

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of [GAO-09-798](#), a report to congressional requesters

Why GAO Did This Study

State vocational rehabilitation (VR) agencies play a crucial role in helping individuals with disabilities obtain employment. In fiscal year 2008, the Department of Education (Education) distributed over \$2.8 billion in grants to state agencies, using a funding formula that was last revised in 1978. Questions have been raised about whether this formula is outdated, allocates funds equitably, and adequately accounts for state agencies' performance.

GAO was asked to: (1) examine the extent to which the current formula meets generally accepted equity standards, (2) present options for revising the formula, and (3) identify issues to consider with incorporating performance incentives into the formula.

To address these objectives, GAO relied upon two equity standards commonly used to design and evaluate funding formulas: beneficiary equity, which stipulates that funds should be distributed so that each state can provide the same level of services to each person in need; and taxpayer equity, which stipulates that states should contribute about the same proportion of their resources to a given program. GAO analyzed data from Education, Department of the Treasury, Census Bureau, and other agencies; surveyed state VR agencies; interviewed agency officials and disability experts; and reviewed literature on performance incentives.

GAO makes no recommendations in this report.

View [GAO-09-798](#) or [key components](#). For more information, contact Daniel Bertoni, (202) 512-7215, bertonid@gao.gov.

VOCATIONAL REHABILITATION FUNDING FORMULA

Options for Improving Equity in State Grants and Considerations for Performance Incentives

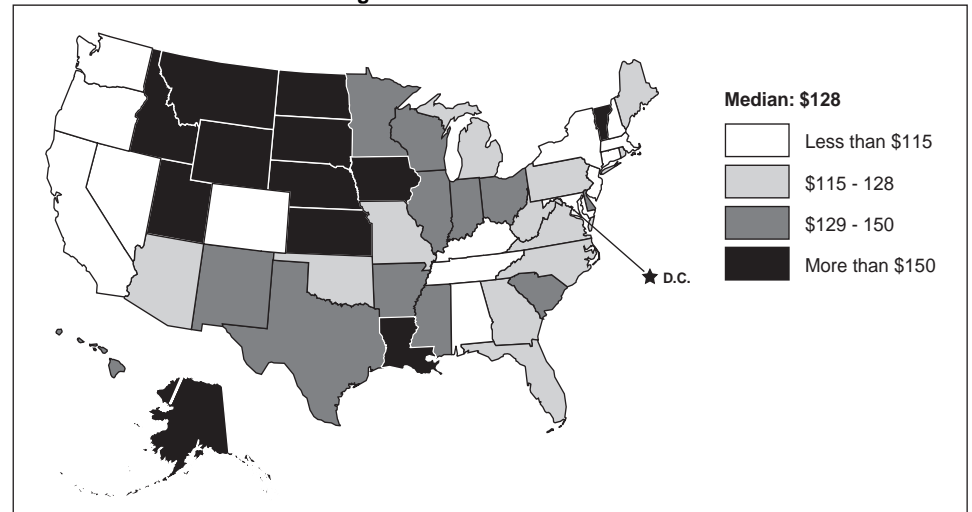
What GAO Found

The VR funding formula falls short of meeting equity standards because it uses imprecise measures of state needs and resources. The formula does not account for differences among states in the proportion of people with a disability or the costs of providing services. As a result, the amount of services that states can purchase per person with a disability varies, from \$83 to \$277 (see figure). In addition, the formula uses only per capita income to measure a state's ability to contribute to the program, excluding other taxable resources.

GAO presents three options for revising the formula to illustrate a range of possibilities: the first distributes funds based on states' disability populations, the second also accounts for costs of providing services, and the third further accounts for state resources beyond per capita income. Because any formula change would redistribute funds among states, potentially disrupting services to individuals, GAO also presents options for establishing a transition period.

Including performance incentives in the funding formula has potential for improving performance but can also pose challenges. These include: effectively balancing the VR program's multiple goals, rewarding agencies for meeting individuals' specific needs, and basing awards on an agency's performance rather than influences outside its control. GAO identified ways to mitigate these risks, such as using multiple performance measures to address different goals, and adjusting the performance level required for an agency to receive an incentive award. However, these approaches would still require careful consideration of several issues, such as how to account for clients' varying disability levels and needs and provide appropriate incentives for achieving desired outcomes.

Estimated State VR Allotments per Working-Aged Person with a Disability, Cost-Adjusted, Based on Fiscal Year 2008 Funding



Source: GAO analysis of data from Education, Census Bureau, Bureau of Labor Statistics, Department of Housing and Urban Development, and responses to GAO survey; Map, Map Resources (presentation).