed by the State hospital) the overstatement amounted to about \$325,000.

We believe that this error could have been prevented if procedures had been established which required the hospital to reconcile the number of rations served to rehabilitation clients with the total census of those clients.

Such a procedure, in our opinion, would have made it obvious to hospital officials that the reported expenses were in error

Our examination also showed that from December 1965 through June 1967, the cost of food service provided by the Arkansas State Hospital at Benton was overstated because the hospital continued to include labor costs of dietary employees in its per-ration costs even though the Arkansas Rehabilitation Service had its own dietary employees who prepared and served food to the clients. We estimate that the overstatement totaled about \$33,000. We also found that overstatements of about \$7,000 were made in fiscal year 1966 by the State hospitals at Benton and Little Rock because the unit cost per food ration was overstated by nine cents.

We also noted that, during fiscal years 1966 and 1967, certain vocational rehabilitation program employees furnished building maintenance services to the Arkansas State Hospital at Benton. The cost of these services-- amounting to about \$31,000--was erroneously claimed by the Arkansas Rehabilitation Service as a program expense because these services were not related to the vocational rehabilitation program.

#### STATE AND HEW COMMENTS

We discussed the matters disclosed during our review with officials of the Arkansas Rehabilitation Service. The Director of the Arkansas Rehabilitation Service agreed with us that, because vocational rehabilitation expenditures had been overstated, the State's claims for Federal financial participation would require an adjustment. He stated, however, that the Arkansas State Hospital had provided certain other services in support of the vocational rehabilitation program--such as fire protection and security services-- which had not been claimed as costs related to the program and that any adjustment should recognize these factors. While consideration of these factors in making an equitable adjustment may be appropriate, we believe that the Director's position further exemplifies the desirability of having an explicit written agreement on the matter of allowable costs.

Officials of the national office of the Rehabilitation Services Administration, Washington, D C , advised us that new instructions to the States concerning third-party expenditures were being developed and that these instructions would require the State vocational rehabilitation agencies to establish procedures designed to ensure that claims for Federal financial participation based upon expenditures made by third parties are proper

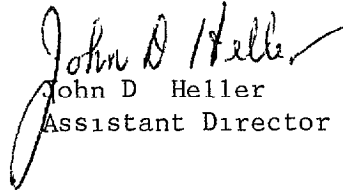
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We would appreciate being advised of the adjustment made with the Arkansas Rehabilitation Service as well as the status of the new instructions to be issued to the States concerning third-party funds. In our continuing review of Social and Rehabilitation Service activities, we plan to examine into

the adequacy of the action taken and instructions issued on the matters discussed in this report.

We appreciate the cooperation and courtesies extended to our representatives during our review and, should you desire, we shall be pleased to discuss our findings in greater detail with you or members of your staff. Copies of this report are being sent to the Assistant Secretary, Comptroller, and other appropriate officials of the Department of Health, Education, and Welfare

Sincerely yours,

  
John D Heller  
Assistant Director

Miss Mary E Switzer, Administrator  
Social and Rehabilitation Service  
Department of Health, Education,  
and Welfare