

California State Auditor

B U R E A U O F S T A T E A U D I T S

California's Vocational Rehabilitation Program:

*Although Federal Requirements Have
Contributed to Its Rising Costs, by More
Effectively Managing the Program, the
Department of Rehabilitation Can Better
Serve More Californians With Disabilities*



February 2000
99111

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99111

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning our review of the Department of Rehabilitation's (department) administration of California's Vocational Rehabilitation Program (program).

The report concludes that, although federal requirements have contributed to its rising costs, the department has failed to manage certain aspects of its program adequately. Specifically, the department does not track the cumulative costs of its cases and sometimes spends far beyond what is reasonable. Additionally, it does not always promptly close expensive, unsuccessful cases. Further, the department does not fully use its existing management tools to monitor the program. Finally, the department's current method for evaluating the severity of clients' disabilities favors clients with learning and certain mental disabilities.

Respectfully submitted,

MARY P. NOBLE
Acting State Auditor

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SUMMARY

Audit Highlights . . .

Our review of the Department of Rehabilitation's (department) administration of the Vocational Rehabilitation Program (program) reveals that:

- Program costs have more than doubled during the past nine years while the number of clients attaining employment has dropped nearly 50 percent.*
- Federal requirements together with the failure of the department to manage the program adequately have allowed costs to escalate.*
- Despite the department's poor performance overall, some of its districts are better than others at managing costs.*
- The scoring instrument the department uses to identify who receives program services first favors those with certain mental and learning disabilities.*

RESULTS IN BRIEF

The Department of Rehabilitation (department) is not using to greatest advantage its limited resources for furnishing vocational rehabilitation services to disabled Californians, and its method for identifying individuals who most need assistance has serious flaws. Over the past eight years, the department's expenditures have escalated for its Vocational Rehabilitation Program (program), which serves people with mental, physical, visual, hearing, and learning disorders as well as those recovering from drug and alcohol addictions. Despite the department's outlay of funds, the number of program clients who have become employed has dropped dramatically. In addition, the department allows a few cases to run up excessive costs because it does not monitor its cumulative costs for each client case in the program. For cases closed in fiscal year 1998-99, it incurred 26 percent of its purchased-service costs on just 3 percent of the cases. Moreover, in an attempt to meet the federal requirement to serve individuals with the most severe disabilities first, the department developed and uses a scoring instrument with a faulty design that gives preference to those with certain mental and learning disorders. With its limited resources, the department cannot afford to mismanage funds or favor particular disabilities, because such practices result in fewer deserving individuals receiving needed services. Indeed, during the past four years, the department's lack of funds prompted it to refuse services to thousands of potential clients during two different periods, and applicants had to wait more than eight months for services or seek assistance elsewhere.

The department's costs have risen partly because it must fulfill requirements imposed by federal regulations, especially some 1992 amendments to the federal Rehabilitation Act of 1973. In particular, four federal regulations have led to higher costs for the department's program, requiring that the department:

- Presume all individuals applying for services, regardless of the severity of their disabilities, can attain employment with assistance from the program.

- Allow clients to make informed choices about their vocational goals, the services they receive, and the providers of those services.
- Coordinate its provision of services with local agencies that furnish services related to the rehabilitation of people with disabilities.
- First serve the most severely disabled before helping those with less severe disabilities because the department does not have adequate funding to serve all eligible individuals.

Nevertheless, other states under similar constraints have been more successful than California in controlling costs for their vocational rehabilitation programs and in helping clients achieve their employment goals. In addition, our review of four of the department's district offices showed that two offices have been relatively successful at curbing service costs while helping clients become employed, further indicating that the department could more effectively manage its funds and case closures.

Although federal regulations limit many of its decisions, the department could improve the use of its existing management tools to direct aspects of the program that lie within its control. For example, the department currently does not track the cumulative costs of its cases and intervene when needed to ensure clients get the assistance they need to become employed. As a result, it spends unreasonable amounts on some clients. For instance, the department has already spent more than \$80,000 for one client whose indecision has caused her to change her course of study numerous times. Although this individual has earned a degree in anthropology, the department continues to fund her education, now helping her pursue a career in law. Additionally, the department does not promptly close expensive cases when conditions indicate the clients cannot attain employment. By not monitoring highly expensive cases and promptly closing those that are unsuccessful, the department spends excessive amounts of money that it could instead use to serve additional deserving clients.

RECOMMENDATIONS

To ensure that it optimizes its limited resources, the department should:

- Monitor cumulative case costs.
- Close cases promptly when it becomes apparent that the clients cannot attain employment.
- Use its existing management tools more effectively to help monitor the program.
- Identify and adopt strategies used by other states and its own district offices that have effectively reduced costs and improved success rates.

To ensure that the most severely disabled in all disability groups have equal access to services, the department should modify its scoring instrument.

AGENCY COMMENTS

The department concurs with some of our conclusions and recommendations and disagrees with others. In particular, it acknowledges that it needs to optimize the use of its limited resources and states that it has already started to improve its fiscal monitoring by emphasizing accountability for employment outcomes. Additionally, the department plans to identify and implement strategies used by others to increase employment outcomes and better manage costs. It will also consider expanding its use of existing management tools to monitor the program. Further, the department recognizes that its significance scale, the instrument it uses to measure the severity of disabilities, requires revision. However, the department disagrees with our recommendations to improve its management of limited program funds by estimating the costs of its clients' plans, establishing cost standards and requiring approval of plans that exceed them, and monitoring the cumulative costs of plans against department-established standards. Our comments follow the department's response. ■

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INTRODUCTION

BACKGROUND

The Vocational Rehabilitation Program (program) is the primary program administered by the Department of Rehabilitation (department). The federal Rehabilitation Act of 1973, as amended, authorizes the program, which is intended to assist individuals with disabilities in preparing for, entering into, and retaining gainful employment. To accomplish these goals, the department either provides or purchases a wide range of services, including disability assessment, counseling and guidance, individualized rehabilitation assistance, occupational licenses, tools and equipment, transportation and maintenance, training and education, and job placement. The program serves individuals with disabilities, such as visual and hearing disorders, learning disorders, alcohol and drug abuse disorders, mental retardation, quadriplegia, and other physical and mental disabilities.

FIELD OPERATIONS

The department's services are primarily delivered through its largest unit, the Field Operations Division. Counselors and support staff stationed in approximately 120 field offices throughout the State assisted about 114,000 individuals in fiscal year 1998-99. The field offices are grouped into 17 districts within three regions—Northern California, Los Angeles/Orange, and Southern California. In each district, a district administrator oversees the delivery of services in all field offices located within that district.

CLIENT SERVICES

When an individual applies for services, a counselor first determines the applicant's eligibility. To be eligible, an individual must have a physical or mental disability that hinders employment and must require vocational rehabilitation services to obtain or retain gainful employment. Counselors must generally also assess the severity of the disability of each individual they consider eligible.

For each person accepted into the program (client), a counselor generally has 90 days to prepare a plan for employment (plan). Developed in collaboration with the client, the plan establishes the client's employment goal and lays out steps to achieve the goal. On average, a client is "in plan" for about 2.5 years. At least annually, the counselor meets with the client to review the client's progress and to reassess the plan objectives. While the client is in plan, the department pays for expenses necessary to achieve the client's employment goal. Besides the obvious costs of job training and placement, these expenses may also include transportation to and from a work or training site; modifications to a client's home, office, or automobile; and, in some instances, such family member expenses as child care, counseling, and medical care. In certain circumstances, the department may require clients to pay a portion of the plan costs.

Clients remain in plan until they become employed, they drop out, or the department closes the case. The department can close a case for a variety of reasons, such as the client fails to cooperate, becomes incarcerated, or dies, or the department cannot locate the client. According to federal regulations, a successful outcome occurs when, as a result of vocational rehabilitation services, a client achieves his or her planned goal and is employed for at least 90 days.

PROGRAM FUNDING

Funding for the program comes primarily from a state and federal partnership in which the State matches one dollar to approximately four dollars in federal funds. For fiscal year 1999-2000, the department estimates a funding level of \$312.4 million for the program, with \$245.9 million coming from federal funds; \$40.5 million supplied by the State's General Fund; \$22.3 million provided by the department's contracts with local agencies, called cooperative agreements; and the remaining \$3.7 million derived from other sources.

PROGRAM COSTS

Program costs primarily include administrative expenses and the amount the department spends to furnish client services, which fall into two categories: services provided by the department and purchased services.

Cost Categories for the Vocational Rehabilitation Program

- **Administration**—encompasses all departmental costs associated with administering the program, including planning, budgeting, evaluation, financial management, and data processing.
- **Services provided by the department**—includes all costs related to departmental field staff’s provision of counseling, guidance, and placement services to clients.
- **Purchased services**—includes the department’s expenditures for services from other entities, such as computer equipment vendors, public and private schools, and transportation services.
- **Other**—covers all costs for vocational rehabilitation purposes not included in the three categories above.

For fiscal year 1998-99, the department spent \$287 million, including \$37 million for administration, \$101 million for services provided by department employees, \$137 million for purchased services, and \$12 million for various other purposes.

Because it is not an entitlement program, the government is not required to provide the funding necessary to supply services for all eligible applicants. However, when a state has insufficient funds to provide all eligible individuals with vocational rehabilitation services, federal regulations require the state to provide rehabilitation services first to those individuals who are most severely disabled. Because California lacks sufficient funding to serve all eligible applicants, the department has operated under an order-of-selection process since September 1, 1995. Under an order-of-selection process, the State must develop a method to identify and ensure

that individuals with the most severe disabilities receive services first. We describe the State’s order-of-selection process in Chapter 2.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (JLAC) asked the Bureau of State Audits to conduct a programmatic and fiscal audit of the Vocational Rehabilitation Program (program). Specifically, JLAC was concerned about the program’s increasing costs to serve clients, the level and consistency of services, and whether eligible individuals—regardless of their ethnic backgrounds or types of disabilities—have equal access to services.

To gain an understanding of the program, we reviewed relevant federal and state laws and regulations. In addition, we examined the department’s policies, procedures, training materials, and strategic plan. We also looked at reports prepared by other state and federal agencies critiquing the program.

To understand why service costs are rising, we compared federal program objectives to federal program requirements. We analyzed the department’s cost data by district and its cost per client, and we reviewed a sample of the department’s most

expensive or protracted cases. We also compared the average annual per-case costs of clients who participate in cooperative programs with those who do not participate. To assess California's program, we also compared the department's costs and rehabilitation rates to those of Louisiana, Wisconsin, Georgia, Illinois, and Ohio—five states with large programs that also operated under order of selection during the same time that California has used this process. We also compared costs for rehabilitation services in states that use an order-of-selection process with costs in states that do not use the process. We performed limited site visits at four district offices—Santa Rosa, Oakland, Fresno, and Greater Los Angeles—to inquire about office policies, use of budgets, and best practices. Finally, we analyzed departmental costs before and after the department began operating under an order-of-selection process.

To determine whether the department provides services consistently, we analyzed the number, types, and average costs of services that the department furnishes from district to district. In addition, we interviewed management and staff members at the department's headquarters and in the district offices. We inquired about district office operations and methods for supplying services to eligible individuals.

To determine whether the department provides services equitably, we reviewed the 1993 study from the U.S. Department of Education's Office for Civil Rights, which identified significant ethnic disparities in the number of clients determined eligible for services at several district offices. Although the report did not attribute the disparities to departmental practices, the department adopted measures to ensure that all ethnic groups have equal access to vocational rehabilitation services, which the Office of Civil Rights later approved. The department resolved the issues raised in the study by 1994, so we did not pursue them further. In addition, we analyzed the department's significance scale, which it uses to measure the severity of applicants' disabilities. We also analyzed statistics about the department's clients and compared them with data on the prevalence of disabilities throughout the State. However, because the department generally serves only the most severely disabled, its caseload would not necessarily mirror the prevalence of disabilities in the State. Thus, our comparison was inconclusive.

To identify other factors that affect the department's ability to deliver services, we analyzed data on employees' caseloads and salaries, position vacancy rates, sources of vocational rehabilitation funding, and the department's methods for forecasting costs. We also surveyed the five states named above to identify best practices for delivering vocational rehabilitation services; however, Illinois declined to respond. ■

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CHAPTER 1

Even With Federal Constraints, the Department Could Serve Additional People With Disabilities by Better Managing the Vocational Rehabilitation Program

CHAPTER SUMMARY

Federal requirements together with the failure of the Department of Rehabilitation (department) to adequately manage the Vocational Rehabilitation Program (program) have allowed costs for the program to skyrocket and the number of eligible clients served to decline. Since 1990, the department's average cost per case has increased 106 percent. At the same time, the number of disabled clients served has decreased, and the number achieving their employment goals has dropped by almost half. Over the last four years, the department was forced to close its doors to new clients twice because its management believed it lacked sufficient funds to serve these individuals. As a result, thousands of disabled Californians eligible for vocational rehabilitation services had to go elsewhere or wait for more than eight months on each occasion until the department's doors opened again.

In 1992, Congress amended the federal Rehabilitation Act of 1973, and some of these changes have increased costs for the State's program. These amendments require the department to presume that all applicants can benefit from services and to allow clients to make informed choices about the services they receive. Other federal provisions direct the department to coordinate rehabilitation services with local agency programs, which are expensive in California. Also, another federal provision requires that the department first serve clients with the most severe disabilities unless it can afford to serve all eligible individuals.

The department's inability to control costs is a result of not only the limitations imposed by these federal provisions but also the department's failure to effectively manage certain aspects of the program that are within its control. For example,

the department does not monitor the cumulative costs of cases and does not promptly close unreasonably expensive cases that are unlikely to result in clients achieving their vocational goals. For cases closed in fiscal year 1998-99, the department incurred 26 percent of its purchased-service expenses on cases costing more than \$20,000 and representing only 3 percent of the total cases closed. In many of these cases, the clients did not achieve their employment goals. Also, the department's lack of focus on service costs and case results at its district offices has contributed to increased costs for the services it has purchased.

The department has various tools for monitoring district performance; however, it does not use them effectively to ensure that districts provide consistent, cost-effective services to disabled individuals. Nonetheless, our review of four district offices revealed two that closely monitor their costs per case. These two districts maintained consistently lower case costs while successfully closing cases at rates comparable to those at other districts.

THE VOCATIONAL REHABILITATION PROGRAM HAS EXHIBITED DECLINING PERFORMANCE

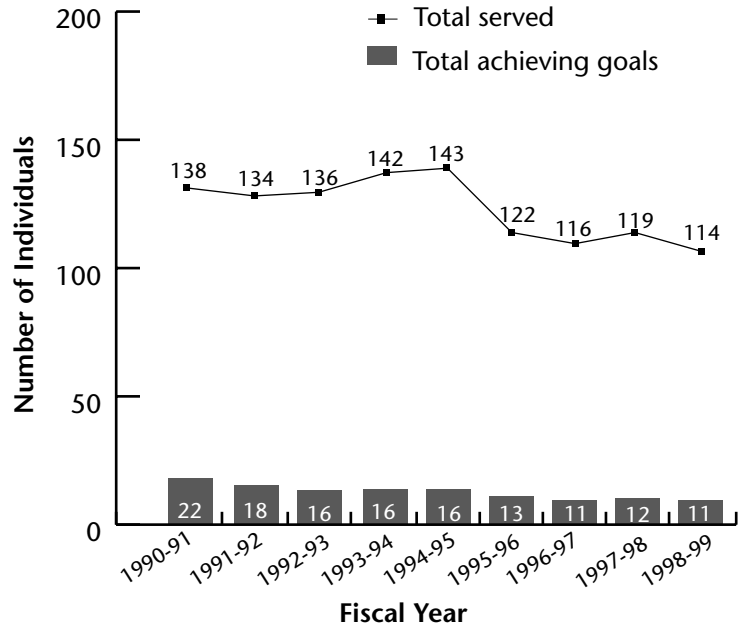
California's limited resources to assist individuals with disabilities compel the department to manage its costs effectively so it can provide services to as many eligible individuals as possible. However, between fiscal years 1990-91 and 1998-99, California's program experienced an overall decline in performance. The department's average annual cost to serve each client increased 106 percent, from \$1,225 to \$2,521. Figure 1 shows that at the same time, the number of clients the department served decreased, and the number of clients leaving the program with employment in fiscal year 1998-99 was about half of what it was nine years before.

Additionally, the total amount the department spends on each case has increased. These total case costs will likely continue to rise because the cumulative costs of the department's ongoing cases are already higher than the cumulative costs of the cases that it recently closed. Specifically, the average cumulative cost for each case closed during fiscal year 1998-99 was \$3,300, while the average cumulative cost for each case open as of June 30, 1999, was \$4,360.

During the last nine years, the average annual per-client cost has more than doubled while the number of clients leaving the program with employment is about half of what it was.

FIGURE 1

The Number of Individuals Being Served and the Number Achieving Their Employment Goals Have Declined (in Thousands)



Source: Department of Rehabilitation’s Client File Control Register as of June 30, for fiscal years 1990-91 through 1998-99.

Rising costs severely limit the department’s ability to provide services to all disabled Californians who are eligible for vocational rehabilitation. In fact, over the last four years, the department did not accept any new program participants during two periods because its management believed the department did not have the resources to serve any new clients. Consequently, thousands of eligible individuals had to look elsewhere for services or wait on each occasion for more than eight months until the department was ready to assist them.

FEDERAL REQUIREMENTS ARE PARTIALLY RESPONSIBLE FOR RISING PROGRAM COSTS

The department’s declining performance and increasing costs have occurred partly because federal requirements for states’ vocational rehabilitation programs obligate the programs to presume that all eligible applicants will benefit from services. Moreover, the requirements direct programs to give clients more say in the services they receive than they had previously, to coordinate provision of services with local agencies, and to serve

the most severely disabled first unless the program can serve all eligible applicants. Nevertheless, California has a significantly lower success rate and on average spends 19 percent more per disabled client than do the five other states that use comparable methods to operate their programs.

Changes in Federal Law Have Contributed to the Department's Increased Costs

In 1992, Congress substantially rewrote the federal laws that govern California's program. Known as the "1992 amendments" to the federal Rehabilitation Act of 1973, these sweeping changes to states' vocational rehabilitation programs include nine provisions that dramatically affect participant eligibility and involvement as well as the services provided to individuals with disabilities. Clearly, the department's implementation of these provisions has contributed to its rising service costs, and two of the nine provisions have particularly increased its expenses for purchased services.

State Vocational Rehabilitation Programs Must Presume Applicants Will Benefit From Services

Requiring a "presumption of benefit," one of the 1992 amendments swelled the number of applicants accepted into the program significantly because it automatically eliminated the department's previous practice of screening out applicants who staff did not expect would become employed. Before the 1992 amendments, one criterion for eligibility in the program was a reasonable expectation that the client would benefit from vocational rehabilitation services and thus become more employable. The 1992 amendments require that the state agency presume that an individual can attain employment after receiving vocational rehabilitation services unless the agency can demonstrate by clear and convincing evidence that the individual is incapable of being employed.

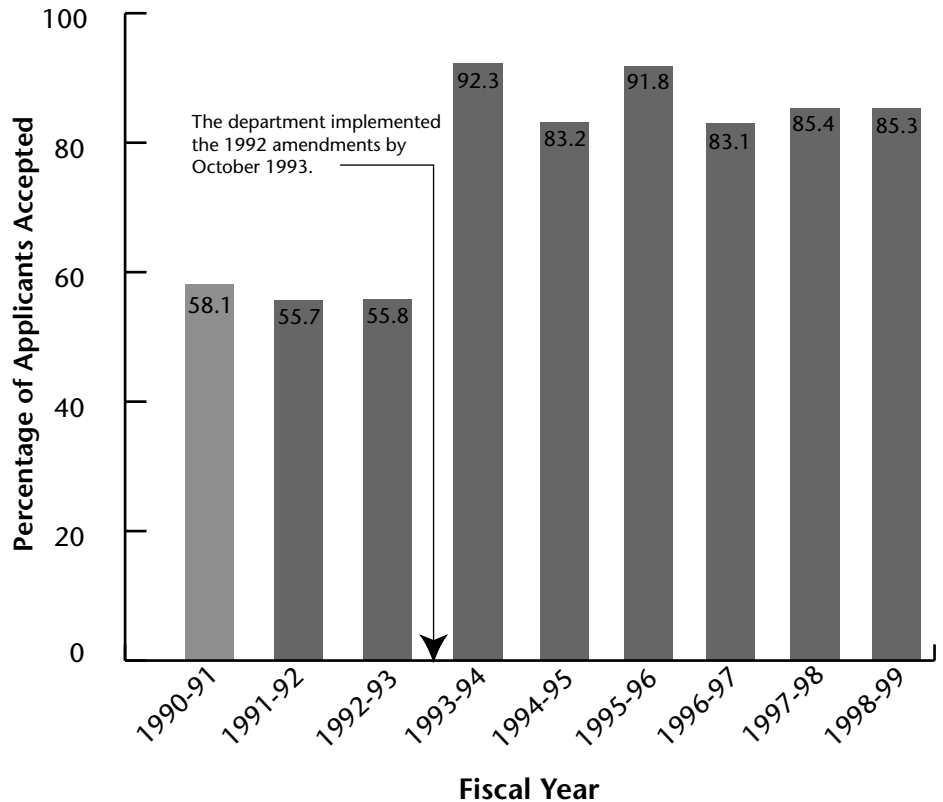
Due to one provision in the 1992 federal amendments, the department now must accept many clients it would have previously turned away.

As Figure 2 indicates, the acceptance rates for individuals applying for services increased significantly after California fully implemented the "presumption of benefit" provision in October 1993. For the three fiscal years before that October, the acceptance rates for applicants ranged from 56 percent to 58 percent. For the six fiscal years ending after the implementation, the acceptance rates rose significantly, ranging from 83 percent to 92 percent. These data suggest that California

began accepting as clients many disabled individuals whom the department would previously have classified as not reasonably employable.

FIGURE 2

Changes in Federal Law Significantly Increased Rates at Which the Department Accepted Disabled Clients



Source: Department of Rehabilitation's Client File Control Register as of June 30, for fiscal years 1990-91 through 1998-99.

The Provision Requiring Client Choice Has Added to the Cost and Use of Certain Rehabilitation Services

The other requirement from the 1992 amendments that has contributed to California's rising costs for vocational rehabilitation emphasizes client choice. This provision requires that the state agency allow the client to make informed decisions about the vocational rehabilitation services he or she will receive, including which individual or entity will supply the services and which methods the provider will use. Before the 1992 amendments, federal law required that the vocational rehabilitation counselor and the individual with a disability jointly develop the plan for employment (plan), which describes

the client's employment objective and the services to be provided. Although the 1992 amendments retain many factors previously considered by the counselors when determining needed services, the new provision places the client in the driver's seat. In fact, the 1992 amendments require that the individual's plan include a statement by the client describing how he or she received information about and became involved in choosing among alternative goals, objectives, services, entities providing services, and methods used to provide and procure services.

An audit report issued in July 1996 by the U.S. Department of Education's Office of the Inspector General titled *California Department of Rehabilitation, The Decline in the Success of California's Vocational Rehabilitation Program Cannot be Attributed to the Rehabilitation Act Amendments of 1992*, found that increased client choices arising from the department's implementation of the 1992 amendments have brought about significant increases in the cost and use of purchased services for clients. Our analysis of the cost and use of purchased services confirms the Inspector General's finding. During fiscal year 1992-93, before the department implemented the amendments, it spent an average of about \$603 per disabled client, or a total of \$82 million for purchased services. In fiscal year 1994-95, just one year after implementing the amendments' requirements, the department spent an average of \$830 per client or a total of \$116 million for purchased services. Most of this cost increase resulted from clients' training and educational expenses, which jumped an average of \$569 per client, going from \$946 to \$1,515 during the period from fiscal years 1992-93 to 1994-95. In addition, the number of clients receiving these costly services increased from 23,000 to 37,200, nearly 62 percent, during the same period.

After implementing the new federal requirements, the department's educational expenses jumped an average of \$569 per client and the number of clients receiving these costly services increased by 62 percent.

Other Federal Requirements Have Also Contributed to Rising Rehabilitation Costs

In addition to the 1992 amendments, other federal requirements have also contributed to the program's increasing costs. These provisions direct states to coordinate their services with local agencies and to serve first those clients who are most severely disabled.

The Requirement That California Work With Local Agencies Has Generally Led to Higher Costs Per Case

The department pays about 50 percent more for clients that participate in mental health cooperative programs than it pays for those who do not.

Federal regulations require the department to cooperate with local agencies that furnish services related to the rehabilitation of individuals with disabilities. Though not required, the department has established cooperative agreements with local agencies to provide vocational rehabilitation services to clients that they mutually serve. Approximately 30 percent of the department's disabled clients are served through these special programs in high schools, community colleges, colleges and universities, and mental health agencies. Clients involved in some of these special programs are more successful at finding employment than clients who do not participate. However, the annual per-case costs for clients that participate are generally higher than for clients who do not. Specifically, we found that for fiscal year 1998-99, the department spent an average of \$3,500 for clients who participated in cooperative programs, compared with \$2,970 for clients who did not participate. For cooperative agreements with mental health agencies alone, the department paid \$4,429 per client, or 50 percent more than it paid for clients who did not participate.

On the other hand, some of these local programs have higher success rates than California's program as a whole. For example, for fiscal year 1998-99, 64 percent of the cases closed for clients served under college or university programs were able to find employment compared with the 47 percent employment rate of all cases closed that year. However, the success rate for clients who participated in the mental health cooperative program was just 44 percent—lower than the rate for the department's clients overall. Nonetheless, for certain mental health disabilities, clients who participate in the cooperative program do better than those who do not. For instance, the majority of participants in the mental health cooperative program are individuals with such disabilities as psychotic, mood, or sleep disorders. In the cooperative program, 44 percent of clients with these disorders found employment compared with 34 percent of clients with these disorders who did not participate in the program.

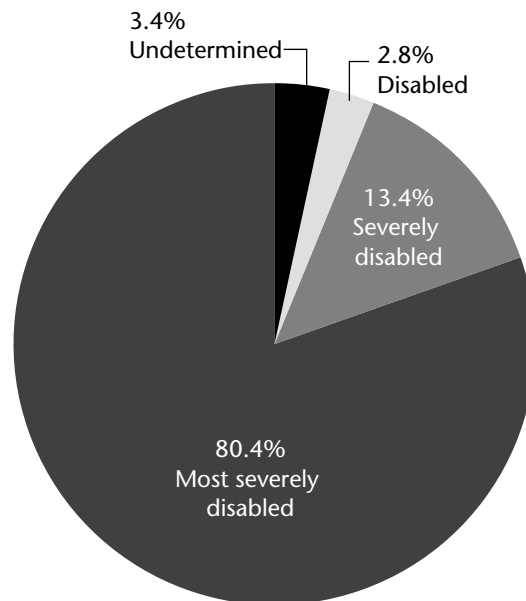
California Must First Serve Clients Whose Rehabilitation Costs More Than Services for Less Disabled Individuals

Exacerbating the problem of rising costs is the fact that under federal regulations, California must first serve the most severely disabled clients applying for services, and these services usually

cost more than services for other eligible individuals. When the State does not have sufficient funding to provide vocational rehabilitation services to all eligible clients, federal regulations require the State first to provide services to those individuals who are most severely disabled. To accomplish this objective, as Chapter 2 explains, the department has established an order-of-selection process to determine which clients have the most severe disabilities. California has been working under this order-of-selection process since September 1, 1995. Consequently, as Figure 3 shows, about 80 percent of the department's clients who received services under a plan for employment during fiscal year 1998-99 qualified as most severely disabled. Serving clients with the most severe disabilities costs more than assisting less disabled individuals, presumably because the most severely disabled generally take longer to become rehabilitated and need more services. Nevertheless, vocational rehabilitation programs in other states that are

FIGURE 3

Clients Identified as Most Severely Disabled Constitute Most of the Department's Caseload* (As of June 30, 1999)



Source: Department of Rehabilitation's Client Tracking System Extract as of June 30, 1999.

* During fiscal year 1998-99, the department served 75,304 clients under plans for employment.

operating under the same federal regulation to serve the most severely disabled first are spending on average about 19 percent less per client than California spends.

Other States Using an Order-of-Selection Process Also Have Higher Costs Than States Not Using This Process

Generally, costs for vocational rehabilitation programs in states that must use order of selection to determine the severity of disabilities are significantly higher than costs for program services in states that are able to serve all eligible clients. We compared states with annual program expenditures exceeding \$50 million that operated under order of selection during the same time that California did (peer states) with all states that had annual expenditures exceeding \$50 million but did not use an order-of-selection process during this time. Table 1 shows that California and its peer states spent on average about \$1,150 more per client annually than other states, suggesting that states required to serve the most severely disabled first spend significantly more money per client than states that do not need to address the most severe disorders first.

California Spends More Funds Per Case on Its Most Severely Disabled Clients Than It Does on Clients With Less Severe Disabilities

Furthermore, we analyzed the cost of California's vocational rehabilitation cases and, confirming the expected, found that the State consistently spends more to rehabilitate its most severely disabled clients than it does on clients with less severe disabilities. Under order of selection, California separates its cases into three categories of severity: *most severely disabled*, *severely disabled*, and *disabled*. Individuals that the department considers most severely disabled have severe physical or mental impairments that impede their potential employment. Clients with these impairments require multiple vocational rehabilitation services over an extended period of time to prepare for employment. People who are severely disabled may have disorders that are similar to those of a most severely disabled individual, but their limitations are fewer and less likely to be barriers to employment.

Since California began using order of selection in September 1995, the department has only had enough funding to accept new clients in the most severely disabled and severely disabled categories. For this reason, we determined the

TABLE 1

**Vocational Rehabilitation Programs in States
With the Order-of-Selection Process
Have Higher Costs**

States With Order of Selection	Average Annual Cost Per Client*
Peer States[†]	
Georgia	\$3,232
Ohio	3,081
Illinois	2,571
Louisiana	2,464
Wisconsin	1,666
Peer States' Average	\$2,603
California	\$3,227
Average (California and peer states)	\$2,707
States Without Order of Selection [‡]	Average Annual Cost Per Client *
Indiana	\$2,339
Missouri	1,598
New York	1,583
Alabama	1,579
South Carolina	1,556
Virginia	1,161
Florida	1,033
Average	\$1,550

Source: U.S. Department of Education's Rehabilitation Services Administration database of States' Annual Vocational Rehabilitation Program and Cost Reports for federal fiscal years 1995-96 through 1997-98.

* Average annual cost per client is calculated as total state expenditures for federal fiscal years 1995-96 through 1997-98 divided by total clients served during the same time period.

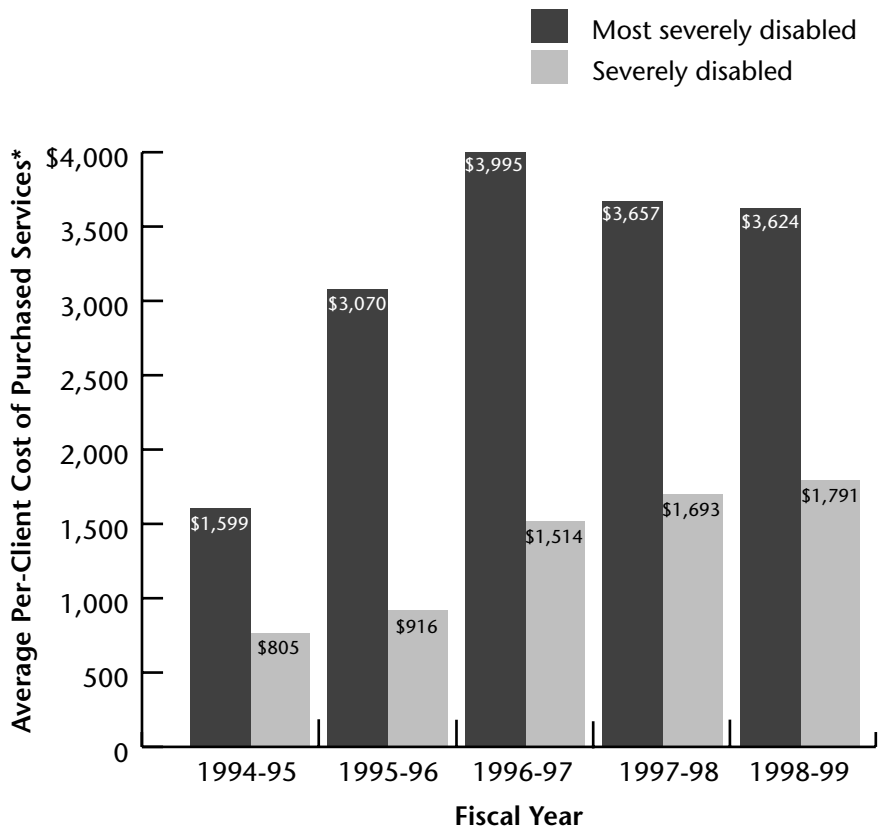
† Peer states are those states with annual program expenditures exceeding \$50 million that were under order of selection during the same period as California.

‡ States without order of selection are those states with annual program expenditures exceeding \$50 million that were not under order of selection during the same period as California.

average cumulative purchased-service costs for cases closed in both the most severely disabled and severely disabled client groups. Figure 4 shows that the average cost of services received under a plan for employment by clients in the most severely disabled category significantly exceeded the average cost of these services to rehabilitate individuals in the severely disabled category. Figure 4 includes only the cost of purchased services because the department does not track by client its administrative and departmental service costs.

FIGURE 4

Purchased-Service Costs for the Most Severely Disabled Clients Are Significantly Higher Than Those for Severely Disabled Clients



Source: California Department of Rehabilitation’s Client Tracking System Extract for state fiscal years 1994-95 through 1998-99.

* We calculated the average per-client cost as cumulative purchased-service costs for cases closed divided by the number of cases closed for each fiscal year.

Other States' Programs Governed by the Same Regulations Are Spending Less and Accomplishing More Than Is California's Program

Although changes in federal law affect all state vocational rehabilitation programs, the performance of California's program does not compare favorably with the performance of programs in peer states that use order of selection to assess the severity of disabilities. California's rate of success for clients is well below that of its peer states, and its costs are higher.

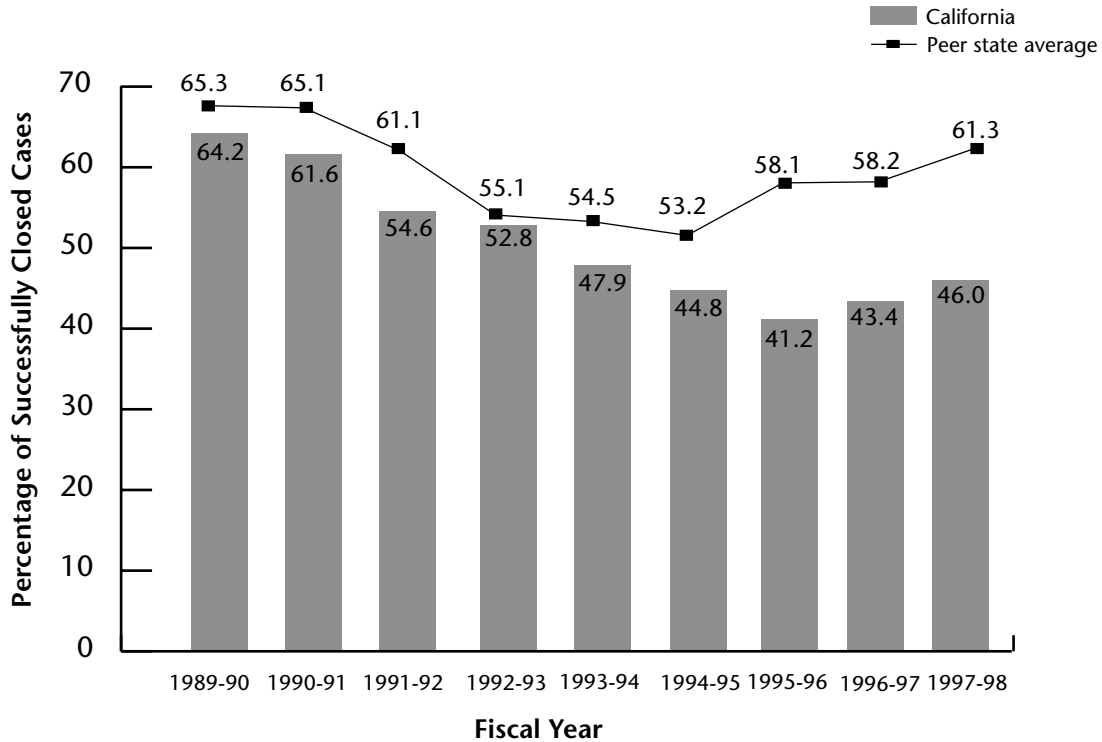
As Figure 5 indicates, from federal fiscal years 1989-90 to 1997-98, California's successful closure rate, or the number of cases closed because the department considered the clients rehabilitated in relation to the total number of cases closed, declined about 23 percentage points. Although California's peer states also experienced decreases in their percentages of rehabilitated clients of 12 percentage points on average, these declines were not as pronounced as California's rate drop. After the periods of decline, both California and its peer states experienced improved rates of successful case closure. However, the peer states' rate recovery started two years before that of California, and their average successful outcome rates were approximately 15 percentage points higher than California's rate. This discrepancy suggests that additional factors besides the federal requirements are causing California's poor performance in using its funds effectively and closing client cases successfully.

On average, the peer states' successful outcome rates were 15 percentage points higher and their annual costs per client were \$624 lower than California's.

Moreover, compared with other states that use order of selection, California generally spends more money in attempting to rehabilitate its clients. Specifically, as shown in Table 1 on page 20, from federal fiscal years 1995-96 through 1997-98, California spent an annual average of \$3,227 per client, while its five peer states spent an average of \$2,603 per client. We surveyed the peer states to identify the practices they employ that may account for their costs being lower and their success rates being higher than those of California. However, we did not identify any significant differences. Nonetheless, as we discuss later in this chapter, we identified practices at some of the department's district offices that can help the program be more cost-effective.

FIGURE 5

California's Vocational Rehabilitation Rates for Disabled Individuals Are Consistently Lower Than Those of Its Peer States*



Source: U.S. Department of Education's Rehabilitation Services Administration database of States' Quarterly Cumulative Caseload Reports for quarters ending September 30 for federal fiscal years 1989-90 through 1997-98.

* Peer states are those states with annual program expenditures exceeding \$50 million that were under order of selection during the same period as California.

THE DEPARTMENT HAS FAILED TO MANAGE CERTAIN ASPECTS OF THE PROGRAM ADEQUATELY

Increasing costs for client services and a record that shows a low percentage of clients obtaining employment for at least three months indicate that the department has failed to manage or focus properly its program. Our review suggests that the department has significant weaknesses in the following areas:

- Tracking the cumulative costs of individual cases to keep them from becoming unreasonably high.

- Identifying and then closing promptly its many expensive, unsuccessful cases to avoid spending funds that could go toward services for additional eligible clients.
- Monitoring district performance to ensure consistent, cost-effective delivery of services.

Despite the department’s overall management shortcomings, some districts perform better than others, maintaining much lower costs while still achieving rates of success comparable to those of other districts. Lacking departmental leadership, districts with cost-effective practices have developed management techniques to monitor and control costs.

The Department Does Not Monitor the Cumulative Costs of Its Cases

The department’s failure to track the cumulative expenses of its cases causes it to spend far beyond its average on some cases and contributes to its spending a large percentage of funds on a small percentage of clients. Federal policy states that, after a client’s employment goal has been identified, cost is a relevant factor in determining an appropriate, cost-effective means for providing services and authorizes states to employ cost efficiency strategies in providing needed services to clients. By not effectively monitoring cases to ensure costs are necessary and reasonable, the department is spending money it could use to serve additional deserving clients.

By not monitoring cases and promptly closing those that are unsuccessful, the department spends money it could use to serve additional deserving clients.

Currently, the department does not monitor the cumulative service costs of its clients’ plans for employment. Instead, it focuses on reviewing and approving certain types of expenditures during the progression of a client’s plan. For example, the department reviews and approves items such as vehicle repairs that exceed annual limits of \$350, but it does not increase its scrutiny of cases for which growing costs for purchased services significantly exceed the program’s averages.

Additionally, although it is the department’s practice to estimate and monitor anticipated annual case costs when it creates a plan for a disabled client, the department does not estimate the total cost of achieving the plan. At the outset, the department does not clearly outline the total resources it commits for a client or the possible need to explore more cost-effective alternatives. Further, as the client progresses in the plan, the department is unable to check the accumulating costs against an original

estimate. Because the department does not estimate total plan costs for its clients nor compare cumulative costs to these estimates, it is not likely to intervene at appropriate points when aggregate costs exceed reasonable amounts. For example, for cases closing in fiscal year 1998-99, the department incurred 26 percent of its purchased-service costs on just 3 percent of its cases. In fact, it spent over \$20,000 per client on these cases—more than six times its average cost of approximately \$3,300 for purchased services.

Our review of a sample of cases exceeding \$50,000 revealed that although some clients may reasonably require more services, the department apparently does not always consider what is reasonable and appropriate before providing services. For example, in one case, the department agreed to provide services for a client whose vocational goal of becoming an orthodontist required an undergraduate degree, a graduate degree in dentistry, and specialty training in orthodontics. Thus, the department committed itself to a costly vocational goal for which it has already spent \$92,000 in purchased services for the client's education at a university and current training at a private dental school. However, since the client graduated from the university, the department has not purchased any services specifically related to the client's learning disabilities. In fact, aside from periodic evaluations, services have been limited to paying for books, tuition, fees, and supplies. Consequently, although the client is disabled, it is questionable whether he continued to require vocational rehabilitation services following his graduation from the university.

Had the department monitored one case, the client may have received the needed guidance to pursue a vocational goal with ample job opportunities.

For another case that has already lasted 10 years, the department continues to provide services, currently totaling over \$80,000, to a client who graduated with a degree in anthropology. In college, the client appeared uncertain on a course of study, which changed from environmental studies to physical therapy and then finally to anthropology. Had the department monitored the case, it may have ensured the client received the guidance she needed to pursue a career with ample job opportunities. After she received her degree in anthropology and was unable to find employment, the client contemplated pursuing a doctorate degree in archaeology or a master's degree in management. At this point, the counselor expressed concerns about the client's indecisiveness and unclear vocational goal. However, instead of providing redirection and moving the client toward gainful employment, the counselor complied with the client's request to

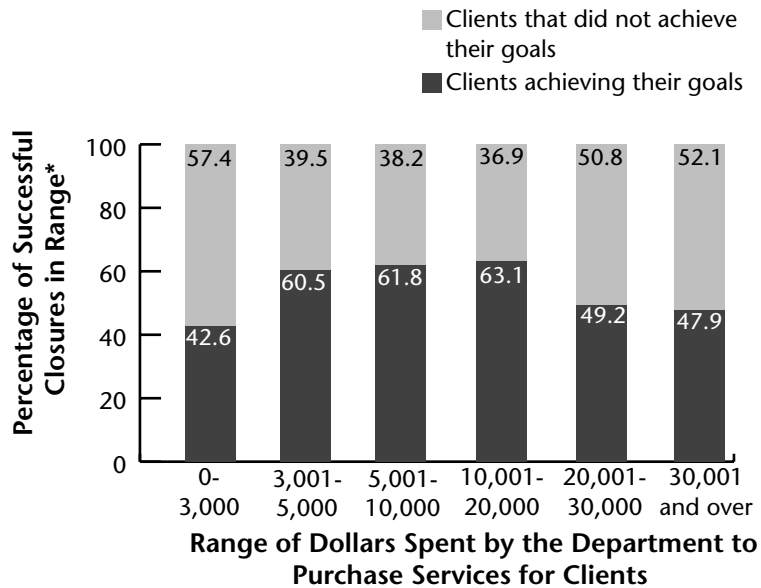
revise her vocational goal so she could pursue a career in law. As a result, the department has obligated itself to another long-term, expensive goal.

The Department Does Not Close Expensive, Unsuccessful Cases Promptly

We also found that spending more funds for each case does not ensure the success of those cases. In fact, for cases closed in fiscal year 1998-99, once the department’s spending on a client’s plan reached about \$20,000, the likelihood that the client would be successful in attaining his or her plan objective decreased significantly. Figure 6 shows this point of diminishing returns.

FIGURE 6

Although It Initially Increased, the Percentage of Clients Obtaining Employment Dropped as the Department’s Per-Case Spending Increased (Fiscal Year 1998-99)



Source: Department of Rehabilitation’s Client Tracking System Extract for state fiscal year 1998-99.

* We calculated the percentage of successful closures by dividing the number of successful case closures in each range by the total cases closed in the same range.

If it were to focus on monitoring cumulative service costs, the department could exercise its right to close unsuccessful, expensive cases when conditions indicate that a positive outcome is unlikely. Had the department been able to close the unsuccessful

cases described above after it had spent \$20,000, it would have saved enough funds to provide services to more than 2,700 additional clients at the department's average cost for rehabilitating clients.

Although the department is operating under the "presumption to benefit" requirement, federal law does not oblige the department to spend unreasonable amounts of money to continue purchasing services for clients who cannot reach their employment goals. The department should exercise prudence in providing services to clients so that it uses to best advantage its limited vocational rehabilitation funds to serve additional Californians with disabilities.

Our sample of 20 fiscal year 1998-99 client cases included 15 that exceeded \$50,000 in cumulative costs; 5 of these 15 expensive cases closed unsuccessfully. All 5 of these unsuccessful cases involved clients who were taking part in the department's Work Activity Program, which provides primarily work-related experiences in a sheltered setting to developmentally disabled clients. The clients in these 5 cases received services over a period of four to seven years at a total cost of \$322,200 before the department moved to close them as unsuccessful in fiscal year 1998-99. In 4 of the 5 cases, the services the department provided consisted of primarily work adjustment services such as behavioral training to develop the appropriate attitudes, habits, and personal and social skills necessary for employment. According to the State's regulations, without a special waiver, the duration of these types of services must not be more than six months, and even with a waiver, we would not expect these types of services to greatly exceed the six-month standard. However, in each of the 4 cases, the department continued to provide services to clients for several years before concluding they were not employable and closing their cases.

By closing cases when a positive outcome is unlikely, the department can assist other eligible clients who are waiting to receive services.

The results of our review of these initial 5 sample cases prompted us to review the remaining 33 cases that cost more than \$50,000 and that the department closed as unsuccessful during fiscal year 1998-99. We found that 26 of these 33 cases, or 79 percent, were also clients that the department served through its Work Activity Program. The department stated that it spends significantly more on the clients it serves through this program than it does on its other clients. According to the department, from fiscal years 1994-95 through 1998-99, it served about 12,000 clients in its Work Activity Program. Although the

department estimated that on average these clients received services for 2.4 years at a cost of \$11,550 per client, these estimates are likely understated because many of these clients continue to receive services. Of the 7,400 Work Activity Program cases the department closed during fiscal years 1994-95 through 1998-99, about 4,950, or 67 percent, closed without the clients achieving their employment goals. By not promptly closing expensive cases of clients who, after a reasonable time period, have demonstrated they are unable to achieve their employment goals, the department is not optimizing its vocational rehabilitation funds to serve more Californians with disabilities.

The Department Does Not Fully Use Its Existing Management Tools

Although the department maintains a statewide database that tracks the status and costs of cases, it does not fully use this tool to monitor district performance.

The department has various tools at its disposal to monitor district performance. However, it is not fully using these management tools to ensure that districts provide consistent, cost-effective services. For example, the department periodically conducts detailed reviews of its district offices. However, these reviews focus primarily on client satisfaction and compliance with state and federal regulations related to case processing rather than on plan outcomes and service costs. Although customer satisfaction and compliance with case processing regulations are important, they do not alert management to districts that may be experiencing climbing costs and decreasing outcomes. As a result, these reviews do not identify the poorer-performing districts that may need the department's attention and technical assistance.

Additionally, the department maintains an extensive statewide computer database system that tracks the status and costs of its cases. The department could use this system as a management tool for identifying and monitoring potential disparities in local service delivery by comparing productivity and costs from district to district. However, with the implementation of the 1992 amendments, the department stopped requiring district offices to establish production goals and discontinued its practice of producing monthly performance reports from the system that compared the districts on spending and productivity. As a result, the department is not using its information system to its best advantage as a management tool, especially to highlight differences in outcomes and costs from district to district.

Despite the department’s lack of focus on outcomes and service costs, we found certain districts are doing better than others in managing their program costs. The Appendix presents the average cumulative costs of purchased services and the percentage of average successful outcome rates by district. We visited four districts and found that the most cost-effective districts are those that employ appropriate management techniques and strategies, including monitoring costs and outcomes.

SOME DISTRICT OFFICES SUCCESSFULLY USE MANAGEMENT STRATEGIES TO ACHIEVE LOWER COSTS

Of the four districts we visited, two consistently have low costs and successful outcome rates comparable to those of other districts. These two districts—Greater Los Angeles and Fresno—closely monitor client expenditures and maintain a sharp focus on being productive at the lowest possible cost. For example, the Greater Los Angeles district conducts weekly management meetings to evaluate spending by unit and counselor. The purpose of these meetings is to identify counselors whose cases exhibit unusually high costs. If necessary, district management reassigns these cases to other counselors or discusses the issues with the counselors.

In addition, the Fresno district has developed its own district reports to monitor data such as the number of plans written, closed cases, costs per plan, and costs per rehabilitation. This monitoring system allows the district to be aware of its costs and production. Another cost-saving effort in the Fresno district is its book buy-back program, which encourages clients attending school to purchase used textbooks rather than costly new books.

By developing reports to monitor cases, one district is better able to control costs yet still achieve successful outcomes.

Consistent with department policy, the Fresno and Greater Los Angeles districts emphasize to their counselors the importance of constantly evaluating client needs versus wants and also giving clients only what they need to support their plans for employment. Further, counselors stress to every client that the plan for employment is essentially a contract and generally it will not be changed except to accommodate an alteration in the client’s disability. Additionally, Fresno has each client sign a form called Terms and Conditions for Provision of Services, which clearly delineates the client’s responsibilities. This discourages clients from repeatedly changing their vocational goals and optimizes the district’s use of money and resources.

RECOMMENDATIONS

To ensure that it uses its limited resources to benefit the greatest number of eligible clients, the department should:

- Estimate the total cost of each client's plan for employment during plan development and after each major revision.
- Establish cost standards and require review and approval of plans exceeding the standard amount.
- Monitor cumulative case costs against the established standards, and take appropriate action when costs exceed the standards.
- Close cases as soon as it becomes apparent that the clients cannot attain employment.
- Identify and adopt strategies used by other states and the department's own district offices that have been effective in reducing costs and improving success rates.
- Use existing management tools to assist in monitoring the program. This effort may include expanding the scope of periodic district reviews to focus on plan costs and outcomes and generating management reports from the department's statewide database that highlight district performance in terms of costs and outcomes. ■

CHAPTER 2

The Department’s Method for Evaluating the Severity of Clients’ Disabilities Favors Clients With Learning and Certain Mental Disabilities

CHAPTER SUMMARY

The scoring instrument that the Department of Rehabilitation (department) now uses to identify those individuals whom its Vocational Rehabilitation Program (program) must serve first favors people with learning and certain mental disabilities, so access to vocational services may be inequitable. Recognizing that its scoring instrument is flawed, the department contracted with San Diego State University (university) in 1996 and 1998 to study and make recommendations for improving the scoring instrument, but the department has not yet implemented any of the university’s recommendations.

THE DEPARTMENT USES A SIGNIFICANCE SCALE THAT FAVORS CLIENTS WITH LEARNING AND CERTAIN MENTAL DISABILITIES

The significance scale—the scoring instrument developed by the department to rate a client’s degree of disability—is flawed. The scale’s weaknesses can cause individuals with learning and certain mental disabilities to receive higher scores on the significance scale than people with other types of disabilities. The department uses the scale for the order-of-selection process, which helps department staff fulfill the federal regulation that vocational rehabilitation programs without sufficient resources to serve all eligible clients must identify and then serve first the most severely disabled individuals. In California’s program, cases of clients with the highest scores are likely to receive the department’s highest priority.

California Developed Its Scale to Identify the Disabled Clients It Must Serve First

Although the federal government defines an individual with a *severe disability*, it allows states to establish criteria for an individual with a *most severe disability*. The department’s significance scale uses a scoring system to rank from zero to five the impact of individuals’ disabilities on 10 different areas in which they must function reasonably (functional capacity areas) to become employed. A score of zero in a functional capacity area means that the applicant does not have a disability that affects that particular area. Conversely, a rank of five means that the individual’s disability has a very high impact on that particular functional capacity area. Table 2 shows the 10 functional capacity areas and their definitions.

TABLE 2

Functional Capacity Areas That an Individual’s Disabilities May Affect

Functional Capacity Area	Definition
Mobility	The physical, cognitive, sensory, or psychological ability to move about from place to place, including community, home, school, or work.
Speaking	The ability to effectively express information that is understandable to others.
Hearing	The ability to effectively receive or use auditory information through speech or other essential sounds, and may not have a correlation to decibel loss.
Seeing	The ability to effectively perceive or use information received through written or printed words, concepts, or objects.
Cognitive Processing	The ability to effectively process, understand, or act on information, either given or received, without regard to the physical ability to carry out the behavior.
Personal Care	The ability to meet one’s physical and personal needs. This includes, but is not limited to, an individual’s management of resources for one’s needs, such as grooming, medication management, or money management.
Self-Direction	The ability to independently plan, initiate, problem solve, organize, or carry out goal-oriented activities without regard to the physical ability to carry out the activity.
Interpersonal Skills	The ability to establish or maintain personal and social interaction as they affect the individual’s participation in training or work-related activities.
Work Tolerance	The capacity to sustain required levels of physical or mental functioning in work-related activities.
Work Skills	The ability to learn or perform essential physical or cognitive work-related activities.

Source: Barclays Official California Code of Regulations, Section 7051.

The department uses four criteria to determine which eligible applicants are most severely disabled: the total score from the scale for each individual, the applicant's number of highly affected functional areas, the expected length of time, and the number of services needed for his or her rehabilitation. The significance scale supplies the first two of these criteria. The department has been using the same significance scale to determine which clients receive priority for services since it instituted its order-of-selection process more than four years ago. Consequently, as we discussed in Chapter 1, more than 80 percent of the approximately 75,000 clients who received services under a plan for employment during fiscal year 1998-99 qualified as most severely disabled. Table 3 shows the composition of the department's caseload for this period.

TABLE 3

Disability Groups Served by the Department in Fiscal Year 1998-99

Disability Group	Percentage of Total Clients Who Received In-Plan Services
Visual	8%
Hearing	6
Extremity Loss	1
Orthopedic*	17
Mental†	40
Acute brain injury	3
Learning disabilities	18
Other‡	7

* Orthopedic disabilities are impairments of one or more limbs, the back, the spine, or the trunk caused by conditions such as congenital malformation, cerebral palsy, muscular dystrophy, multiple sclerosis, arthritis and rheumatism, Parkinson's disease, stroke, and spinal cord injuries.

† Mental disabilities encompass such conditions as psychotic, personality, sleep, and mood disorders, as well as mental retardation, autism, and drug addiction and alcoholism.

‡ Other disabilities include disorders that involve impairment of the body's systems, such as circulatory, respiratory, nervous, and digestive systems, caused by conditions such as congenital heart disease, hypertension, emphysema, hernias, allergies, and leukemia.

Studies Have Found That the Department’s Scale Has Serious Shortcomings

Despite the significance scale’s apparent usefulness and level of detail, studies of this measurement tool concluded that it has flaws. For instance, the significance scale may favor individuals with certain mental and learning disabilities because applicants in these disability groups can receive scores for more functional capacity areas than can individuals in other disability groups.

According to the federal Rehabilitation Services Agency, the department requires separate scores for speaking, hearing, seeing, and cognitive processing, which are all areas that involve communication, but the department’s definitions for these abilities are ambiguous. As a result, individuals who have similar limitations in communication may receive different assessments. For example, someone who is deaf and limited in expressing and receiving verbal communication is likely to receive one score for speaking and one for hearing, but a person who is blind and limited in visual and receptive communication would receive a score for seeing only. As a result, the deaf person would receive a higher score on the scale than would the blind individual. The total score for all 10 functional capacity areas is one of the department’s criteria for determining the severity of an individual’s disabilities; thus, individuals with the highest scores have the best chance of becoming eligible for services.

Because the significance scale is heavily weighted for cognitive abilities, an individual with certain mental or learning disabilities may receive a higher cumulative score than people with other types of disabilities. During our review of the department’s significance scale, we noted that 3 of the 10 functional capacity areas—cognitive processing, mobility, and work skills—directly involve cognitive skills.

Because the scale is weighted for cognitive abilities, clients with certain mental and learning disabilities may receive a higher score than clients with other disabilities.

The department twice asked the university to evaluate the significance scale. Based on its 1996 and 1998 studies, the university concluded that the 10 functional capacity areas do not have equal weight and that the scale gives more weight to communication-related abilities than to other areas. The university also concluded that some of the abilities measured to determine a functional capacity area might overlap, so the 10 functional capacity areas are not independent of each other. For example, the 1996 study found that scores received for cognitive processing correlated strongly with scores in all functional capacity areas except mobility. Therefore, it is likely that an

After four years of studying the scale, the department has not yet implemented a modified instrument.

individual who has difficulty understanding simple instructions would not only score high in (that is, show difficulties with) cognitive processing, but he or she would also receive high scores in other areas that require similar cognitive abilities, including interpersonal skills, personal care, self-direction, and work skills. On the other hand, a person who is quadriplegic may score high—or demonstrate difficulties with—the area that measures mobility. Further, we found that rather than limit the definition of mobility to the ability to move physically from place to place, the department expanded the definition to include cognitive and psychological abilities to move about. According to this definition, someone who can walk but has difficulty understanding how to get to a destination may receive a higher score than a person who is paraplegic and can travel about with the help of a wheelchair.

The Department Is Working to Improve Its Significance Scale

The department recognizes that its significance scale is flawed and has taken steps to improve the tool. In 1997, the department formed a work group to revise the scale based on recommendations from the 1996 university study. After it made revisions, the department then asked the university to study the revised scale. Although the university reported in its 1998 study that the revisions did improve the original scale, the university concluded that the scale was not yet sufficiently reliable. After four years of studying the scale, however, the department has not implemented a modified instrument. The department is currently reviewing the university's recommendations and plans to submit its proposed significance scale revisions to the department's newly appointed director. Once the new director approves a modified instrument for assessing the severity of applicants' disabilities, the new criteria must go through a lengthy administrative process before they become part of state regulations that govern the program. Consequently, the department will not be using a new scale or evaluation tool in the near future.

RECOMMENDATION

To ensure that the most severely disabled in all disability groups have equal access to services under order of selection, the department should modify its significance scale.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



MARY P. NOBLE
Acting State Auditor

Date: February 10, 2000

Staff: Sylvia L. Hensley, CPA, Audit Principal
Reed M. McDermott, CPA
Debra L. Maus, CPA
Robert A. Hughes
Joemil A. Reguindin

APPENDIX

Purchased-Service Costs and Successful Outcome Rates by District for the California Vocational Rehabilitation Program

District	Average Cumulative Costs of Purchased Services*	Percentage of Average Successful Outcomes for Disabled Clients†
Northern Region:		
San Francisco	\$2,623	49.3%
San Jose	2,717	45.7
Pleasant Hill	2,769	43.0
Oakland‡	2,924§	45.1
Chico	2,958	47.9
Santa Rosa‡	3,025	45.0
Sacramento	3,164	44.0
Los Angeles/Orange Region:		
Greater Los Angeles‡	1,690	48.7
Los Angeles Mid-Cities	1,894	40.7
Orange/San Gabriel	2,692	41.2
Van Nuys/Foothills	2,784	36.3
South Coastal	2,882	43.5
Southern Region:		
Fresno‡	1,849	45.2
Riverside	2,049	42.3
San Bernardino	2,099	42.6
Santa Barbara	2,275	44.7
San Diego	2,352	44.7

Source: Department of Rehabilitation's Client Tracking System Extract and Client File Control Register for state fiscal years 1994-95 through 1998-99.

* We calculated the average cumulative cost of purchased services for each district by dividing the total number of case closures for fiscal years 1994-95 through 1998-99 into the cumulative purchased service expenditures for these cases.

† We calculated the percentage of average successful outcomes by dividing the number of successful case closures for fiscal years 1994-95 through 1998-99 by the total cases closed during the same time period.

‡ We performed a limited on-site review of this district.

§ The Oakland district's average cumulative cost of purchased services for fiscal year 1997-98 was unusually high (\$6,143). Excluding fiscal year 1997-98, the district's average costs during this time period would be \$2,246.

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Agency's comments provided as text only.

Department of Rehabilitation
Director's Office
2000 Evergreen Street, 2nd Floor
Sacramento, California 95815

January 28, 2000

Sylvia Hensley
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento CA 95814

Re: Report 99111

Dear Ms. Hensley:

Thank you for the opportunity to review and comment on the Bureau of State Audits' draft audit report entitled, "California's Vocational Rehabilitation Program: Although Federal Requirements Have Contributed To Its Rising Costs, by More Effectively Managing the Program, the Department of Rehabilitation Can Better Serve More Californians With Disabilities".

Our response addresses findings, recommendations and other issues in the report. The comments are organized to parallel the format contained in the audit report.

If you have any questions about the response, please contact our Response Coordinator, Melinda Wilson, at (916) 263-8999.

Sincerely,

(Signed by: Catherine Campisi)

CATHERINE CAMPISI, Ph.D
Director

Enclosures

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California Department Of Rehabilitation (DR) Response to Bureau of State Audits (BSA) Report # 99111

INTRODUCTION

California is home to over 6 million individuals with disabilities, of which approximately 5.6 million are working age.¹

DR's mission is to assist Californians with disabilities to obtain and retain employment and maximize their ability to live independently in their communities. The department carries out its primary mission by administering the federal Vocational Rehabilitation (VR) Services Program authorized under Title I of the Rehabilitation Act of 1973, as amended through 1998 (the Act). Under the Act, DR provides vocational rehabilitation services to eligible Californians with disabilities.

A long standing fundamental principle under the Act is that services provided to an eligible individual are individualized, based on the unique needs of the individual, and only those services necessary to reach the individual's employment goals are provided.

Prior to the 1992 Amendments to the Act, most individuals with severe disabilities were unable to access the VR program. In California, two former DR Directors experienced being initially determined too severely disabled to be clients of the department. Unlike individuals with mild and moderate disabilities who have access to other employment and training resources, e.g., Job Training Partnership Act programs and the state employment agency services, individuals with severe disabilities had no significant alternatives to receiving vocational rehabilitation services apart from the VR Services Program.

¹ 1994-95 national Survey of Income and Program Participation

The 1992 Amendments to the Act made several changes to the VR Services Program with the intent of providing greater access to the program for individuals with severe disabilities and promoting meaningful employment outcomes that maximize the potential of individuals with severe disabilities.

The Amendments included provisions that made it easier for individuals with severe disabilities to meet eligibility criteria by presuming applicants can benefit from services. It gave individuals with disabilities receiving services under the Act (clients), the right of “informed choice” regarding the selection of a career and the services provided to them. Previous to the Amendments, clients with severe disabilities were many times slotted into fixed careers even though it had been shown that they could be successful in more varied careers. The Amendments required the states to deliver services and promote employment outcomes in the most integrated environment where people with and without disabilities would work together.

Moreover, the 1992 Amendments revised the standard for determining a client’s employment goal. The standard shifted from providing employment goals leading to entry level work to promoting careers, which allows an individual with a severe disability to obtain a salary and benefits that meet the disability related needs. The client with a severe disability now truly had an opportunity to be self-sufficient and live independently.

The Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-97-04 issued August 19, 1997, rescinded the standard for determining an appropriate vocational goal, described as “reasonable good entry level work an individual can satisfactorily perform.” The new standard is more expansive. The 1992 Amendments require that the employment objective identified in a client’s Individual Plan for Employment (IPE) be consistent with the client’s primary employment factors, that is, the individual’s strengths, resources, priorities, concerns, abilities, and capabilities.

Given the emphasis that the Amendments place on informed choice, states must also ensure that the identified employment objective reflects the individual's interests and informed choice to the extent that those factors are consistent with the primary employment factors noted above. RSA notes that "entry level employment is an appropriate goal if the eligible individual is only capable of performing entry-level work or if the individual chooses an entry-level job as his or her employment goal."

DR embraced the 1992 Amendments even before they were embodied in regulations in response to the strong advocacy from California's "disability community", a community that gave birth to the independent living movement and the fight for civil and human rights for individuals with disabilities.

Pursuant to the Amendments, DR appropriately encouraged individuals receiving services under the Act to be full and active participants in their rehabilitation programs. No longer viewed as a passive "recipient" of VR services, the client is empowered to make informed choices about his or her employment goals services and the service providers. The result is a full partnership between the client and the department which does not necessarily put the client in the "driver seat", but promotes an atmosphere of equal partnership, mutual respect and an adherence to the rights and responsibilities that provide the foundation of a rehabilitation program.

In addition to the 1992 Amendments, two other factors contributed to DR serving individuals with the most severe disabilities:

- A legislatively mandated expansion of services to individuals with severe developmental disabilities in the work activity program (VR/WAP). ①*
- As required by federal law, in 1995 the department implemented Order of Selection (OSS) because of insufficient resources to serve all eligible individuals with disabilities. Under OOS, the department has only served clients with most severe and severe disabilities. ②

*California State Auditor's comments begin on page 65.

As a result of the implementation of the 1992 Amendments and the two factors noted above, 93% of the department's employment closures in fiscal year 1998/99, were for clients with severe disabilities as compared to 56% in 1990/91.

SUMMARY

The department agrees with BSA's finding that rising costs have been in part caused by changes in federal law, particularly, the 1992 Amendments to the Rehabilitation Act of 1973. BSA correctly identifies three federal requirements that have contributed to higher costs: presumption of benefit, client informed choice and order of selection criteria of first serving individuals with the most severe disabilities.

BSA included a fourth factor, the department's provision of services through local agencies, as contributing to rising costs. However, the auditors fail to provide convincing evidence to support their conclusion that the department's cooperative agreements with local agencies contribute to higher costs. Examples are provided in the department's response to chapter one to support the position that the auditor's analysis is incomplete.

3

The department strongly objects to BSA's comment that suggests the department "mismanages its funds". BSA offers no data or factual basis to support this inflammatory statement in their executive summary.

4

BSA states that the department's significance scale is flawed and favors particular disabilities. The department has no policy or procedures that are intended to skew scoring towards a particular disability group. The department recognizes the need to revise its process for determining severity of disability and has already made some revisions. Additional revisions, including changes to the significance scale, are being discussed and are a high priority. Further information is provided later in the department's response to chapter two.

BSA compares the department to five states, Louisiana, Wisconsin, Georgia, Illinois, and Ohio and concludes that these “peer” states have been more successful than DR at controlling costs and helping disabled clients achieve their employment goals. Although the department appreciates BSA’s attempt to identify peer states, the department questions the comparability of these states given the varying factors associated with Order of Selection and management of the VR program. Therefore the department finds that BSA’s comparison of DR to the other states results in an inaccurate depiction of the department program performance. More information is presented under the heading, “Scope and Methodology”.

5

Generally, DR understands the apparent intent of BSA’s recommendations to chapter one to ensure that DR optimizes its limited resources. In fact, DR has already started to improve fiscal monitoring with an increased emphasis on accountability for employment outcomes.

Under the direction of its recently appointed Director, Catherine Campisi Ph.D., the department will engage in a process of identifying and implementing strategies to increase employment outcomes, better manage program costs, and more effectively determine severity of disability. The department will consider adopting strategies used by other states and its own district offices, consistent with the intent and spirit of the Act and federal regulations. The department also will identify existing management tools to assist in monitoring the program as discussed in DR’s response to “Some District Offices Successfully Use Management Strategies to Achieve Lower Cost.”

The department disagrees with the specific recommendations to “estimate” the total cost of each client’s IPE, monitor cumulative case costs against the “estimate”, and to establish “cost standards”. These recommendations would result in department practices contrary to federal law as discussed in the response to “The Department Does Not Monitor the Cumulative Costs of its Cases”.

6

The department believes the recommendation to “...promptly close cases...” is unique to the VR/WAP caseload and BSA only cited VR/WAP cases in support of their finding as discussed in the response to “The Department Does Not Close Expensive, Unsuccessful Cases Promptly.” Therefore, the department will re-examine its case review and monitoring practices of VR/WAP cases and take appropriate actions consistent with the federal law to address the issues.

7

SCOPE AND METHODOLOGY

The scope and methodology employed by BSA to identify DR’s “peer” states and draw conclusions about its program performance compared to other states is limited and therefore, contributes to falsely placing DR’s program performance in a negative light.

5

BSA compared DR to five states, Louisiana, Wisconsin, Georgia, Illinois, and Ohio because as BSA states, they have large programs, annual expenditures exceeding \$50 million and they operated under an order of selection during the same time as DR. However, BSA offers no further factors that establish these states as “peer” states.

Factors that could significantly impact program performance which do not appear to have been examined by BSA are:

- Client characteristics, including services to recipients of Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI).
- Differences in the scope of services provided by DR and the “peer” states.
- Extent of implementation of the order of selection by DR and the “peer” states.

- Definitions and procedures used to determine the individuals with the most severe disabilities.

In reference to client characteristics, BSA acknowledges in their report that it costs more to rehabilitate individuals with severe disabilities, compared to lesser disabled individuals, thus, examining client characteristics of the program is an important factor.

CHAPTER 1

Even With Federal Constraints, The Department Could Serve Additional People With Disabilities By Better Managing The Vocational Rehabilitation Program

THE VOCATIONAL REHABILITATION PROGRAM HAS EXHIBITED DECLINING PERFORMANCE

The department recognizes the need to increase employment outcomes. Towards this end, DR is in the process of implementing the following actions to increase the quality and quantity of Individual Plans for Employment:

- Through diligent outreach efforts, DR is successfully filling counselor and essential field support staff vacancies with qualified professionals.
- DR is assisting current department counselors to obtain masters degrees in rehabilitation counseling by participating in a collaborative effort with San Diego State University and California State University at San Bernardino.
- Plans to improve employment outcomes (Placement Plans) have been implemented in each DR district office. DR will identify the best practices of its district offices and disseminate information about the practices to all service delivery staff throughout the state.
- Internet access has been made available to all DR field offices to assist counselors and clients with vocational planning and job placement and the department plans to expand this resource. The Internet provides extensive labor

market information, training opportunities and resources to meet the service needs of individuals with disabilities.

- Training in job development and placement strategies is being provided for all new counselors and an advanced training is being developed for journeyman counselors.
- New marketing brochures describing DR employment services have been published and made available to employers.
- Teams of DR field supervisors are working, in consultation with the San Diego State University Rehabilitation Continuing Education Program and the Regional RSA office, to develop recommendations for streamlining the rehabilitation process and improving employment outcomes.
- The department will survey other state VR agencies to identify best practices that will lead to improved client employment outcomes and manage costs.

DR will position itself to provide greater access for its clients to job training and placement resources under the Workforce Investment Act.

DR recognizes that its cost per client served has risen, however, much of the increase in cost can be attributed to DR's shift to serving mostly individuals with the most severe and severe disabilities, including significant numbers of individuals receiving SSI and Social Security Disability (SSDI) benefits. Vocational rehabilitation of individuals with the most severe disabilities takes longer than individuals with less severe disabilities, and thus, costs more. In fiscal year 1989/90, the average time from referral to closure for clients rehabilitated was 15 months, compared to 29 months in 1998/99. A similar increase existed for non rehabilitated clients.

Prior to the 1992 Amendments, DR implemented large numbers of low-cost, short-term "entry level" plans for mostly clients with mild and moderate disabilities. As a result of the career

emphasis under the 1992 Amendments, the number of DR clients in college training programs, which is often needed to fulfill the IPE goals, has increased from 13.6% in 1990/91 fiscal year to 24.2% in 1998/99 fiscal year. The cost associated with these and other career directed rehabilitation programs contributes to DR's overall higher costs. However, this investment is likely to be productive in the long term in view of the numbers of persons employed and the wages earned.

In addition, research indicates that for individuals with severe disabilities who obtain a post-secondary degree, there is a higher incidence of successful employment outcomes. According to RSA, for persons with severe disabilities, the employment rate jumps from 24% for those without a bachelor's degree to 48% for those with a college degree.

The Requirement For California To Work With Local Agencies Has Generally Led To Higher Costs Per Case.

Federal law requires assurances that the department will cooperate with local public agencies providing rehabilitation services. (34 Code of Federal Regulations, Section 361.23(b).) Although the law does not require the department to enter into cooperative arrangements with local public agencies, DR has elected to enter cooperative arrangements with local public agencies where they furnish part or all of the required non-federal matching funds. These arrangements have enabled the department to draw down substantial federal funds that would have otherwise been unmatched.

8

Moreover, the department does not agree with BSA's conclusion that the department's cooperative agreements with local agencies contributed to higher costs. Although they offer cost comparisons for clients who participated in cooperative programs to clients who did not participate, they ignore other factors that may have a profound impact on the average costs to serve these clients. Specifically, the department enters into cooperative agreements for the provision of services to individuals with mental health disabilities. The auditors report

the average cost to serve this population is \$4,429 per client compared to \$2,970 for clients who did not participate in cooperative programs. However, the auditors attribute this higher cost to participation in a cooperative program, rather than the types and duration of services necessary to serve this population. Further, clients receiving services from cooperative programs with local school districts often transition to institutions of higher education to complete their plan for employment. Therefore, the average cost for these clients is significantly impacted by the client's employment goal that requires a college education, rather than their participation in a cooperative program.

3

Other States' Programs Governed by the same regulation are spending less and accomplishing more than is California's program.

In principle, DR acknowledges the value of examining VR programs in other states. However, the department is concerned about the narrowness of BSA's inquiry and questions the auditors' conclusions drawn from these comparisons. DR contends that several relevant factors, including client characteristics were not studied by BSA and therefore contributes to inaccurate conclusions.

5

BSA did not recognize DR's improvement in reduced cost per client. BSA compared the department's average annual costs per client to five other states and concluded that DR generally spends more money in attempting to rehabilitate its clients. Specifically, BSA reports that DR spent an average of \$3,227 per client, while the five peer states spent an average of \$2,603 (BSA Table 1). BSA admits that these figures are based on cumulative data from three prior federal fiscal years (1995/96 through 1997/98). However, they fail to compare this information to more current activity. Although the department is unable to compare 1998/99 fiscal year data for the five states BSA used in their report, DR's most recent activity was compared to the prior year information to determine the current trend. Specifically, BSA reported that DR's annual average cost

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per client for the 1998/99 fiscal year was \$2,521, which is well below the annual average cost per client for the five peer states in the previous three federal fiscal years of \$2,603 (BSA Table 1). This comparison represents a significant and recent trend ignored by BSA.

THE DEPARTMENT HAS FAILED TO MANAGE CERTAIN ASPECTS OF THE PROGRAM ADEQUATELY

⑥ *The Department Does Not Monitor The Cumulative Costs Of Its Cases*

The department is concerned with BSA's recommendations that DR use cost as a basis for approving IPEs, amending IPEs, discontinuing services and closing cases. It is the department's position that these recommendations are inconsistent with the Act and its fundamental principles, such as individualized services, consumer informed choice, and emphasis on career objectives.

- The Act requires State agencies "... 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."
- The regulations to implement the Act state that the policies of the State agency must ensure that the provision of services is based on the rehabilitation needs of each individual as identified in that individual's IPE. The written policies may not establish any arbitrary limits on the nature and scope of vocational rehabilitation services to be provided to the individual to achieve an employment outcome. The state may not place absolute dollar limits on specific service categories or on the total services provided to the individual (CFR Section 361.50).

- RSA Policy Directive, RSA-PD-97-04 dated 8/19/97, Employment Goal for an Individual with a Disability, states that the cost or the extent of vocational rehabilitation services that an eligible individual may need to achieve a particular employment goal should not be considered in identifying the goal in the individual's IPE. For example, the fact that an employment objective may require an advanced degree, whereas another may only require job retraining or placement assistance, should not affect the determination of an employment objective that is appropriate for the particular eligible individual. It is only after the employment goal is identified that cost becomes a relevant factor in determining an appropriate, cost efficient means of providing the needed services. In this regard, states are authorized to employ cost efficiency strategies that are consistent with federal law, such as financial needs tests, and also are obligated to locate available comparable services and benefits for certain services. It should be noted that BSA has not indicated that DR fails to utilize financial needs tests or locate comparable services and benefits in the provision of vocational rehabilitation services.

As stated above, the Act and implementing regulations prohibit the denial of services based on cost of the service. The Act protects the rights of individuals with the most severe disabilities to access vocational rehabilitation services, regardless of the cost of those services.

The department is also concerned about certain statements made by BSA in support of their conclusions. Specifically:

1. BSA states that DR spends far beyond its average on some cases because it does not track cumulative expenditures. The costs associated with the cases reviewed by BSA were based on the individual needs of the consumer. Consistent with the Act, the department did not terminate services to these consumers based on the application of an arbitrary limit, such as average costs.

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2. BSA states that DR spends a large percentage of funds on a small percentage of clients (cases costing more than \$20,000) based on a failure to monitor cumulative expenditures. However, this statement ignores the individualized nature of services that is fundamental to the vocational rehabilitation process. Funds associated with high cost cases are based on individual needs of the consumer, not a lack of monitoring of cumulative costs. In addition, BSA fails to report that DR's success rate for these cases exceeded the success rate for cases costing less than \$20,000 (See Table 1, page 18).
⑩
3. BSA states that DR is unlikely to intervene at appropriate points when aggregate costs exceed reasonable amounts because the department does not estimate total plan costs for its clients nor compare cumulative costs to these estimates. Appropriate points of intervention are based on client progress, not the cost of services. To use aggregate costs as a basis for intervening in a consumer's IPE would be inconsistent with the Act.
⑥
4. BSA states that the department does not consider what is reasonable and appropriate before providing services. Unfortunately, BSA fails to provide a definition of the term "reasonable" that is based in law or regulation. BSA suggests factors such as average cost, cost standards, or cost limits (e.g. \$20,000) should be used to determine the reasonableness of a service. However, such cost based factors are inconsistent with the Act. DR uses the individual need for services, a fundamental principle of the Act, to determine whether an expenditure is reasonable.
⑥
5. BSA uses two cases as examples of unreasonable or inappropriate services. However, DR reviewed these cases and did not find the employment goals or services to be inconsistent with the Act. Specifically:
 - a) BSA states that the department did not make a reasonable decision when it committed to a client's IPE to become an orthodontist. The auditors state that in their opinion, "a

dentist should have been a sufficient employment and career goal”. However, they offer no basis (professional or legal) for this opinion. In fact, such an opinion may be contrary to a federal policy directive (RSA-PD-97-04, dated August 19, 1997) on Employment Goals for Individuals with a Disability. The policy directive sets forth the following requirements related to the establishment of employment objectives:

- The policy states that the IPE should be designed to enable the individual to achieve an employment objective that is consistent with the individual’s unique strengths, resources, priorities, concerns, abilities, and capabilities.
- The policy directs State agencies to ensure the employment objective reflects the individual’s interests and informed choice.
- The policy specifically prohibits State agencies from considering cost or the extent of services to achieve a particular employment goal in the identification of the employment objective. For example, the fact that an employment objective may require an advanced degree, whereas another may only require job retraining or placement assistance, should not affect the determination of an employment objective that is appropriate for the particular eligible individual.
- Entry-level employment is an appropriate employment goal if the individual is only capable of performing entry-level work or if the individual chooses an entry-level job as his or her employment objective.

The department established this client’s employment objective consistent with this directive and did not limit the employment goal based on a job that was “sufficient”, as suggested by the auditors.

11

The auditors also comment that “although the client is disabled, it is questionable whether he continues to require vocational rehabilitation services following his graduation from the university” because DR no longer purchased services related to the disability. It appears the auditors did not recognize that disability related support services may be provided through comparable benefits, a cost efficiency strategy consistent with federal law (Title I, Section 101(a)(8) of the Act). In addition, the auditors failed to recognize the benefits of counseling and guidance service provided by the qualified rehabilitation professional (vocational rehabilitation counselor) in their review.

12

- b) BSA states that the department obligated itself to another long-term, expensive goal because it allowed the client to revise her career goal to attorney, rather than directing the client to gainful employment after achieving a degree in anthropology. A review of the case indicates that the client appropriately explored career options after she was unable to secure employment with her undergraduate degree. DR supported the client’s decision to obtain a law degree because it would provide increased employability at a significantly higher income. Her decision and request for a revision of her IPE was consistent with federal policy as set forth in the above mentioned Policy Directive (RSA-PD-97-04). The auditor’s suggestion to limit a client’s employment objective based on temporary indecisiveness is not consistent with federal policy on establishing employment goals.

13

The department disagrees with many aspects of this finding because it is inconsistent with federal laws, policies and regulations. For example, the auditors suggest cost containment strategies, such as additional scrutiny and intervention on cases when the cumulative cost exceeds average costs, cost projections or cost limits. However, using cumulative case expenses as a basis for decisions on the provision of services is contrary to the individualized nature of vocational rehabilitation services that is fundamental to the Act. In addition, some disability groups view cost driven review

procedures as discriminatory due to the cost of technology or the length of time necessary to provide services to their constituents. In addition, the auditor’s incomplete analysis of statistical data and client case records leads to further concerns about the conclusions reached in this section.

While disagreeing with the use of cumulative costs as a basis for monitoring cases, DR is working to improve its monitoring of cases to ensure the client continues to participate and make progress in their IPE. DR is committed to developing policies and procedures that will lead to appropriate services at lower costs.

The Department Does Not Close Expensive, Unsuccessful Cases Promptly

BSA begins with the statement “... spending more funds for each case does not ensure the success of those cases.” BSA once again implies that cost should be a deciding factor in the termination of services. DR has already addressed how BSA’s position on this issue is inconsistent with the Act and its implementing regulations (refer to response to prior finding on cumulative costs.)

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Moreover, DR has an expectation of success for all clients it determines eligible for services. DR acknowledges that a 100% success rate is unrealistic and that some individuals will not benefit from department services. Although BSA has the advantage of looking at these cases retrospectively, DR provides services prospectively. The success of an individual with a disability in a vocational rehabilitation program cannot be forecasted by monitoring cumulative costs. Further, the Act states that once an individual is receiving services under an IPE, the client can only be determined ineligible if they are incapable of benefiting in terms of an employment outcome (Title I of the Act Section 102(a)(5)).

BSA states that once a case has become expensive (defined by BSA as about \$20,000) the likelihood that the client would be

successful in attaining his or her employment objective decreases significantly. This is inaccurate. DR's success rate for cases with costs exceeding \$20,000 in the 1998/99 Fiscal Year was 48.5%, while the success rate for cases with costs less than \$20,000 was 47.8%.

Table 1
**Comparison of Success Ratio for Cases With
 Cumulative Costs Greater than and Less than \$20,000**

	\$0 - \$20,000	\$20,001 and Over
Successful Closures*	11,535	301
Unsuccessful Closures**	12,585	319
Success Ratio	47.8%	48.5%

*Status 26

**Status 28

DR is not only concerned with the inaccuracy of this statement, but its implications. BSA implies:

1. DR should somehow limit case expenditures to \$20,000 or some other amount. As stated previously, the Act specifically prohibits DR from using cumulative costs as a basis for terminating services to consumers. An arbitrary limit on costs, or perceived limits, established through policies and procedures would be contrary to the Act and could be viewed as discriminatory.
2. The cumulative cost of a case outweighs the individual need for services. The fundamental principle behind vocational rehabilitation services is the provision of necessary services based on individual need. To suggest that when an individual's need exceeds a certain dollar amount, DR consider closing the case based on "diminishing return" is contrary to the intent of the Act.
3. BSA states if DR focused on monitoring cumulative service costs, the department could exercise its right to close

unsuccessful, expensive cases when conditions indicate that a positive outcome is unlikely. DR agrees that when a positive outcome becomes unlikely the case should be reviewed for closure. However, the department disagrees that this decision should be prompted by the cost of services rather than the lack of progress by the consumer.

6

Vocational Rehabilitation/Work Activity Program (VR/WAP)

The department acknowledges some of the issues raised by BSA in regard to untimely closure of VR/WAP cases. However, BSA did not provide background information as to the department's reasons for implementing the VR/WAP. The issue with untimely closures is unique to the VR/WAP caseload and BSA did not cite any other specific cases where the department did not promptly close a case when a positive outcome was unlikely.

7

DR disagrees that the cost of the services should have been the trigger for closure (refer to response to prior finding on cumulative costs). In DR's review of the original five (5) sample cases cited by BSA, the department found there were non-cost factors that indicated the clients were not progressing in their IPEs and not benefiting from the vocational rehabilitation services. The case progress and performance would have been the determining factor for closure rather than costly services.

6

Federal regulations prohibit states from establishing "...absolute time limits on the provision of specific services or on the provision of services to an individual. The duration of each service needed by an individual must be determined on an individual basis and reflected in that individual's (plan for employment)."

SOME DISTRICT OFFICES SUCCESSFULLY USE MANAGEMENT STRATEGIES TO ACHIEVE LOWER COSTS

The department recognizes the importance of monitoring case services expenditures at the district level to ensure effective use of fiscal resources. The Fresno and Greater Los Angeles districts are two examples where district management has implemented effective practices in this regard. There are a number of other districts that have implemented similar practices. The department will evaluate the fiscal monitoring practices currently used by district managers and implement a set of practices that accomplish the goal of effective fiscal monitoring in accordance with the Act.

14

The report references a departmental policy whereby clients are informed that their IPEs are essentially contracts and that deviations from those plans are not permitted unless necessary to accommodate an alteration in the client's disability. This is an inaccurate representation of department practices. There may have been a misunderstanding of the Fresno District practice of requiring consumers to sign a form delineating terms and conditions for provision of services. This agreement is essentially part of the IPE process. However, changes to IPE's are based on mutual agreement between the client and counselor and do not require a change in the client's disability.

RECOMMENDATIONS

Generally, DR understands the apparent intent of BSA's recommendations to ensure that DR optimizes its limited resources. In fact, DR has already started to improve fiscal monitoring with an increased emphasis on accountability for employment outcomes. However, DR disagrees with the first three recommendations.

The first three recommendations were combined because they are so closely related.

- **Estimate the total cost of each client's plan for employment when developing the plan and after each major plan revision.**

- **Establish cost standards and require review and approval of plans exceeding the standard amount.**
- **Monitor cumulative case costs against the established estimate and take appropriate action when costs exceed the estimate.**

DR disagrees with these recommendations because their intent is to create a system for controlling costs that encourage counselors to deny services based on the cumulative cost of services already provided to a client. The intent of these recommendations is clearly contrary to federal law, policies and regulations as stated in the response to the findings. DR has reaffirmed this position regarding cost containment policies with RSA. ⑥

Nonetheless, DR remains committed to implementing cost efficiency strategies while increasing employment outcomes for individuals with disabilities.

- **Close cases as soon as it becomes apparent that the clients cannot attain employment.**

The cases cited by BSA to support their finding of untimely closures are all in the VR/WAP caseload and the department believes this issue is unique to the VR/WAP, a caseload of individuals with the most severe disabilities. Therefore, DR will re-examine the case review and monitoring practices for VR/WAP cases and will take appropriate action to address the issues cited by BSA. ⑦

- **Identify and adopt strategies used by other states and their own district offices that have been effective in reducing costs and improving success rates.**

The department agrees with this recommendation. Under the direction of its recently appointed Director, Catherine Campisi Ph.D., the department will engage in a process of identifying and implementing strategies to increase employment outcomes and better manage program costs. The

department will consider adopting strategies used by other states and its own district offices, provided they are consistent with the intent and spirit of the Act and federal regulations.

- **Use existing management tools to assist in monitoring the program. This effort may include expanding the scope of periodic district reviews to focus on plan costs and outcomes and generating management reports from the department’s statewide database that highlight district performance in terms of costs and outcomes.**

The department agrees with this recommendation and will explore and identify existing management tools to assist in monitoring the program as discussed in the response to “Some Districts Offices Successfully Use Management Strategies to Achieve Lower Costs.” The department will consider expanding the scope of periodic district reviews to include a review of IPE costs and outcomes. In addition, DR agrees to review the information available on the statewide database and improve the management information system to include reports on district costs and outcomes on a statewide, district, and unit level.

CHAPTER 2

The Department's Current Method For Evaluating The Severity Of Clients' Disabilities Favors Clients With Learning And Certain Mental Disabilities

SUMMARY

The department recognizes that its significance scale, an instrument designed to measure severity of disability, requires revision. Notwithstanding delays in making the modification to the significance scale, BSA fails to note that the department recently made two significant changes to the overall OOS assessment system, which work to minimize any impact resulting from use of significance scale scores.

15

In 1999, the department promulgated emergency regulations to change the OOS assessment system. To promote equal opportunity for access to services within each level of severity of disability category, the use of the significance scale score was replaced by the date of application to determine whether a client can be served. The department also took action to streamline the severity of disability determination process by providing that an individual receiving Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) benefits is automatically considered an individual with a severe disability for purposes of OOS.

THE DEPARTMENT USES A SIGNIFICANCE SCALE THAT FAVORS CLIENTS WITH LEARNING AND CERTAIN MENTAL DISABILITIES.

A review of the average severity of disability (SOD) scores for selected disability categories for Fiscal Years 1994 through 1999 reveals the average SOD score for all disability categories was 20.3, with individuals with learning disabilities scoring 18.4, below the average for all individuals.

This data indicates individuals in the mental retardation/autism and psychiatric categories do score higher than the average, 26.8 and 21.4, respectively. Individuals with orthopedic disabilities scored 16.6, however, average scores for all of these groups are the most severely disabled range. Moreover, under the revised OOS, the application date, not the individual scores will determine whether an individual in this category will receive provision of services.

15 16

Studies Have Found That The Department's Scale Has Serious Shortcomings

As noted earlier in this response, the current significance scale was developed through a participatory, inclusive process by which the department obtained broad base input. DR must be cautious not to prematurely change the current scale before an alternative scale is thoroughly assessed, field tested and commented on by its customers and partners.

17

RECOMMENDATIONS

The department agrees with BSA's recommendations that it should modify the significance scale and as previously stated is expeditiously working towards this end.

COMMENTS

California State Auditor's Comments on the Response From the Department of Rehabilitation

To provide clarity and perspective, we are commenting on the Department of Rehabilitation's (department) response to our audit report. In its response, the department repeatedly disagrees with our recommendations to improve its management of limited program funds by using costs to monitor its clients' cases. The department contends that such practices are contrary to federal law governing the program. However, as we discuss in our comments 6 and 10 below, the department misrepresents our recommendations by stating that we suggest it apply a ceiling or dollar limit to the services it provides to its clients. Such a practice does violate federal law, and nowhere in the report do we suggest it.

The numbers correspond to the numbers we have placed in the department's response.

- ① We disagree that this state mandate causes the department to serve more individuals with severe developmental disabilities than it would without such a mandate. These individuals, like everyone else, must meet and maintain eligibility requirements to gain admission to the program and continue receiving vocational services through the program. The department is confusing its legal obligation to provide work activity and supported employment services to developmentally disabled clients through its Habilitation Services Program—a state-mandated entitlement program that is 100 percent funded through the State's General Fund—with its Vocational Rehabilitation Program (program), which is largely federally funded.
- ② We disagree that the department has only served clients with severe and most severe disabilities since implementing order of selection in 1995. The order of selection applied only to new clients entering the program. Consequently, consistent with federal regulations, the department continued to serve clients already in the program, regardless of the severity of their disabilities. For example, in federal fiscal year 1996-97, the

department reported to the U.S. Department of Education, Rehabilitation Services Administration, that 17,290 (or 28 percent) of all clients it served were not severely disabled. We agree that since it implemented order of selection, the department has limited entry into the program to individuals that are severely and most severely disabled. However, as shown in Figure 3 on page 18, the department continues to provide services to a number of clients who are not severely disabled.

- ③ We are surprised by the department’s reaction to our conclusion that its cooperative agreements with local agencies have contributed to higher costs. Early in our audit, the department stated that client costs were probably higher for cooperative programs. We agree with the department’s suggestion on page 51 of its response that clients with mental disabilities are more expensive than clients with other types of disabilities. This is true whether or not these clients participate in cooperative programs and in itself does not invalidate our conclusion. Moreover, clients with mental disabilities are not required to participate in cooperative programs to receive services. Likewise, clients do not have to participate in cooperative programs to receive services such as college or university education. Therefore, we believe our overall comparison of average costs per client for those who participate in cooperative programs with average costs for those who do not participate provides adequate support for our conclusion.
- ④ We disagree with the department. In our summary, we state that “the department cannot afford to mismanage funds” because it would result in fewer deserving individuals receiving needed services. In Chapter 1, we discuss several areas where the department can improve management of its funds to optimize the use of its limited resources. We are troubled that the department fails to acknowledge that it can better manage its funds to serve more individuals with disabilities. Until it does so, the department will not be able to improve the program as needed.
- ⑤ We disagree with the department’s claims in its response that the methodology we used to identify “peer” states is limited, inaccurately depicts the department’s performance, and falsely places the department in a negative light. In selecting peer states, we addressed the most important factors by ensuring that all five states identified as peers operated under the same federal rules during the four-year review period. Assuming that all these states comply with the federal regulations, the differences in their programs’ performance would largely be the result of decisions they have made. Thus, although we recognize that

additional factors could be taken into consideration, in our opinion, the methodology we employed was adequate for the analysis we performed. Even without comparing California's performance with other states, we feel the department's poor record of high costs and low outcomes speaks for itself. Additionally, our comparison of client characteristics reveals that, although California has served a growing percentage of severely disabled clients through the years, that percentage has always been lower than the peer states' averages. For example, in federal fiscal year 1996-97, the most recent year for which we have this data on the peer states, 76.8 percent of the clients served in California were severely disabled compared with 81.9 percent to 97.7 percent of the clients served in the peer states. Thus we would expect California's average cost per client to be lower than the peer states' average, when in fact it is higher.

- ⑥ The department misrepresents our recommendations. Contrary to the department's assertions in its response, nowhere in the report do we suggest that the department apply a ceiling or dollar limit to the services it provides. We do, however, recommend that the department use costs in monitoring of cases to assess how the client is progressing and the need for management action. Monitoring based on costs is consistent with federal policy and the department's current practice of subjecting expenditures of certain types and amounts to its review and approval. The Rehabilitation Services Administration (RSA) Policy Directive RSA-PD-97-04 cited by the department states that after a client's employment goal is identified, cost is a relevant factor in determining an appropriate, economically sound means of providing services. Further, the directive authorizes state agencies to employ cost-efficiency strategies in providing needed services. We believe our recommendations to estimate and monitor cumulative costs as well as promptly close unsuccessful cases are consistent with such strategies. Until it employs such strategies to optimize the use of its limited resources, the department will not be able to improve the program as needed.
- ⑦ We are concerned that the department's response to our recommendation to promptly close unsuccessful cases is limited to its Vocational Rehabilitation Work Activity Program (VR/WAP). As indicated on page 27 of our report, approximately 21 percent of the other cases, which exceeded \$50,000 and closed unsuccessfully in fiscal year 1998-99, did not involve clients the department served in its VR/WAP. Thus, by limiting its examina-

tion to VR/WAP cases, the department may be ignoring the need to change its review and monitoring practices of other cases as well.

- ⑧ On page 17, we have changed the text of our report to clarify that federal regulations require the department to cooperate with local agencies that furnish services related to the rehabilitation of individuals with disabilities but do not require it to enter into cooperative agreements with local agencies.
- ⑨ Contrary to the department's assertion, we present its most recent annual cost per client on page 12 of our report. Unfortunately, this information was not available from the department until January 21, 2000. And, because fiscal year 1998-99 cost data is not available from the other states, we could not revise our analysis on page 22 or Figure 5 on page 23. Additionally, although we are pleased to see that the department's average annual costs declined in fiscal year 1998-99, it is inappropriate to compare its current average cost to the peer states' average cost for prior years. However, as we report on page 12, the average cumulative cost of cases that were open as of June 30, 1999, was significantly higher than that of cases closed during fiscal year 1998-99. Thus, we expect client costs to continue to increase.
- ⑩ The department misses the point. Our purpose in presenting this data is not to compare the success rate of cases above and below the \$20,000 point or to suggest that the department use costs as a factor in deciding whether it should close a case. Our purpose is to demonstrate why we believe that costs should be one criterion the department uses to monitor cases. Historical data show that, after spending beyond a certain point, the percentage of clients achieving their employment goals begins to decline significantly. As shown in Figure 6 on page 26, in fiscal year 1998-99, this point happened to be about \$20,000. We recommend that the department use costs as a means of monitoring its commitment to cases and identifying appropriate times when it should review cases further. By so doing, the department could determine if each case is making appropriate progress and whether any management actions are required. Further, monitoring based on costs is consistent with the department's current practice of subjecting certain types of expenditures to review and approval, as we discuss on page 24. With over 75,000 active cases, the department cannot effectively monitor each one without establishing some review criteria.

- ⑪ We concur with the department’s point and have removed the sentence from page 25.
- ⑫ Contrary to the department’s assertion, we recognize that disability-related support services might be provided through comparable benefits. Our review of the department’s documentation of this case revealed that the client did not receive comparable benefits for services related to his disability. In addition, it did not show any substantive counseling and guidance being provided by the department to the client after he graduated from the university. Instead, case documentation showed the department simply continued to approve payment for tuition, books, and other fees and supplies for the client. The department did not purchase any services specifically related to the client’s learning disabilities.
- ⑬ We agree that it is appropriate in certain circumstances for the department to approve a client’s request to change his or her employment objective. However, we are concerned that the department is willing to commit over \$80,000 and 10 years to one client’s search for the appropriate employment goal, while at the same time excluding other eligible clients from services because it does not have sufficient resources. Further, we question whether the department provided appropriate guidance and counseling to the client by approving a vocational goal in anthropology. Had the department appropriately monitored its cases, it could have ensured this client received the guidance she needed and perhaps saved her and the department several years of effort and funds in pursuing a vocational goal that provides few opportunities for employment. We added a sentence on page 25 to clarify our point.
- ⑭ The intent of our statement was not to suggest that the Fresno district acts contrary to department policy or regulations. Thus, we have changed the text of our report to read that Fresno “generally” will not make changes in a client’s plan except to accommodate an alteration in the client’s disability.
- ⑮ The focus of our discussion is the significance scale itself. We realize that the department has modified its overall assessment system. Although we agree that these changes have improved the process, we do not agree that they minimize any impact resulting from the use of the significance scale. The department still uses this flawed instrument to classify a client as severely or most severely disabled, and these classifications continue to be the determining factor in who receives services first.

Consequently, so long as the department uses this flawed instrument, it will continue to give preference to clients with learning and certain mental disabilities.

- ①⑥ The department's attempt to demonstrate that its use of the significance scale has no effect on clients with most disability types is not meaningful. The average scores are based on the significance scale, which is flawed. For example, as we discuss on pages 32 and 34, there are three functional areas in which a client can receive a score for cognitive skills. Clients can receive up to five points in each of these areas. Consequently, clients whose disabilities affect their cognitive skills, such as learning and certain mental disabilities, can receive significantly higher scores than those with disabilities that do not affect their cognitive skills. Furthermore, the department still uses these scores to classify a client as disabled, severely disabled, or most severely disabled, and this classification continues to be the determining factor in who receives services first.
- ①⑦ We agree that the department should carefully consider any revision of its significance scale to avoid making premature changes. However, with the research and internal studies it has completed over the past four years, the department should be in position to make the necessary changes soon.

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps