

Office of the Auditor General
Performance Audit Report

Michigan Rehabilitation Services
Michigan Department of Health and Human Services

May 2018

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



Performance Audit

Report Number:
431-0246-16

Michigan Rehabilitation Services (MRS)

Michigan Department of Health and Human Services (MDHHS)

Released:
May 2018

MRS's mission is to partner with individuals and employers to achieve quality employment outcomes and independence for individuals with disabilities by helping its customers to obtain and/or retain suitable employment. From October 1, 2013 through April 30, 2016, MRS expenditures totaled \$267.2 million, including \$89.0 million for goods and services provided to 38,655 customers.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of MRS's efforts to ensure the propriety of expenditures for goods and services provided to its customers.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MRS needs to improve its process and documentation for payments issued directly to customers. Because of a daily maximum of \$500, MRS made multiple payments for the same good or service. Also, MRS did not obtain receipts of the good or service purchased in 18% of the direct payments to customers we tested (<u>Finding #1</u>).		X	Agrees
MRS did not sufficiently document that it pursued comparable benefits and services from other sources. Of the 444 purchases we reviewed, 49% did not have an explanation of other sources pursued as required. MRS could be underutilizing other payment sources that may result in savings (<u>Finding #2</u>).		X	Agrees
MRS did not document bids or price quotations for 25 (54%) of 46 purchases sampled to support that it obtained the best value (<u>Finding #3</u>).		X	Agrees
MRS did not consistently and timely obtain the customers' consent to extend the completion of their Individualized Plans for Employment (IPEs) beyond 90 days to help them timely achieve employment outcomes. Of 9 IPEs completed untimely, 6 did not have extension documentation and 2 extensions were not completed timely (<u>Finding #4</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the sufficiency of MRS's customer complaint and appeals resolution process.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MRS needs to improve its management of appeal documentation. Of 81 appeals reviewed, 46 lacked sufficient information on MRS's tracking log to readily identify the appeal status; 13 appeals had untimely resolutions; and 17 appeals had disorganized documentation, making it difficult for MRS to provide full support (<u>Finding #5</u>).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the sufficiency of MRS's efforts to monitor funding provided to Centers for Independent Living (CILs).			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MRS needs to improve its CIL monitoring to help provide greater assurance that funds are used to support, develop, and expand services for disabled individuals. MRS had not fully completed any compliance reviews as of June 2016 and did not trace CIL expenditures to underlying supporting documentation in its financial reviews (<u>Finding #6</u>).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the effectiveness of MRS's efforts to ensure that it meets its outcome targets.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.			Not applicable.

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Doug A. Ringler, CPA, CIA
Auditor General

May 31, 2018

Mr. Nick Lyon, Director
Michigan Department of Health and Human Services
South Grand Building
Lansing, Michigan

Dear Mr. Lyon:

This is our performance audit report on Michigan Rehabilitation Services, Michigan Department of Health and Human Services.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

PROPRIETY OF EXPENDITURES FOR CUSTOMER GOODS AND SERVICES

BACKGROUND

A Michigan Rehabilitation Services (MRS) counselor, in conjunction with the customer, determines an employment outcome* that is consistent with the customer's unique strengths, resources, priorities, concerns, abilities, capabilities, and interests. The counselor and customer develop an Individualized Plan for Employment (IPE) that identifies specific services that the customer needs to overcome barriers to achieve his/her employment goal* because of physical or mental impairment. Services may include:

- Assessments for determining vocational rehabilitation needs.
- Vocational counseling, guidance, and training.
- Job coaching and placement.
- Medical treatment and restoration services.
- Transportation.
- Occupational equipment, tools, supplies, and licenses.
- Assistive technology.

MRS also provides specific post-employment services necessary to assist customers in maintaining employment. Services may include payment for items such as vehicles, vehicle and home modifications, and employment accommodations.

The rehabilitation process requires considerable professional judgment by the counselor. Counselors service customers with a wide range of disabilities and frequently refer customers to receive services from other State and local social service agencies, school districts, private rehabilitation agencies, hospitals, medical professionals, and potential employers.

MRS has written policies governing the purchases of goods and services including, but not limited to, documentation required in the customer's case record for the authorization of services, purchase receipts, bids, and direct payments to customers.

For MRS customers who receive Supplemental Security Income (SSI) payments or Social Security Disability Insurance (SSDI) benefits and maintain employment for nine continuous

* See glossary at end of report for definition.

months and have earnings at, or above, the federal substantial gainful activity level*, the federal Social Security Administration (SSA) will reimburse MRS for the rehabilitation services provided.

AUDIT OBJECTIVE

To assess the effectiveness* of MRS's efforts to ensure the propriety of expenditures for goods and services provided to its customers.

CONCLUSION

Moderately effective.

**FACTORS
IMPACTING
CONCLUSION**

- MRS appropriately identified expenditures for reimbursement from SSA for its customers receiving SSI payments or SSDI benefits.
- We did not identify any improper disbursements made to incarcerated or deceased customers.
- MRS completed reviews of customers' case documentation to assess compliance with selected laws and policies. MRS used random selection and also a risk-based approach to select cases for review.
- Our survey of MRS customers identified that 10 of the 11 customers that responded were satisfied with the goods or services provided by MRS (see Exhibit #3).
- MRS ensured the propriety of expenditures for goods or services provided to customers for 65% of the 700 purchases we reviewed. However, we identified reportable conditions* regarding MRS's process of issuing direct payments to customers; documentation of comparable benefits and services pursued; documentation of competitive bids and price quotations; and timely completion of IPEs (Findings #1 through #4).

* See glossary at end of report for definition.

FINDING #1

Improvements needed in the process and documentation for payments issued directly to customers.

A customer received 6 separate checks over a 13-day period to purchase one item totaling \$2,990.

MRS needs to improve its process and documentation for payments issued directly to customers to purchase needed goods or services. Improvements would allow MRS to increase its efficiency* of processing direct payments, increase the delivery time of needed goods and services to disabled customers, and ensure the propriety of direct payments.

Our review of direct payments made to 41 customers for 215 purchases noted:

- a. MRS's direct payment policy did not allow for exceptions to a \$500 daily maximum requirement when the customer needed a good or service that exceeded \$500. Because of the limitation, MRS made multiple payments to 13 customers for the same good or service when the item's value exceeded \$500. For example, MRS issued five \$500 payments and one \$490 payment to a customer to pay for an item that cost \$2,990. The customer received 6 separate checks over a 13-day period to purchase this one item.

MRS policy allowed a daily maximum of \$500 in direct payments to a customer when registered vendors did not exist. MRS established the daily maximum to control payments that it considered to be a higher risk. We noted in our survey of other states and territories that MRS's threshold for an individual direct payment was below the level in 16 other states (see Exhibit #4).

- b. MRS did not document its justification for the use of a direct payment to a customer, instead of a vendor, for 57 (27%) purchases.

MRS required the counselor to document in a case note the justification for the use of a direct payment and the basis for the amount authorized.

- c. MRS did not obtain receipts for 39 (18%) purchases to verify that the customer used the direct payments for the authorized good or service. Our review noted an instance in which MRS issued four \$500 payments directly to the customer to purchase a \$2,000 piece of equipment for the customer's business. However, the customer responded that he/she purchased other supplies for his/her business instead of the piece of equipment authorized (see Exhibit #3).

MRS required the counselor to obtain a receipt from the customer once the customer had purchased the good or service. We noted in our survey of other states and

* See glossary at end of report for definition.

territories that 23 other states required the customer to confirm that items purchased were received (see Exhibit #4).

MRS informed us that it did not consider the issuance of multiple payments for the same item to be an issue because the majority of direct payments issued to customers were below \$500. MRS staff indicated that registering vendors to receive payments from the State can sometimes be time consuming and difficult. MRS also stated that it has had difficulty obtaining receipts from customers once payments have been made.

RECOMMENDATION

We recommend that MRS improve its process and documentation for payments issued directly to customers to purchase goods or services.

**AGENCY
PRELIMINARY
RESPONSE**

The Michigan Department of Health and Human Services (MDHHS) provided us with the following response:

MRS agrees with the recommendation. MRS has drafted an update to its Direct and Recurring Authorization policy. In the drafted version, MRS clearly delineates that a direct pay of up to \$500 is permissible through a counselor's authorization limit. For authorizations that are over \$500 and up to \$2,000, the direct pay would be approved by the Site Manager. For any direct pays over \$2,000, MRS will utilize a third - party payor. The drafted policy also clearly notes that multiple authorizations for a single service is not permissible.

With respect to part b of the Finding, the fiscal section of the policy manual is being updated to reflect the steps that must to be taken in order to document justification. MRS will retrain field staff to the updated policy and work with managers to implement supervision for these elements. Concurrently, MRS is also reviewing AWARE protocols to determine if system controls could be utilized to verify documentation.

With respect to part c of the Finding, MRS has updated its policy to note that the counselor is to first put forth effort to obtain the receipt. If the receipt is not obtained, MRS has established other procedural safeguards to ensure the validity of the expenditures by requiring the counselor to utilize the Alternate Receipt of VR Goods form.

FINDING #2

Improved documentation of comparable benefits and services pursued needed.

For 49% of purchases with the potential for comparable benefits and services, MRS did not explain other sources of payments pursued.

MRS did not sufficiently document that it pursued comparable benefits and services from other sources. MRS could be underutilizing other payment sources that may result in savings to MRS.

In our sample of 444 purchases with the potential for utilizing comparable benefits and services, we identified 219 (49%) without an explanation in the case record of the other sources pursued. For example, MRS paid for a customer's professional license examinations. MRS made a notation in the case record that no comparable benefits were available. However, MRS did not document if the customer's employer had been contacted to make this determination as some employers will reimburse employees for the costs of maintaining professional licenses.

MRS is required to determine if any services listed in the individual's IPE can be paid for by another federal, State, or local agency or as an employee benefit before MRS services are authorized. MRS issued guidance to counselors outlining the expected level of documentation in the customer's case record of the sources pursued for payment. This guidance explained that it was insufficient for counselors to simply state that no comparable benefits were available.

Our interviews with MRS management identified inconsistent expectations on the level of documentation that is required. MRS informed us that it considered counselors knowledgeable of the programs and employers in their area and would accept counselor statements that no comparable benefits were identified without documentation of the sources pursued.

RECOMMENDATION

We recommend that MRS sufficiently document that it pursued comparable benefits and services from other sources.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MRS agrees with the recommendation. MRS has identified training needs specific to documentation of comparable benefits for field staff. This includes general counselor training on documentation, and putting into place office documentation protocols for local review of comparable benefits and resources based on community availability. The intent is to identify potential community resources such that the counselor has efficient access to potential comparable benefits.

MRS will also implement additional supervisory oversight from initial application through case closure.

FINDING #3

Improved documentation for competitive bids and price quotations needed.

25 purchases totaling \$83,502 lacked documentation that MRS considered the minimum number of bids or quotations.

MRS needs to improve its documentation to support that it obtained the required number of competitive bids or price quotations when making purchases for its customers. The documentation would help support that MRS obtained the best value and that the purchases were free from potential conflict of interest.

In a review of 46 purchases that required competitive bids or price quotations, we noted that MRS made 25 (54%) purchases totaling \$83,502 without documenting that it had considered the minimum number of bids or quotations. MRS is required to obtain a minimum number of bids or quotations for new vehicles, goods or services exceeding \$500, hearing aids exceeding \$1,500, and vehicle insurance policy purchases.

MRS informed us that its policies may need clarification to allow for exceptions in situations such as purchases for groups of items totaling more than \$500, purchases of sole source transportation provided by a customer's family or a private individual, or customer contributions toward an item's cost. We noted that 11 of the 25 purchases were for such situations.

RECOMMENDATION

We recommend that MRS improve its documentation to support that it obtained the required number of competitive bids or price quotations when making purchases for its customers.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MRS agrees with the recommendation. MRS drafted updates to the Competitive Bids and Price Quotations policy. The policy states that authorizations over \$3,000 require Site or District manager Approval. All required documentation and rationale for oversight of services and for price quotes and bids will be reviewed by the MRS manager before approval to purchase can occur.

FINDING #4

Improvements needed in obtaining customer consent to IPE extensions.

Documentation lacking customers' consent for IPE extension in 67% of untimely IPEs reviewed.

MRS did not consistently and timely obtain the customers' consent to extend the completion of their IPEs beyond 90 days to help them timely achieve employment outcomes.

MRS is required to develop a customer's IPE within 90 days from the date the customer is determined eligible for services. If MRS cannot complete the customer's IPE within 90 days, MRS and the customer must agree to an extension on or before the 90th day.

In our testing of 9 customers who had IPEs completed after 90 days, we identified:

- a. MRS did not have extension documentation for 6 (67%) customers. The IPEs were completed on an average of 246 days after the customer was eligible, ranging from 132 days to 442 days.
- b. MRS did not timely complete extension requests for 2 (22%) customers. MRS completed the requests 93 and 98 days beyond the 90-day requirement.

MRS informed us that counselor training is needed to ensure compliance with IPE requirements.

RECOMMENDATION

We recommend that MRS consistently and timely obtain the customers' consent to extend the completion of their IPEs beyond 90 days.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MRS agrees with the recommendation. Through MRS's case review and monitoring they have determined that greater training is needed to assure compliance with policy in relation to IPE employment extensions. MRS will work with the training unit and managers to train to this policy requirement. MRS will determine what programing indicators are available in its case management system to identify cases that are at risk of going beyond the 90 day requirement to better 'flag' cases prior to noncompliance.

CUSTOMER COMPLAINT AND APPEALS RESOLUTION PROCESS

BACKGROUND

MRS handles customer complaints through an informal process at the district and central offices. Customers are informed at orientation that they may obtain independent advocacy services separate from MRS through the Client Assistance Program (CAP) operated by Michigan Protection & Advocacy Service, Inc.

MRS customers have the right to appeal decisions made by MRS personnel regarding the provision of services. MRS works with the Michigan Administrative Hearings System to schedule appeal mediation and hearings with administrative law judges. MRS tracks the status of customer appeals using an internal tracking log.

MRS also contracts with Michigan State University (MSU) to survey customer satisfaction with its rehabilitation services.

AUDIT OBJECTIVE

To assess the sufficiency of MRS's customer complaint and appeals resolution process.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- We verified that MRS had a process to record customer complaints received at central office and the corresponding resolutions.
- CAP investigates complaints and provides customers with impartial assistance for situations involving difficulties working with counselors, disagreements with services decisions and actions, and disagreements with case closure.
- Our survey of MRS customers identified that 8 of the 11 customers that responded were satisfied with the assistance provided by the counselor.
- For fiscal years 2014 and 2015, MSU customer satisfaction surveys reported high customer satisfaction rates. The customer satisfaction rating, after case closure, was 86% and 84%, respectively.
- Reportable condition regarding MRS's management of appeal documentation (Finding #5).

FINDING #5

Improvements needed in the management of appeal documentation.

Appeal tracking log lacked key information for 57% of appeals.

13 appeals had untimely resolutions most likely because of tracking log shortcomings.

MRS needs to improve its management of appeal documentation to help ensure that information is consistently and readily accessible for customers, litigation, audits, and day-to-day operations and that customers receive timely decisions.

Federal regulation requires MRS to ensure that an informal dispute resolution or a formal mediation hearing is held within 60 days of MRS's receipt of the customer's appeal. If MRS and the customer agree, the dispute resolution or hearing can be extended beyond the 60-day deadline. MRS is also required to obtain a full written report of the findings and grounds for the resolution from the hearing officer within 30 days after the hearing.

We noted:

- a. MRS's tracking log used to monitor the status of customer appeals did not have sufficient information to enable MRS to readily identify the status of 46 (57%) of 81 appeals we reviewed and to ensure that it sought and obtained pertinent appeal information. The log had not been designed to consistently include all key information related to the appeals, such as:
 - Date of MRS's decision for provision of services.
 - Date sent to the Michigan Administrative Hearing System for the hearing to be scheduled.
 - Hearing date.
 - Resolution date.
 - Dates of contact with the hearing judge or customer.
 - Date customer and MRS agreed to an extension.

We determined that the following conditions most likely occurred because of tracking log shortcomings:

- MRS could not provide documentation that the customers agreed to an extension for 13 appeals. These appeals had untimely resolutions an average of 65 days beyond the 60-day requirement.
- MRS did not have adequate documentation of the resolution or the resolution date for 4 appeals.

MRS indicated that it needed to provide additional training to a new staff person assigned to monitor the status of the appeals.

Organization of appeal documentation was inefficient.

- b. MRS's organization of appeal documentation was inefficient. During our fieldwork, MRS was unable to provide pertinent appeal information for 28 (35%) of 81 appeals reviewed. After completion of our fieldwork, MRS provided various pieces of supporting documentation on two separate occasions that resolved 11 of the 28 initial exceptions.

MRS indicated that it had difficulty providing the support because the appeal documentation was not centrally maintained, but rather maintained in several different locations.

Sound record management ensures that evidence of an organization's activities of governance and compliance exist and provides for efficient retrieval when evidence is needed. Section 18.1285 of the *Michigan Compiled Laws* requires MRS to maintain records that are necessary for the adequate and proper recording of its activities and protection of the legal rights of the State. Section 18.1485 of the *Michigan Compiled Laws* further requires MRS to establish and maintain an administrative control system that includes recordkeeping procedures and effective and efficient control techniques.

RECOMMENDATION

We recommend that MRS improve its management of appeal documentation to help ensure that information is consistently and readily accessible for customers, litigation, audits, and day-to-day operations and that customers receive timely decisions.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MRS agrees with the recommendation. MRS is using its new tracking log which captures all necessary key appeal information. In addition, all hearing packets/files are now centrally located.

MONITORING OF CILs

BACKGROUND

In addition to services for employment, MRS helps fund community and group programs for disabled individuals, such as Centers for Independent Living (CILs).

MRS contracted with 15 CILs to promote personal control over disabled individuals' lives by providing peer support, independent living skills training, advocacy, and information and referral services. CILs also are to use community activities to increase opportunities for disabled individuals to live independently in inclusive, accessible, and supportive communities of their choice and transition from institutional settings. MRS disbursed approximately \$16 million to the 15 CILs from October 1, 2013 through April 30, 2016.

AUDIT OBJECTIVE

To assess the sufficiency of MRS's efforts to monitor funding provided to CILs.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- MRS developed monitoring processes for CILs contract compliance and cost reimbursements.
- MRS conducted on-site visits of selected CILs in fiscal years 2015 and 2016.
- MRS required CILs to submit quarterly program reports and monthly expenditure statements.
- Reportable condition related to MRS's CIL monitoring processes (Finding #6).

FINDING #6

Improvements needed in the monitoring of CILs.

Review tools were not completed during 6 CIL reviews.

Corrective action plans were not requested for deficiencies identified.

MRS needs to improve its CIL monitoring to help provide greater assurance that funds are used to support, develop, and expand services for disabled individuals.

At least annually, MRS is required to evaluate and assess the CIL's progress in meeting the performance objectives outlined in the CIL's work plan. MRS is also required to perform contract monitoring through activities, such as auditing expenditure reports, conducting on-site monitoring, and reviewing and analyzing reports.

Our review of MRS's CIL monitoring processes noted:

- a. MRS had developed an independent living compliance review tool but had not fully completed any reviews as of June 2016. MRS visited 6 CILs between March 2015 and June 2016 to interview CIL staff and gather some compliance documentation; however, no review tools were completed.

MRS informed us that it did not have sufficient resources during our audit period to complete the compliance reviews.

- b. MRS needs to strengthen its financial reviews of cost reimbursement contracts by tracing a sample of CIL expenditures to underlying supporting documentation. CILs submit monthly expenditure reports to MRS; however, the expenditures are reported by generic cost categories, such as salaries or office supplies, and not reported by the specific program objectives in CILs' work plans.

MRS informed us that it had only traced CIL expenditures to supporting documentation for one CIL.

- c. MRS had not developed a process for CILs to correct deficiencies identified during financial reviews. MRS completed financial reviews of 7 CILs between November 2015 and June 2016. MRS informed us that it provided CILs with a summary of deficiencies during an exit conference on the day of the site visits. However, as of June 2016, MRS had not requested corrective action plans from the CILs.

MRS informed us that it had not developed a formal policy for conducting the financial reviews. MRS noted that it had identified similar issues among the 7 CILs and planned to issue a summary report of its findings.

- d. MRS needs to strengthen its review of quarterly program reports by performing a detailed comparison of CIL reported information with the CIL's work plan. Our review of 7 quarterly program reports noted that MRS performed general reviews of the information and did not identify all

discrepancies between the work plan goals and the reported status of the goals for 6 reports. When MRS identified some discrepancies with 3 reports, it did not discuss the issues with the CILs or require the CILs to develop a plan of action to address the issue in future quarters.

MRS informed us that its review form was only intended for a general review of the report and that the contract did not require MRS to provide any feedback to the CIL of its review.

RECOMMENDATION

We recommend that MRS improve its CIL monitoring to help provide greater assurance that funds are used to support, develop, and expand services for disabled individuals.

**AGENCY
PRELIMINARY
RESPONSE**

MDHHS provided us with the following response:

MRS agrees with the recommendation. MRS in conjunction with the CILs have developed a peer review process that involves both CIL and MRS employees' jointly performing onsite financial and program reviews of all CILs. The scope of each review will be based on a risk assessment performed on the specific CIL under review. MRS will then monitor any applicable CIL corrective action to ensure that any findings are corrected. Expenditures will be reviewed on a sample basis.

OUTCOME TARGETS

BACKGROUND

To be eligible for federal aid, MRS is required to assess State rehabilitation needs, set goals and priorities, and evaluate performance indicators. MRS contracts with MSU to conduct the federally required State's vocational rehabilitation services needs assessment and evaluate MRS's performance.

MRS operates the Michigan Career and Technical Institute (MCTI), a residential, post-secondary school that provides vocational and technical training to disabled individuals. MCTI is accredited by both the Commission on Accreditation of Rehabilitation Facilities and the Council on Occupational Education.

AUDIT OBJECTIVE

To assess the effectiveness of MRS's efforts to ensure that it meets its outcome targets.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

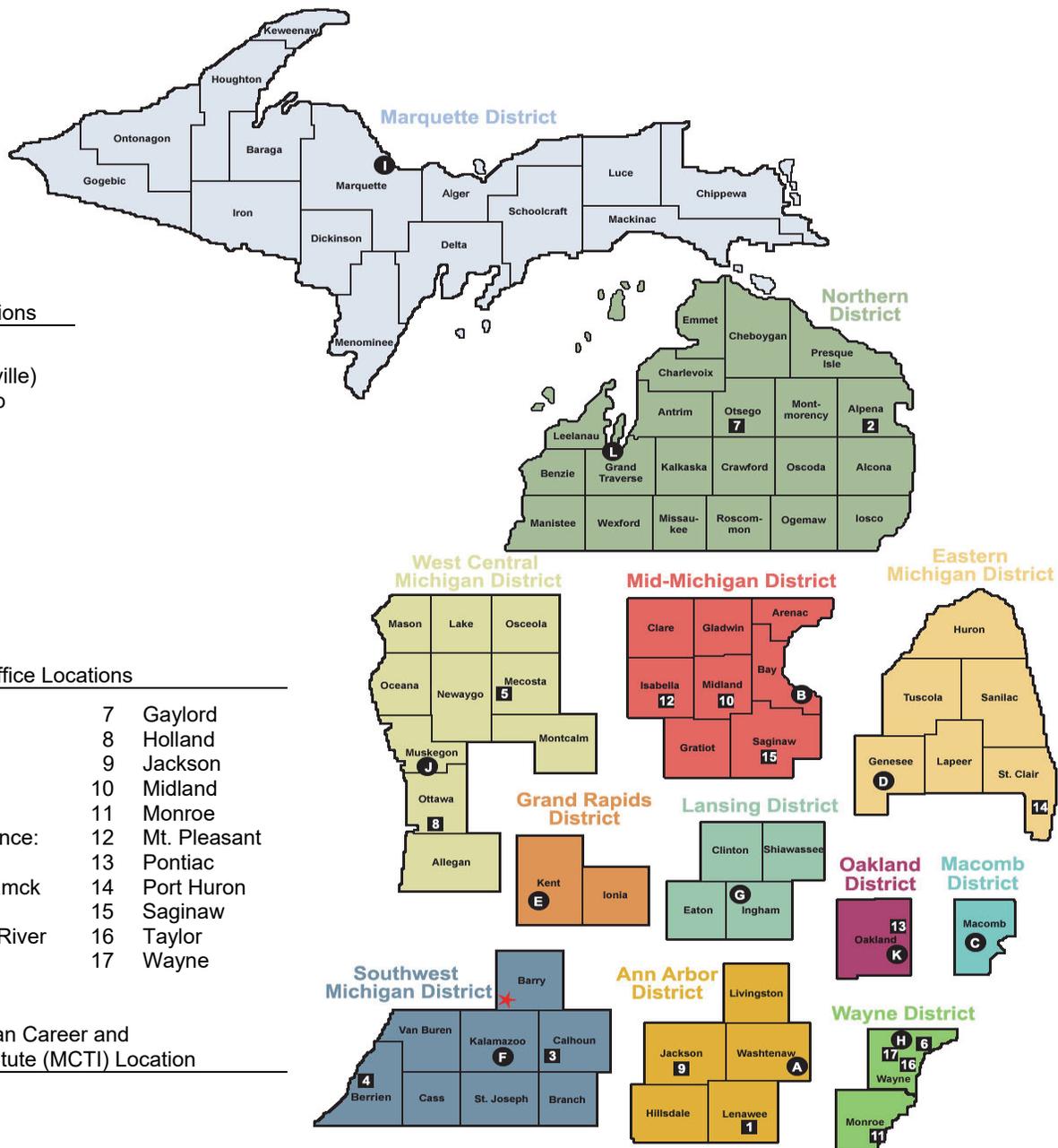
- MRS appropriately measured and met federal performance requirements. In fiscal year 2015, MRS exceeded the previous years' number of individuals achieving an employment outcome. Of these individuals with an employment outcome, over 90% had earnings equivalent to at least the minimum wage compared to the federal target set at 72.6%.
- MRS used MSU's assessment and performance evaluation to establish areas for improvement and customer case goals.
- MRS identified goals, measurements, and strategies in its vocational rehabilitation services State plan and reported its results.
- MCTI implemented strategies, set goals, and monitored its educational performance and reported its progress. In fiscal years 2014 and 2015, MCTI student enrollments and graduations exceeded its goals.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

MICHIGAN REHABILITATION SERVICES (MRS) Michigan Department of Health and Human Services

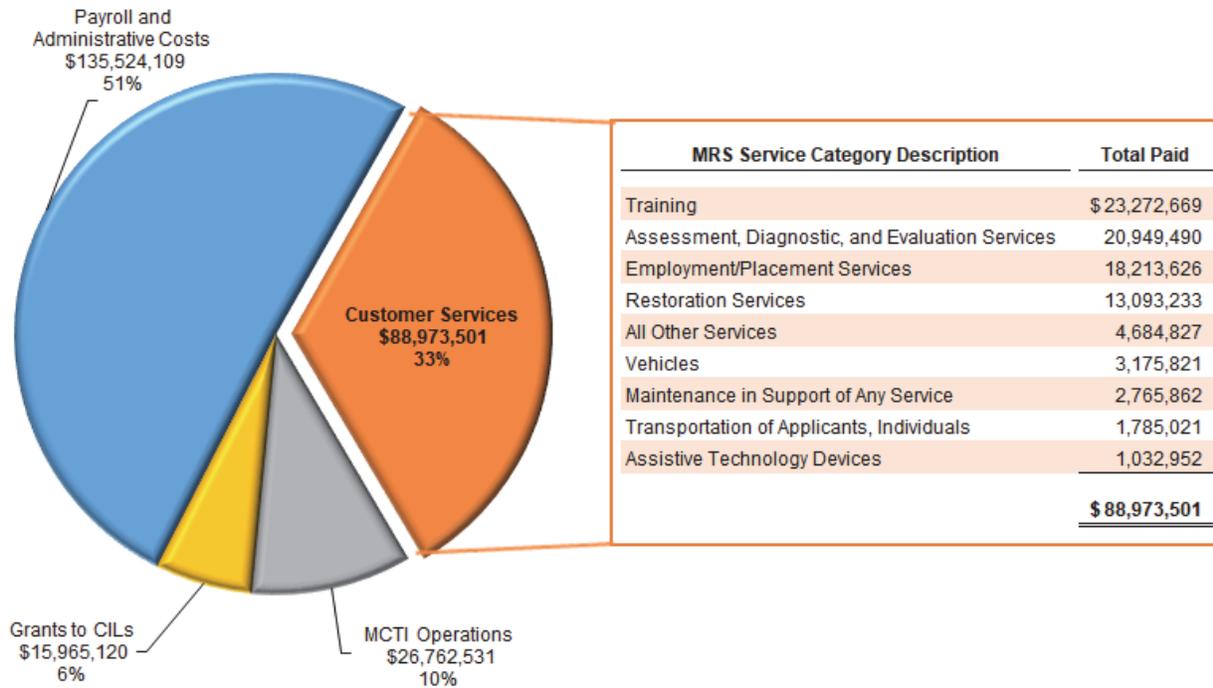
MRS Office Locations and Service Areas



Source: The OAG prepared this exhibit using MAIN and AWARE information.

MICHIGAN REHABILITATION SERVICES (MRS)
Michigan Department of Health and Human Services

MRS Expenditures From October 1, 2013 Through April 30, 2016

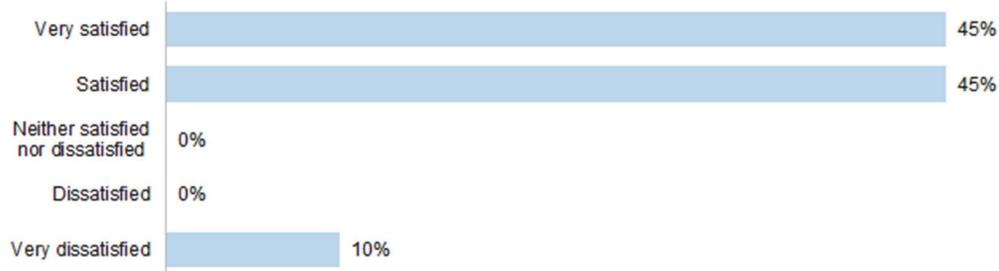


Source: The OAG prepared this exhibit using MAIN and AWARE information.

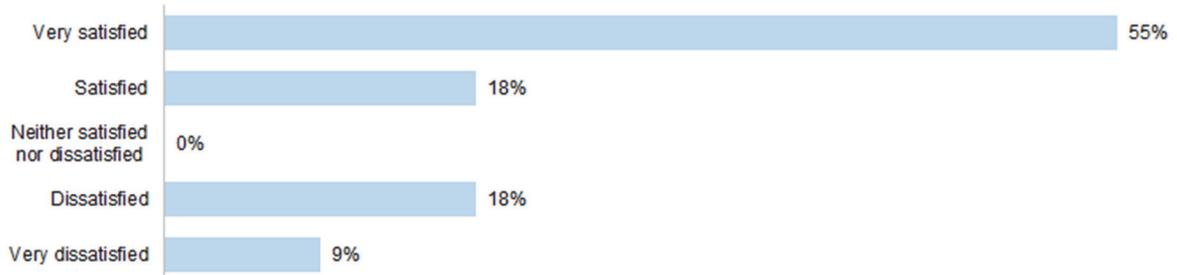
MICHIGAN REHABILITATION SERVICES (MRS)
Michigan Department of Health and Human Services

Survey Response Summary - MRS Customers

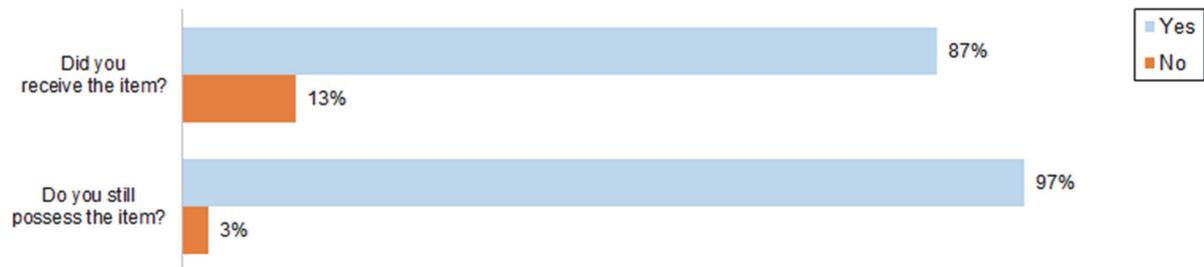
1. Overall, how satisfied were you with the goods and services provided by MRS?



2. How satisfied were you with the assistance provided by the counselor?



3. Status of items purchased for the customer between October 1, 2013 and April 30, 2016:

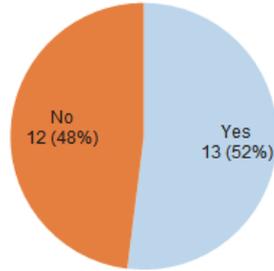


Source: The OAG prepared this exhibit based on responses from 11 of 27 customers we surveyed.

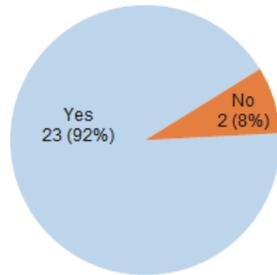
MICHIGAN REHABILITATION SERVICES (MRS)
Michigan Department of Health and Human Services

Survey Response Summary - Other States' Rehabilitation Services Agencies

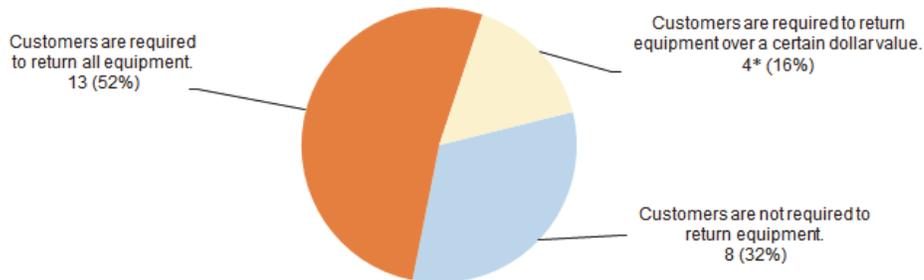
1. Does your program have dollar limits for certain types of purchases (computers, hearing aids, etc.)?



2. Does your program require the customer to confirm that items purchased for the customer were received by the customer?

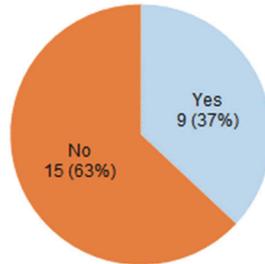


3. Does your program require customers to return equipment they no longer need or use?

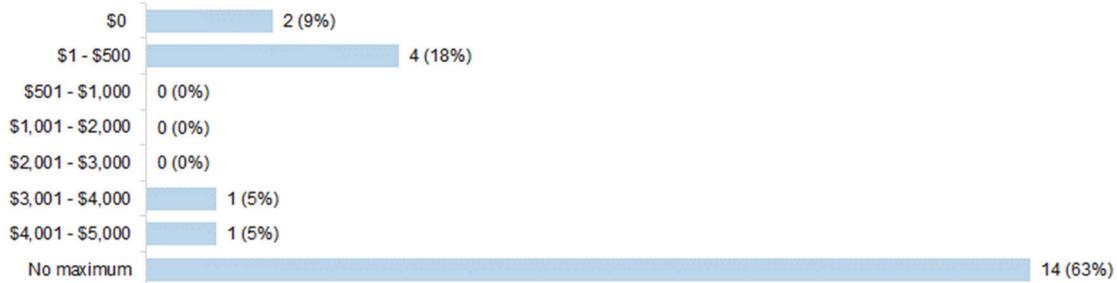


* Dollar values noted: \$1,000 - 3 states; \$500 - 1 state.

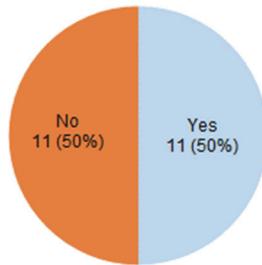
4. Does your program retain ownership of large purchases for customers, such as vehicle purchases?



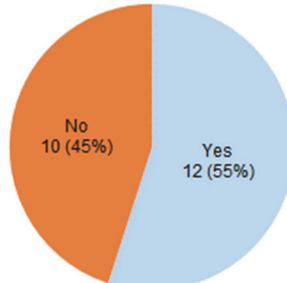
5. What is the maximum payment amount your program is allowed to make directly to customers (as opposed to payments made to a vendor)?



6. Is the level of service provided to the customers dependent on their financial need?



7. Does your program require the customers to contribute financially to receive services?



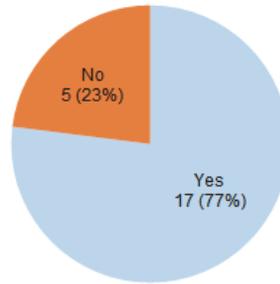
8. How does your program select case files for review within your program's quality assurance process?
Please mark all that apply.

	Response Count
Random selection of cases	22
Selection of cases that were open for greater than a specific number of years	6 ¹
Selection of cases that had greater than a certain amount of total expenditures	9 ²
Not applicable (i.e., no case file review)	1

¹ Number of years noted: 3, 5, 6, and 10 years, and "periodic reviews."

² Total expenditures noted: \$2,000, \$10,000, \$20,000, \$25,000, \$100,000, and "high dollar."

9. Does your program have a process for monitoring customer complaints received to ensure that they are addressed in a timely and appropriate manner?



10. What is the average caseload per counselor for your program?

Number of cases per counselor		Response Count	
		22	
Response Number	Number of Cases Per Counselor	Response Number	Number of Cases Per Counselor
1	100	12	100
2	100	13	90
3	120 - 125	14	85
4	100 - 150	15	137
5	60	16	113
6	145	17	80 - 120
7	115	18	118
8	112	19	125 - 150
9	83	20	80
10	150	21	78
11	100	22	135

Source: The OAG prepared this exhibit based on responses from 27 of 53 other state rehabilitation service agencies that we surveyed.

DESCRIPTION

MRS is governed by Michigan's Rehabilitation Act, Public Act 232 of 1964, and the federal Rehabilitation Act of 1973, as amended. MRS is organizationally structured within MDHHS by Executive Order No. 2012-10.

MRS's mission* is to partner with individuals and employers to achieve quality employment outcomes and independence for individuals with disabilities by helping its customers obtain and/or retain suitable employment, including exploring the possibilities of self-employment or owning a small business. MRS provides services to customers at 33 offices and by appointment only at 44 satellite locations throughout Michigan's 83 counties (see Exhibit #1). MRS also provides services to customers at MCTI, a residential post-secondary vocational training school located in Plainwell, Michigan.

MRS's primary activity is to offer services to individuals with disabilities who need vocational rehabilitation goods and services to prepare for and engage in gainful employment. To be eligible for MRS services, customers must have a physical or mental impairment that results in a substantial impediment to employment. MRS rehabilitation counselors are required to determine eligibility within 60 days of receiving an application.

The U.S. Department of Education and the State General Fund provide the majority of MRS's funding. The ratio of federal funding to State and local funding is 78.7% and 21.3%, respectively. From October 1, 2013 through April 30, 2016, MRS expenditures totaled \$267.2 million, including \$89.0 million for goods and services provided to 38,655 customers (see Exhibit #2).

During fiscal year 2015, MRS opened 17,038 new cases and closed 17,553 cases of which MRS reported that 6,653 (38%) were rehabilitated*.

As of May 21, 2016, MRS had 464 employees, including 76 MCTI employees.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

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

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2013 through April 30, 2016.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of MRS's operations and activities in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed MRS management and staff to obtain an overall understanding of MRS's operations and activities, including MRS's process for monitoring CILs.
- Reviewed applicable laws, policies and procedures, instructional memos, and informational brochures.
- Performed preliminary testing of selected MRS case records and expenditures to determine if MRS followed laws, policies, and procedures.
- Conducted a site visit at one MRS field office to gain an understanding of field office responsibilities and functions.
- Analyzed expenditure and case record data from October 1, 2013 through April 30, 2016.
- Reviewed federal reports, internal audit reports, performance reports, and CIL contracts.
- Researched other states' vocational rehabilitation program practices.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the effectiveness of MRS's efforts to ensure the propriety of expenditures for goods and services provided to its customers.

To accomplish this objective, we:

- Tested 98 customer cases and the 700 purchases made for these cases during our audit period for documentation to support compliance with MRS policies.

Our selection included:

- 56 cases with an IPE developed during the audit period.
- 9 cases with an IPE developed more than 90 days after MRS determined that the customer was eligible.
- 444 purchases with the potential for utilizing comparable benefits and services.
- 46 purchases requiring competitive bids or price quotations.
- 41 cases with direct payments to customers for 215 purchases.
- 14 cases with small business employment outcomes.

We randomly and judgmentally selected the 98 cases from a population of up to 40,121 customer cases with payments and for various payment attributes unique to each case. Therefore, we could not project the results of our tests to the entire population.

- Surveyed 27 MRS customers to determine if they received the items MRS purchased for them.
- Interviewed counselors and managers at two MRS field offices to assess risks and determine how select laws and policies were followed.
- Surveyed 53 other state rehabilitation services agencies regarding their payment policies and quality assurance procedures to determine if MRS was consistent with other state agencies.
- Assessed whether MRS's reimbursement requests to SSA were reasonable for all 110 MRS customers receiving SSI payments or SSDI benefits that were associated with MRS's judgmentally selected fiscal year 2015 third quarter financial report.

- Matched all 38,655 MRS customers that had payments during the audit period with the State Death Record database and the State incarceration records to determine if payments were appropriate.
- Reviewed and evaluated MRS's reviews of customers' case documentation to determine if its review process was reasonably designed and that it was conducted.

For our review, we employed a random selection of cases from different populations as follows: cases assigned to 10 of 266 unique counselors, 10 of 80 cases for which customers received \$25,000 or more in goods and services, and 10 of 790 cases that had been open longer than 7 years.

Although we judgmentally selected the populations that we considered posed risk, we randomly selected the cases from the different populations to help reduce bias.

- Reviewed a selection of 14 MRS purchases totaling \$19,463 of \$1.4 million total purchases made with a State procurement credit card to determine the appropriateness of the purchases.

We used a combination of random and judgmental selection for the 14 purchases to reduce bias and to address risk of larger purchases. Therefore, we could not project the results of our tests to the entire population.

- Reviewed the reasonableness of MRS's process to periodically monitor and deactivate employee access to its case management system.

OBJECTIVE #2

To assess the sufficiency of MRS's customer complaint and appeals resolution process.

To accomplish this objective, we:

- Analyzed MRS's process to track and document the status of customer appeals to determine that appeals were handled in accordance with laws, policies, and procedures.
- Reviewed the reasonableness of MRS's process to handle customer complaints, including the CAP.
- Surveyed 53 other state rehabilitation services agencies about their customer complaint processes to assess how MRS compared with other state agencies.

- Reviewed MSU's customer satisfaction survey results to assess if customers were generally satisfied with MRS.
- Surveyed 27 MRS customers to determine their level of satisfaction with MRS counselors and the goods and services they were provided.

OBJECTIVE #3

To assess the sufficiency of MRS's efforts to monitor funding provided to CILs.

To accomplish this objective, we:

- Evaluated MRS's compliance reviews of CILs to assess the completeness of the review documentation for 2 of 5 randomly selected CILs that MRS reviewed in our audit period.

We randomly selected the 2 CILs to enable us to project the results to the entire population.

- Evaluated MRS's process to follow up with deficiencies noted in its compliance reviews and related corrective actions.
- Reviewed 2 of 5 randomly selected CILs that had financial reviews completed in our audit period to assess the completeness of the reviews.

We randomly selected the 2 CILs to enable us to project the results to the entire population.

- Reviewed 7 judgmentally selected quarterly reports from 4 of 15 randomly and judgmentally selected CILs to determine if MRS obtained sufficient information to monitor CILs' outcomes.

We used a combination of random and judgmental selection to address risk. Therefore, we could not project the results of our tests to the entire population.

OBJECTIVE #4

To assess the effectiveness of MRS's efforts to ensure that it meets its outcome targets.

To accomplish this objective, we:

- Validated the outcome information that was reported by MRS and MCTI.
- Compared MRS outcomes with federal performance requirements and national rehabilitation services statistics to assess that MRS has met required targets.

- Reviewed MRS's State plan to validate that MRS is setting its goals and strategies to meet outcome targets.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 6 findings and 6 corresponding recommendations. MRS's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

PRIOR AUDIT FOLLOW-UP

Following is the status of the reported findings from our January 2012 performance audit of Rehabilitation Service Expenditures, Michigan Rehabilitation Services, Department of Licensing and Regulatory Affairs (641-0246-11):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Propriety of Service Payments - Lack of documentation to support vehicle purchases.	Complied	Not applicable
2	Propriety of Service Payments - Lack of a process to recover unused equipment.	Not applicable	
3	Propriety of Service Payments - Weakness in controls over expenditures for maintenance services.	Complied	Not applicable
4	Propriety of Service Payments - Lack of receipts to support purchases.	Rewritten*	1
5	Propriety of Service Payments - Lack of documentation to support customer identity verification.	Complied	Not applicable
6	Coordination of Benefits and Services - Lack of identification of comparable benefits and services.	Rewritten	2

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits #1 through #4. Our audit was not directed toward expressing a conclusion on the information in Exhibits #1 and #2. The information presented in Exhibits #3 and #4 was used to support Finding #1 and our conclusions on Objectives #1 and #2.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

AWARE	Accessible Web-Based Activity and Reporting Environment.
CAP	Client Assistance Program.
CIL	Center for Independent Living.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
employment outcome	Entering or retaining full-time or, if appropriate, part-time competitive employment in the integrated labor market, supported employment, or any other type of employment in an integrated setting.
federal substantial gainful activity level	The federal level at which a person earning more than a certain monthly amount is ordinarily considered to be engaging in substantial gainful activity. For non-blind individuals, the monthly substantial gainful activity amount for 2018 is \$1,180.
goal	An intended outcome of a program or an entity to accomplish its mission.
IPE	Individualized Plan for Employment.
MAIN	Michigan Administrative Information Network.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDHHS	Michigan Department of Health and Human Services.
Michigan Career and Technical Institute (MCTI)	One of only eight comprehensive rehabilitation training centers in the United States. MCTI is recognized as a post-secondary training school.

mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
MRS	Michigan Rehabilitation Services.
MSU	Michigan State University.
outcome	An actual impact of a program or an entity.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
rehabilitated	An MRS customer who successfully retained competitive employment for 90 days and no longer needs vocational rehabilitation services.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
SSA	Social Security Administration.
SSDI	Social Security Disability Insurance.
SSI	Supplemental Security Income.



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