

FISCAL YEAR 2016

**Technical Assistance Summary Report
of the On-Site Visit to the Kentucky
Office of Vocational Rehabilitation and the
Kentucky Office for the Blind**



**U.S. DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND
REHABILITATIVE SERVICES
REHABILITATION SERVICES ADMINISTRATION**

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I. Introduction

The Rehabilitation Services Administration (RSA) conducted an on-site technical assistance (TA) visit with the Kentucky Office of Vocational Rehabilitation (KY OVR) and Kentucky Office for the Blind (KY OFB) from May 9 through May 11, 2016. The primary purpose of this visit was to review KY OVR and KY OFB procedures for the management and reporting of program income and the completion and submission of financial reports, as well as to provide targeted financial management TA to KY OVR and KY OFB staff in the administration of the State Vocational Rehabilitation (VR) Services Program.

The TA visit targeted concerns that RSA identified as a result of frequent requests made by both agencies to open Federal Financial Reports (SF-425s) to allow them to make revisions. The frequent revisions raised concerns regarding the accuracy of financial data used by the agencies to inform program decisions (e.g., resource allocation). RSA outlined these concerns to KY OVR and KY OFB in preparation for the onsite visit.

In addition, RSA conducted teleconferences with representatives of KY OVR and KY OFB to discuss TA items related to the areas identified above. RSA also requested specific financial documentation for review prior to the visit, including written policies and procedures the agencies use to generate SF-425 reports and supporting documentation for the expenditures listed on SF-425 reports for Federal fiscal years (FFY) 2014 and 2015, including obligation and liquidation dates for each component expense.

During the on-site visit, RSA also provided technical assistance to KY OVR and KY OFB in the following four areas:

1. program income disbursement;
2. inaccurate financial reporting; and
3. cash management.

RSA fiscal unit staff participants included Arseni Popov, Financial Management Specialist, and David Steele, Fiscal Unit Chief.

This TA summary includes relevant background information, a description of the on-site activities, a description of the TA provided, and next steps.

RSA wishes to express appreciation to the representatives of KY OVR and KY OFB, who assisted RSA during the on-site visit.

II. On-site Activities

On-site activities included discussions with the KY OVR and KY OFB leadership and staff directly responsible for program management and financial oversight. RSA staff also met with Beth Kuhn, the Commissioner of Kentucky Department of Workforce Investment.

During the on-site visit, RSA staff, along with the grantee, reviewed SF-425 reports, including specific data related to non-Federal share, program income, cash on hand, and indirect cost rate, to name a few areas of review. Additionally, KY OVR and KY OFB demonstrated its CMS system.

During the on-site visit, RSA conducted eight TA sessions that addressed the following areas:

1. sources of match;
2. construction expenses;
3. grant closeout;
4. SF-425 financial reporting;
5. maintenance of effort;
6. RSA fiscal practices and cost principles;
7. indirect costs; and
8. third-party cooperative agreements.

The purpose of the TA sessions was to review KY OVR and KY OFB internal controls to ensure each agency had implemented adequate processes necessary to meet Federal requirements.

III. Areas for Technical Assistance

The following section describes the areas addressed with KY OVR and KY OFB, including the information provided to RSA and a description of the TA provided.

1. Program Income Disbursement

KY OVR and KY OFB generate program income through payments from the Social Security Administration (SSA) for assisting Social Security beneficiaries to achieve employment outcomes. Program income means gross income received by the grantee that is directly generated by an allowable activity supported under the VR program to VR applicants or consumers (2 CFR 200.307).

In FFY 2010, RSA issued a Policy Directive (PD-10-03) that included instructions for VR agencies to follow when completing the SF-425 form. This Policy Directive reiterated the requirement that program income be expended prior to the drawdown of additional Federal funds in accordance with 34 CFR 80.21(f)(2). In FFY 2010, RSA identified concerns related to the expenditure of program income, in thorough review of the SF-425 financial report data for both agencies, specifically line 10o, "Unexpended program income". RSA compared the amount of unexpended program income reported by each agency with the dates they requested the disbursement of additional Federal funds. The disbursement data was obtained through the Department's Grant Management System (G5). Using this process, RSA confirmed that the agencies were not expending program income prior to the drawdown of additional Federal funds.

RSA also identified that KY OVR and KY OFB report increases in program income after the end of the year of appropriation. According to 34 CFR 361.63, program income is considered earned in the FFY in which the funds are received by the grantee. Therefore, the amount of program income reported as received on line 10l should not change after a grantee submits its fourth quarter SF-425 report.

Specifically, KY OVR's SF-425 report for grant award H126A150023 showed an increase for line 10l (Total Federal program income earned) from \$3,269,462 for the reporting period ending September 30, 2015, to \$3,492,622 for the reporting period ending March 31, 2016. The reporting issue was corrected by KY OVR on August 15, 2016.

KY OFB's SF-425 report for grant award H126A150024 showed an increase for line 10l (Total Federal program income earned) from \$1,037,935 for the reporting period ending September 30, 2015, to \$1,156,109 for the reporting period ending March 31, 2016. The reporting issue was corrected by KY OFB on August 1, 2016.

TA Provided:

During the on-site visit, KY OVR and KY OFB acknowledged that drawing down additional Federal funds when unexpended program income had not been disbursed was an oversight. KY OVR and KY OFB agreed to ensure that program income is disbursed, when available, before drawing down additional Federal funds. KY OVR and KY OFB also agreed to ensure compliance with the assignment of program income to the correct FFY. RSA recommended that KY OVR and KY OFB include an additional step in their program income internal control policies to ensure the above requirements are met.

2. Financial Reporting

Prior to the onsite visit, KY OVR and KY OFB made numerous requests to RSA to re-open previously submitted SF-425 reports for revision. RSA was uncertain whether KY OVR and KY OFB had the internal controls necessary to ensure accurate and timely financial reporting. Specifically, RSA was concerned that KY OVR and KY OFB lacked the ability to accurately track expenditures – both Federal and non-Federal.

By September 30 of the FFY in which a grant award was made, KY OVR and KY OFB must have provided the requisite non-Federal share for any Federal VR funds that will be carried over for obligation in the succeeding FFY, in addition to the non-Federal share required for Federal VR funds that have been obligated or expended by September 30 of the fiscal year in which the VR award was made. KY OVR and KY OFB have not always done so in a timely manner. For instance, KY OFB, in its SF-425 for FFY 2015 for the reporting period ending September 30, 2015, reported \$1,728,728 in non-Federal share on line 10j (Recipient share of expenditures), which falls short, by \$57,549, of the required non-Federal share (\$1,786,277). KY OFB later revised the report to indicate the agency had met the non-Federal share requirement. After the revision, line 10j showed \$1,807,025, which exceeded the requirement for the recipient share of expenditures. Likewise, KY OVR, in its FFY 2013 SF-

425 for the reporting period ending September 30, 2013, reported \$10,646,901 in non-Federal share on line 10j, which falls short of the non-Federal share required (\$10,691,494) by \$44,593. After KY OVR revised its report, the agency indicated it met the non-Federal share requirement.

As demonstrated above, KY OVR and KY OFB have made significant changes after submitting required SF-425s.

KY OVR and KY OFB provided detailed explanations concerning the procedures that KY OVR and KY OFB staff follow to process payments between multiple systems and to verify the accuracy of vender payments.

TA Provided:

RSA reviewed KY OVR and KY OFB's financial reports and G5 data in comparison to KY OVR and KY OFB financial records, including dates of obligation and liquidation for VR expenditures. RSA recommended that KY OVR and KY OFB develop more detailed policies to strengthen KY OVR and KY OFB's internal controls related to completing Federal financial reports. Such policies would ensure accurate and timely reporting as well as help KY OVR and KY OFB to identify and correct the underlying causes of reporting discrepancies where they exist.

RSA provided grantees detailed instructions for completing and submitting SF-425s for the VR program when it issued the policy directive RSA-PD-15-05 on February 5, 2015. The instructions contained in PD-15-05 are identical to the instructions contained in PD-12-06, dated February 13, 2012. RSA uses the financial information reported in SF-425s to determine whether a State has met its match and MOE requirements under the VR program, as well as other requirements related to record keeping and drawdowns (section 11 l(a) of the Rehabilitation Act of 1973, as amended (Rehabilitation Act), 34 CFR 361.60 and 361.62, 2 CFR part 200, and the Cash Management Improvement Act of 1990 (CMIA)). In addition to these policy directives, RSA has offered multiple TA opportunities over recent years for grantees to learn about RSA's reporting requirements via live and recorded webinars (most recently offered October 15, 2014), in-person financial management workshops, and through consultation with RSA fiscal unit staff.

RSA reviewed the SF-425 reporting requirements in detail with KY OVR and KY OFB staff.

Strong internal control policies will ensure that prior to the final submission of any financial report, multiple individuals independently verify that relevant financial records (such as those KY OVR and KY OFB maintain in the G5, PeopleSoft, and other accounting systems) support reported amounts. In addition, a strong internal control policy will incorporate a regular schedule for monitoring the component systems of the grantee's overall financial management system and include specific requirements for the manner of inspection and verification of systems information against primary record sources.

While KY OVR and KY OFB described a monthly reconciliation process to resolve underlying reporting deficiencies, KY OVR and KY OFB should establish detailed policies that require staff to investigate and determine root causes of data inaccuracies they discover through the reconciliation process. A strong internal control policy should also require that staff capture and record error statistics on an ongoing basis; regularly review, analyze, and share the error statistics; and develop plans to reduce the occurrences of those errors.

Finally, the policy should identify the manner in which managers and supervisors are to review and assess internal control processes, share those assessments, and develop solutions when they find areas of weaknesses or elevated risk potential.

3. Cash Management

When submitting SF-425 data, KY OVR and KY OFB must enter the net amount of Federal VR funds on line 10a that KY OVR and KY OFB have drawn down from G5 and the cumulative amount of actual disbursements made from Federal VR funds drawn down during the reporting period. Disbursements are the sum of actual cash expenditures made for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to contractors/vendors.

When the amount drawn from G5 exceeds the disbursements, KY OVR and KY OFB have cash on hand (line 10c). If more than three business days of cash are on hand, RSA requires an explanation on line 12, Remarks, explaining why the drawdown was made prematurely or other reasons for the excess cash. KY OVR and KY OFB must minimize the time elapsing between the drawdown of Federal funds and disbursement of Federal funds (31 CFR part 205).

At the time of the TA visit, SF-425 reports from both KY OVR and KY OFB continued to show that the agencies had more than three business days of cash on hand that were not accompanied by explanations, including the steps taken to minimize the time elapsing between the drawdown of Federal funds and disbursement.

Specifically, the original submission of KY OVR's SF-425 report for grant award H126A150023 for the period ending March 31, 2016, showed \$194,781 on line 10c (Cash on Hand) not accompanied by any explanations. This reporting issue was corrected by KY OVR on August 17, 2016.

KY OFB's SF-425 report for grant award H126A150023 for the reporting period ending March 31, 2016, showed \$98,402 on line 10c (Cash on Hand) not accompanied by any explanations. The reporting issue was corrected by KY OFB on August 1, 2016.

TA Provided:

RSA provided grantees a detailed explanation regarding requirements for drawing down Federal funds during the life of a grant and responded to KY OVR and KY OFB questions. KY OVR and KY OFB also provided answers with respect to their drawdown practices.

During the TA session, RSA was informed that KY OVR and KY OFB's fiscal staff did not have view access to G5 external activity reports. KY OVR and KY OFB's fiscal staff will request G5 view access to be able to resolve drawdown issues in a timely manner prior to submitting SF-425 reports.

IV. Next Steps

At the time of the TA visit, KY OVR and KY OFB were in the process of revising the latest semi-annual VR SF-425 reports for FFY 2015 and FFY 2016.

KY OVR and KY OFB have agreed to strengthen internal control policies that improve the accuracy of financial reporting. Critical to KY OVR and KY OFB's strengthening of these internal controls will be establishing a system of investigation and analysis to trace and track the root cause of each discrepancy identified during the existing monthly reconciliation process.

During the on-site review, KY OVR and KY OFB identified the following additional TA needs: best practices for third-party cooperative agreements, review of establishment protocols, and a checklist for line 10j of the SF-425.

RSA will work with KY OVR and KY OFB to address the TA needs identified and recommends that KY OVR and KY OFB participate in TA-focused need-based conference calls with RSA fiscal unit staff during FFY 2016 and FFY 2017 to ensure RSA meets KY OVR and KY OFB's TA needs.