

# Audit Highlights



Highlights of Legislative Auditor report on the Vocational Assessment Centers, issued on April 19, 2001. Report # LA02-06.

## Purpose of Audit

This audit included the Vocational Assessment Centers' (Centers) financial and administrative activities during fiscal year 2000. The objective of our audit was to evaluate the Centers' financial and administrative practices, including prior activities that had a significant impact on current operations.

## Audit Recommendations

This audit report contained four recommendations to improve the Rehabilitation Division's financial and administrative practices. Specifically, the Division should compile and analyze information needed to make informed decisions regarding the administration of the Centers. In addition, the Division should establish fees sufficient to recover estimated costs, and it should establish procedures for ensuring all fees for services are billed and collected. Furthermore, the Division should ensure all purchases are reviewed and approved by management.

The Division accepted all four audit recommendations.

## Status of Recommendations

The Department of Administration submitted the six-month report on the status of audit recommendations on January 10, 2002. The report indicated that three of the recommendations were partially implemented. No action had been taken on the fourth recommendation as the Rehabilitation Division eliminated the Vocational Assessment Centers as a separate entity during fiscal year 2002, and the recommendation was no longer applicable.

At the May 2002 Audit Subcommittee meeting, the Division reported that the three recommendations that were still applicable to the Division had been fully implemented. The Division revised its accounting manual and began using an automated time tracking system for recovering costs for performing vocational evaluation services for individuals referred by other public agencies. In addition, the Division has documented its accounts receivable process and has conducted management reviews to ensure billings are complete and accurate. Finally, the Division reported it trained staff and revised its policies and procedures related to review and approval of purchases.

# Vocational Assessment Centers

## Department of Employment, Training and Rehabilitation Rehabilitation Division

### Results in Brief

The Vocational Assessment Centers operated without sound financial and administrative practices. Key decisions regarding the Centers' operations were made without adequate information. In 1997, the Legislature approved the Division's request to establish a fee-for-service system and a separate budget account for the Centers. However, the Division had not adequately planned for this change. Because management set the fees too low to cover expenses, the Centers did not become self-supporting as anticipated.

Weak financial and administrative controls contributed to the Centers' financial difficulties. The Centers had problems billing for services, bidding for production contracts, and controlling expenditures. Because of poor controls and anticipated budget shortfalls, the Division abandoned the fee-for-service funding process in February 2000.

Division management has proposed additional changes in the Centers' operations for the 2002-2003 biennium without gathering adequate information. These changes include the elimination of the Centers' sheltered workshops and related services at both Centers. However, the Division has not collected sufficient information to evaluate the effect these changes will have on its clients or finances during the biennium. As a result, service to some clients may be in jeopardy.

### Principal Findings

In 1994, Division staff recommended the Centers establish a fee-for-service system and drafted a transition plan. However, the plan did not include establishing a system of management controls necessary to measure, report, and monitor the Centers' performance. For example, management did not establish a system to track profitability or determine overhead costs attributable to each production job.

Although the Centers' costs increased by about 30% from 1995 to 2000, some fees charged for its services were lowered. Fees were reduced in all cases where comparable services were provided during this 6-year period. For example, the Las Vegas Center charged \$400 a week for situational assessment and work adjustment services in 1995. By 1998, the fee had dropped to \$300 a week.

Controls over billing for both production and assessment services are weak. We found about \$10,000 of services provided for which no payments were received.

The Centers had weak controls over preparing bids for contract work and approving contracts. This problem was further compounded by not tracking the profitability of each production job.

In February 2000, the Centers stopped billing for services to clients referred from other agencies within the Division. In order to compensate for the lost revenues, the Division transferred \$675,000 from the Bureau of Vocational Rehabilitation's budget account into the Centers' budget account.

The Centers reported providing production-related assessment services to over 650 clients during fiscal year 2000. However, the Division's transition plan, dated October 31, 2000, does not show how the Division plans to continue providing a like number of services once the Centers' sheltered workshops close. In addition, the Division has not evaluated the cost of providing similar services nor has it analyzed the benefits of replacement services compared to the services provided in its sheltered workshops.