



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE INSPECTOR GENERAL

THE INSPECTOR GENERAL

**ED-OIG/A05-A0027**

Dr. Robert Rabe  
Administrator  
Ohio Rehabilitation Services Commission  
400 East Campus View Blvd.  
Columbus, Ohio 43235-4604

Dear Dr. Rabe:

This *Final Audit Report* (Control Number ED-OIG/A05-A0027) presents the results of our audit of terminal leave costs at the Ohio Rehabilitation Services Commission (Commission) under the State vocational rehabilitation services program. The objective of our audit was to determine whether the Commission treated terminal leave costs in accordance with Office of Management and Budget (OMB) Circular A-87, Attachment B, Paragraph (11)(d)(3) or (4) for the period October 1, 1995, through September 30, 1999.

### AUDIT RESULTS

We determined that the Commission uses an accrual method to fund terminal leave costs in accordance with OMB Circular A-87 Attachment B, Paragraph (11) (d) (4). This accrual method, used by all Ohio government agencies, is part of the State of Ohio's statewide cost allocation plan.

The State of Ohio established a funding program for terminal leave in 1981. The Ohio Department of Administrative Services issued a memo in November 1981, requiring all Ohio government agencies to follow the provisions of State of Ohio, House Bill 694 on a permanent basis. The bill provided for a leave accrual fund to be set up in the state treasury. The purpose of the fund is to provide for the payment of accrued vacation, sick, and personal leave to employees at separation from state service without causing a budget crisis for smaller agencies. We were told that the Ohio Department of Administrative Services annually sets a percentage rate that it refers to as the Check-off Charge Percentage Rate. State agencies apply this rate to the gross pay of employees eligible for vacation, sick, and personal leave. At separation, the State of Ohio uses the fund to pay employees 100 percent of unused vacation leave and personal leave and 50 percent of unused sick leave. The leave accrual fund Check-off Charge Percentage Rate ranged from a low of 0.85 percent to a high of 2.40 percent during the five state fiscal years of 1996 through 2000.

The accrued leave funding program results in a small charge against the employee's current funding source each pay period. There is no effect if an employee is switched to a federally funded program just prior to separation, because the employee's current funding source is not charged for the terminal leave costs paid at separation. Our audit verified that terminal leave costs paid to selected employees were not claimed against the federally funded Rehabilitation Services - Vocational Rehabilitation Grants to States program.

The U.S. Department of Health and Human Services (HHS) is the cognizant Federal agency for the State of Ohio's statewide cost allocation plan. HHS cost allocation officials stated that Ohio's method of funding terminal leave costs is a fairly equitable method, that is in accordance with paragraph (4) of Attachment B (11) (d) and is a part of the State of Ohio's statewide cost allocation plan.

## **BACKGROUND**

Effective May 1995, OMB Circular A-87 prohibited state and local government agencies from charging terminal leave costs directly to Federal programs. Prior to May 1995, state and local government agencies could charge terminal leave costs directly to Federal programs. After May 1995, state and local government agencies using a cash basis of accounting must comply with OMB Circular A-87, Attachment B, Paragraph (11) (d) (3), which requires that terminal leave costs be a part of the recipient's indirect costs pool. If the accrual basis of accounting is used, then Attachment B, Paragraph (11) (d) (4) applies. It states: "The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded."

The Commission is a state agency that provides vocational rehabilitation services to help people with disabilities become employed and independent. The Commission consists of three bureaus, of which two provide direct vocational rehabilitation services to people with disabilities. The Bureau of Vocational Rehabilitation (BVR) and the Bureau of Services for the Visually Impaired (BSVI) are funded by U. S. Department of Education (ED) programs. The Bureau of Disability Determination (BDD) is funded by a Social Security Administration program. The BVR aids individuals with physical, mental and emotional disabilities. The BSVI works with people who have visual impairments. The BDD, in agreement with the Social Security Administration, is responsible for determining medical eligibility for Ohio's Social Security Disability Insurance and Supplemental Security Income claims. The BDD does not provide vocational rehabilitation services. The Commission employs approximately 1,300 employees at its central office located in Columbus, Ohio, and at more than 60 BVR and BSVI field offices throughout Ohio.

A total of 383 employees separated from employment with the Commission during the period October 1, 1995, through September 30, 1999. These separations included retirements, resignations, removals, and disability retirements.

## **AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit was to determine whether the Commission treated terminal leave costs in accordance with OMB Circular A-87, Attachment B, Paragraph (11) (d) (3) or (4) for the period October 1, 1995, through September 30, 1999. To achieve our audit objective, we reviewed the applicable Ohio law and terminal leave policy; the methodology used by the State to collect and pay terminal leave costs; the Commission's internal audit reports; and the State of Ohio Single Audit reports and management letters, issued by the State of Ohio Auditor of State. We relied on the payroll information contained in the Commission's and the State of Ohio's payroll records. We performed limited tests of the data, that included comparing the amount of terminal leave costs recorded in the payroll records to the amount recorded in the accounting records and reported on the quarterly Financial Status Reports (SF-269). We also assessed the reasonableness of the amount calculated and paid into the leave accrual fund by multiplying gross wages by the leave accrual fund Check-off Charge Percentage Rate and comparing the calculated amount to the payroll data. During these tests and assessments, nothing came to our attention that would lead us to believe the data were not sufficiently reliable to be used in meeting the audit's objective.

We used adhoc reports to determine the amount the Commission paid into the leave accrual fund and the amount paid on behalf of Commission employees during federal fiscal years 1996 through 1999, for terminal leave costs. We selected 6 of the 383 employees who retired, resigned, or were removed and traced their terminal leave costs to the payroll records. For 2 of these 6 employees, we traced the costs of the employees' cost center to the quarterly SF-269 to verify that terminal leave costs paid were not claimed as an expense for reimbursement against the Rehabilitation Services – Vocational Rehabilitation Grants to States program. We limited the scope of the audit to obtaining an understanding of the process used to charge and fund terminal leave costs for employees who separated from the Commission during the period October 1, 1995, through September 30, 1999. We reviewed the Commission's Cost Allocation Plan to determine if the plan included terminal leave costs for individuals who worked on Federal or non-Federal programs. We also interviewed officials from the Commission, State of Ohio Auditor of State, Ohio Department of Administrative Services, ED's Regional Rehabilitation Services Administration, ED's Office of the Chief Financial Officer, and HHS' Division of Cost Allocation.

We conducted our field work at the Commission's central office in Columbus, Ohio, from June 5, 2000, through June 15, 2000. We conducted additional analyses at our Chicago, Illinois, and St. Paul, Minnesota, offices during June 2000 and July 2000. We conducted our work according to government auditing standards applicable to the scope of work described above.

## **STATEMENT ON MANAGEMENT CONTROLS**

As part of our audit, we made an assessment of Commission's management control structure, policies, procedures, and practices applicable to charging terminal leave costs to Federal

programs. Our assessment was performed to determine the level of risk exposure (that is, the likelihood that significant noncompliance with the law and regulations occurred), and to determine the extent of testing needed to accomplish the audit objective.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the Commission's management control structure. However, our assessment did not disclose any significant control weaknesses.

We appreciate the cooperation and assistance extended by your staff during the audit. You are not required to respond to this report. However, if you desire to discuss it, please call me at 202-205-5439 or Gerald Michalski, Acting Regional Inspector General for Audit, Chicago, Illinois, at 312-886-6503.

Sincerely,

Lorraine Lewis