



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Sunset Review

Department of Economic Security— Sunset Factors

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Auditor General

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DEPUTY AUDITOR GENERAL

September 8, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Mr. David Berns, Director
Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Sunset Review of the Department of Economic Security (DES). This report is in response to a November 20, 2002, resolution of the Joint Legislative Audit Committee and was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

Included with this report is a written response from DES.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 9, 2005.

Sincerely,

Debbie Davenport
Auditor General

DD:Acm

Enclosure

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a review of the Arizona Department of Economic Security (Department) using the 12 criteria in Arizona's sunset law. The analysis of the 12 sunset factors was conducted pursuant to a November 20, 2002, resolution of the Joint Legislative Audit Committee and prepared as part of the sunset review set forth in Arizona Revised Statutes (A.R.S.) §41-2951 et seq.

This sunset review is the last in a series of six reports of the Department. The other five reports were performance audits of the Department's welfare programs, Unemployment Insurance program, information security, its service integration initiative, and the Division of Developmental Disabilities.¹

Organization

The Department is divided into nine divisions, including six program divisions and three administrative divisions. The Department reported 10,961.7 authorized FTE (full-time equivalent) positions as of June 30, 2005, including 1,141.4 vacancies.

Program Divisions—Six divisions provide services to department clients:

- **Division of Aging and Community Services (DACS)**, 220.5 authorized positions, 55.1 vacancies—DACS provides or contracts for services including emergency and energy-related assistance, food distribution information for the hungry, rural food banks, shelter and supportive services to victims of domestic violence, refugee resettlement services, and shelter for the homeless. Additionally, DACS has adult services programs such as adult protective services, home care, congregate and home-delivered meals, case management, the State Health Insurance Assistance program, supplemental payments program, and legal assistance.
- **Division of Benefits and Medical Eligibility (DBME)**, 2,983.0 authorized positions, 132.9 vacancies—DBME administers the TANF Cash Assistance, Food Stamps, and state-funded General Assistance programs. In addition, DBME determines

¹ This report also includes information from recent performance audits conducted on the Department's Child Protective Services (CPS) program.

eligibility for the Arizona Health Care Cost Containment System (AHCCCS), the State's designated Medicaid agency. DBME also determines eligibility for supplemental security income through its Disability Determination Services Administration.

- **Division of Children, Youth and Families (DCYF)**, 1,990.0 authorized positions, 122.7 vacancies—DCYF provides child protective services, foster care services, kinship care, independent living services for young adults, adoption services, in-home family services, intensive family services, and substance-abuse treatment services for families whose children are at imminent risk of out-of-home placement.
- **Division of Child Support Enforcement (DCSE)**, 839.8 authorized positions, 145.7 vacancies—DCSE administers Arizona's child support enforcement program. DCSE's services include locating absent parents, establishing legal paternity for children born to single mothers, and establishing legal obligations to pay child support. Additionally, DCSE enforces and collects child support through a variety of administrative and judicial remedies and is responsible for the State Disbursement Unit, which processes and distributes child support payments.
- **Division of Developmental Disabilities (DDD)**, 1,814.2 authorized positions, 181.5 vacancies—DDD provides services to individuals with developmental disabilities and their families. Services include home- and community-based services, residential and day programs, children's services, and services to children in foster care. In addition, DDD is the AHCCCS' contractor for the Arizona Long Term Care System (ALTCS). ALTCS-enrolled individuals receive medical care from DDD in addition to the other services they need.¹
- **Division of Employment and Rehabilitation Services (DERS)**, 1,993.7 authorized positions, 321.2 vacancies—DERS administers Arizona's Unemployment Insurance, Job Service, and Vocational Rehabilitation programs; provides job-training opportunities through administration of the Workforce Investment Act (WIA) and the Jobs program; and administers childcare programs and independent living rehabilitation services.

DES Central Administration—1,120.5 authorized FTE, 182.3 vacancies—The Department has three administrative divisions:

- **Division of Business and Finance (DBF)**—DBF provides office and general business services, including accounting, finance, budget, collections, procurement, facilities management, purchasing, payroll, printing, records retention, supplies distribution, and mail management. It is also responsible for the implementation of the federally mandated Health Insurance Portability and Accountability Act (HIPAA) requirements. DBF also provides development and

¹ The federal Center for Medicare and Medicaid Services and matching state appropriations support the ALTCS program.

coordination of department-wide policies, strategic planning, project management, and administrative rules.

- **Division of Employee Services and Support (DESS)**—DESS provides support services to all programs. It includes appellate services, internal audit, special investigations, licensing, risk management, economic research, and volunteer services. DESS' Appellate Services Administration hears appeals from DES clients regarding unemployment insurance and other cases.
- **Division of Technology Services (DTS)**—DTS provides technical and systems services for the development, maintenance, and enhancement of the Department's automated systems in compliance with the Government Information Technology Agency (GITA) and agency standards.

In addition to the three administrative divisions, DES Central Administration includes the Director's Office and other units such as the Governor's Advisory Council on Aging, the Governor's Council on Developmental Disabilities, and the Arizona Early Intervention Program.

Budget

The Department received total revenues of nearly \$2.7 billion in fiscal year 2004, as shown in Table 1 (see page 4). Nearly \$1.9 billion of these revenues consisted primarily of monies received from federal agencies such as the U.S. Department of Health and Human Services, U.S. Department of Labor, and U.S. Department of Education, and they included sources such as the Temporary Assistance to Needy Families (TANF) block grant. Additionally, the Department received state appropriations amounting to more than \$484 million, and more than \$194 million in employers' unemployment insurance contributions.

Scope and methodology

The Department's performance was analyzed in accordance with the 12 statutory sunset factors. Audit work in the following areas provided a basis for response to the sunset factors:

- Welfare Programs (Auditor General Report No. 04-02).
- Division of Employment and Rehabilitation Services—Unemployment Insurance Program (Auditor General Report No. 05-01).

**Table 1: Schedule of Revenues and Expenditures
Years Ended June 30, 2003 and 2004
(Unaudited)**

	2003	2004
Revenues:		
Grants and reimbursements ¹	\$1,684,136,528	\$1,894,461,828
State General Fund Appropriations	425,167,700	484,037,500
Employers' unemployment insurance contributions	160,962,888	194,894,098
Arizona Industry for the Blind sales	16,495,574	19,097,876
Fees	2,026,053	1,262,368
Fines, forfeits, and penalties	3,890,934	3,887,911
Interest	58,779,556	46,848,610
Other	<u>66,961,919</u>	<u>46,524,131</u>
Total revenues	<u>2,418,421,152</u>	<u>2,691,014,322</u>
Expenditures and reversions:		
Personal services and employee related	390,921,691	392,265,102
Professional and outside services	39,988,331	33,892,204
Travel and food	7,279,027	6,174,275
Aid to individuals and organizations	1,652,844,256	1,816,929,922
Other operating ²	86,573,691	87,698,232
Capital outlay	2,629,958	3,226,329
Debt service:		
Principal	3,912,896	3,501,554
Interest	285,114	142,045
Unemployment insurance benefit payments	455,685,068	397,656,750
Arizona Industry for the Blind operating expenditures	<u>17,559,435</u>	<u>19,124,534</u>
Total expenditures	<u>2,657,679,467</u>	<u>2,760,610,947</u>
Reversions to the State General Fund	<u>2,394,259</u>	<u>1,443,382</u>
Total expenditures and reversions	<u>2,660,073,726</u>	<u>2,762,054,329</u>
Deficiency of revenues over expenditures and reversions ³	<u>\$ (241,652,574)</u>	<u>\$ (71,040,007)</u>

¹ Primarily consists of federal monies from the U.S. Department of Health and Human Services, U.S. Department of Labor, and U.S. Department of Education, and contracted capitation revenues from AHCCCS. The federal programs include Temporary Assistance for Needy Families, Childcare Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care Title IV-E, and Unemployment Insurance.

² Includes various expenditures such as insurance, telecommunications, printing, data processing, utilities, repair and maintenance, and rental costs.

³ The deficiency is primarily attributable to the Department using monies available from the Unemployment Insurance Benefit Fund to pay benefits.

Source: Auditor General staff analysis of financial information provided by the Arizona Department of Economic Security to the Department of Administration for inclusion in the Statewide Comprehensive Annual Financial Reports for the years ended June 30, 2003 and 2004.

- Information Security (Auditor General Report 05-04).
- Service Integration Initiative (Auditor General Report 05-05).
- Division of Developmental Disabilities (Auditor General Report 05-07).

Two reports on the Department's Child Protective Services also informed this analysis:

- Division of Children, Youth and Families—Child Protective Services—Caseloads and Training Program (Auditor General Report No. 03-09).
- Division of Children, Youth and Families—Child Protective Services—CHILDS Data Integrity Process (Auditor General Report No. CPS-0501).

Auditors also relied on information obtained from department officials, the Governor's Regulatory Review Council, the Secretary of State, and the Office of the Attorney General.

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director and staff of the Department of Economic Security for their cooperation and assistance throughout the audit.

SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether the Department should be continued or terminated. Although the Auditor General identified in seven recent performance audits numerous ways the Department could improve its efficiency and effectiveness, it has met its overall purpose and objective. The evidence assembled under these 12 factors indicates the continued need for the Department:

1. The objective and purpose in establishing the Department.

Pursuant to A.R.S. §41-1953, the State Legislature established the Department in 1972 by consolidating the authority, power, and duties of the employment security commission of Arizona and its divisions, the state department of public welfare, the division of vocational rehabilitation, the state office of economic opportunity, and the state office of manpower planning. The state department of mental retardation joined the Department in 1974. A.R.S. §41-1954, as added in 1972 and later amended, stipulated more powers and duties and authorized the Department to provide a broad range of human service programs, such as social service programs for children, adults, and families; income maintenance services, including child support collection services and services to needy families with children; unemployment compensation; rehabilitation services; work training; and services for individuals with developmental disabilities.

According to the Department's mission statement, its purpose is to "promote the safety, well-being, and self-sufficiency of children, adults, and families." The Department estimates that more than 1 million people seek its services each month.

2. The effectiveness with which the Department has met its objective and purpose and the efficiency with which it has operated.

Although the Auditor General has identified in seven recent reports numerous ways the Department could improve its efficiency and effectiveness, the

Department has taken actions to meet its overall objective and purpose through several of its functions. For example, in fiscal year 2004, the Department reported providing over 42,000 individuals with training and other services intended to help families make the transition from welfare to employment. In addition, the Department reported receiving 39,176 reports of alleged child abuse or neglect during that fiscal year and investigating 87 percent of those cases. In fiscal year 2005, the Department reported that it investigated 7,244 reports of abuse, neglect, and exploitation of vulnerable adults, and that as of May 2005 it had served over 24,000 individuals with developmental disabilities.

The Department is making efforts to improve its overall effectiveness and efficiency through its service integration initiative. The Department's first steps at implementing its current service integration initiative appear to be in keeping with recommended practices drawn from studies of such efforts. For example, the Department has implemented several local service-oriented efforts that emphasize developing systems and processes that will improve the client experience and reduce service fragmentation. Additionally, the Department is working to improve communication and collaboration with other governmental and nongovernmental organizations.

Auditors found that the Department can improve in some areas. For example:

- **Department of Economic Security—Welfare Programs (Auditor General Report No. 04-02)**—While the Division of Benefits & Medical Eligibility (DBME) was successful in the past in lowering its food stamp eligibility determination error rate, it needs to take steps to counter expected increases in this rate. Additionally, auditors found that DBME should establish a more reliable and effective system for managing its benefit overpayment referral process.
- **Department of Economic Security—Division of Employment and Rehabilitation Services—Unemployment Insurance Program (Auditor General Report No. 05-01)**—The Division of Employment & Rehabilitation Services' (DERS) accuracy rate in determining whether claimants are eligible for unemployment insurance benefits was significantly below U.S. Department of Labor standards and national averages. Additionally, although DERS had taken steps to improve its process for determining employer tax liability, it could do more to increase timeliness and accuracy.
- **Department of Economic Security—Information Security (Auditor General Report No. 05-04)**—The Department needs to establish better access controls over its information systems and strengthen central oversight of data security. Additionally, the Department needs to improve management of its local area networks (LANs) and computers to better ensure system security. The Department could better manage its process for making changes to computer

programs, and should standardize the program change process throughout its programming teams.

- **Department of Economic Security—Service Integration Initiative (Auditor General Report No. 05-05)**—The Department’s service integration efforts appear to reflect an understanding of the key factors to success and appear to be in keeping with recommended practices drawn from studies of such efforts. However, although the Department has developed guiding principles that include evaluating services for outcomes, it has not yet developed comprehensive measures for evaluating outcomes.
- **Department of Economic Security—Division of Developmental Disabilities (Auditor General Report No. 05-07)**—Although the Division of Developmental Disabilities (DDD) has taken some steps to address service availability problems, it should take additional steps to help ensure that it has an adequate network of therapists. Additionally, although state and federal laws require certain individuals to pay all or part of the cost of their services, the report found that DDD misses some billing referrals or discovers them late, reducing monies that could be used to provide services. Therefore DDD should adopt more systematic ways to identify and refer potential billings to the Department’s Office of Accounts Receivable and Collections.

In addition, recent performance audits conducted on the Department’s Child Protective Services program found other areas that can be improved:

- **Department of Economic Security—Division of Children, Youth and Families—Child Protective Services—Caseloads and Training (Auditor General Report No. 03-09)**—Average caseloads for most CPS case managers were 12 or fewer cases on June 30, 2001 and 2003. To ensure accurate staffing projections, the report recommended that CPS modify its case management system to allow it to classify cases according to the three Child Welfare League of America’s caseload standards it used, include in its caseloads only active cases, and include all staff who regularly manage cases. In addition, the report found that case manager training had increased since 2001, but CPS needed more practical exercises. The report also found that CPS needed to improve case manager supervisory oversight and fully implement its concurrent case-planning policy to further improve children’s permanency outcomes. Concurrent case planning is a permanency planning practice that simultaneously pursues both family reunification and an alternate plan, such as adoption.

Additionally, the Office of the Auditor General has completed three followups with the Department regarding this audit. The most recent followup found that the Department had implemented 16 of the 29 recommendations, was in the process of implementing 10 recommendations, and did not implement 3 recommendations. These 3 recommendations focused on taking steps to

ensure that the Department could accurately project its case manager staffing needs. However, in its response to the report, the Department indicated that it would not implement these 3 recommendations.

- **Department of Economic Security—Division of Children, Youth and Families—Child Protective Services—Data Integrity Process (Auditor General Report No. CPS-0501)**—The Division should take steps to improve its computerized case management system (CHILDS) data integrity process and training program, and streamline its CPS processes to improve the reliability of data critical to CPS operations.
3. **The extent to which the Department has operated within the public interest.**

The Department has operated in the public interest by administering protective and assistance services to families and individuals living in Arizona. For example:

- **Protecting children and vulnerable adults**—The Department provides child and adult protective services, as well as foster care services, kinship care, independent living services for young adults, adoption services, in-home family services, intensive family services, and substance-abuse treatment services for families whose children are at imminent risk of out-of-home placement.
- **Assistance in collecting child support**—The Department provides services such as locating absent parents, establishing legal paternity for children born to single mothers, and establishing legal obligations to pay child support. The Department enforces and collects child support through a variety of administrative and judicial remedies and is responsible for the State Disbursement Unit, which processes and distributes child support payments.
- **Income assistance and medical eligibility for low-income families and individuals**—The Department administers programs for low-income people, including the federally mandated TANF and Food Stamps programs and state-funded General Assistance program. The Department also determines whether low-income individuals qualify for federal and state-supported Medicaid benefits.
- **Unemployment assistance, job training, rehabilitation services, and childcare services**—The Department administers federally mandated unemployment insurance, Jobs, Workforce Investment Act, vocational rehabilitation, and childcare assistance programs.

- **Services to persons with developmental disabilities**—The Department provides services to individuals with developmental disabilities through a 100 percent state-funded program and the State’s ALTCS program. Both programs provide home- and community-based services, residential and day programs, children’s services, and services to children in foster care. In addition, the ALTCS program provides acute medical care to eligible individuals.
- **A variety of supportive services for families and older adults**—The Department provides and contracts for services such as emergency and energy-related assistance, food distribution information for the hungry, rural food banks, shelter and supportive services to victims of domestic violence, refugee resettlement services, and homeless shelters. Adult services programs include adult protective services, the supplemental payments program, home care, congregate and home-delivered meals, case management, long-term care ombudsman program, the State Health Insurance Assistance program, legal assistance, the Senior Community Service Employment program (Title V), the Foster Grandparent program, and the Family Caregiver Support program.

In addition to the divisions and programs listed above, the Department also houses the Arizona Early Intervention Program, which was established by Executive Order 89-11 and A.R.S. §8-652, which designated the Department as the lead agency responsible for the administration and supervision of the comprehensive interagency system of early intervention services. The federal Individuals with Disabilities Education Act (IDEA), Part C (Public Law 105-17) governs the program.

Although the Department has served the public interest in many ways, auditors found that the agency could operate more fully in the public interest in the administration of its unemployment insurance program. Specifically, Auditor General Report No. 05-01 found that, due to long-standing errors in a computer program and the Division’s failure to validate the data it sends to the Internal Revenue Service (IRS), the Division had reported inaccurate employer tax information to the IRS and, as a result, had potentially subjected employers to penalties and assessments.

4. The extent to which rules adopted by the Department are consistent with the legislative mandate.

The Department derives its authority to promulgate rules from A.R.S. §41-1954(A)(3). The Department states that it has promulgated most, but not all, of the rules required by statute. The Department identified 43 statutory references requiring rulemaking. According to the Department’s rules attorney, it still needs

to complete rulemaking for six of the statutory references it has identified, including:

- **A.R.S. §46-452.01**—Which states that the Department shall adopt rules for the purpose of implementing the state long-term care ombudsman program.
- **A.R.S. §46-217(D)**—Which states that the Department shall adopt rules for the finger-imaging program that pertains to general and temporary assistance to needy families.
- **A.R.S. §46-218(D)**—Which states that the Department shall adopt rules for the finger-imaging program that pertains to the food stamp program.
- **A.R.S. §8-806(H)**—Which states that the Department shall adopt rules for the purpose of assessing parents for the full or partial cost of voluntary placement.
- **A.R.S. §8-521**—Which states that the Department shall develop rules to carry out an independent living program it may develop for youths age 17 or older who are the subject of a dependency petition or adjudicated dependent.
- **Laws 2004, Ch.199**—Which amended A.R.S. §§8-504 and 36-591 to transfer responsibility for inspecting residential settings, child welfare agencies, and foster homes from the Department of Health Services to the Department. The law states that rules adopted by the Department of Health Services remain in effect until superseded by the Department, and exempted the Department from formal rule-making procedures for a period of 1 year after its effective date of August 25, 2004, to adopt rules to implement its requirements.

In addition, the Department reported that it is not currently planning to develop rules for the Division of Developmental Disabilities' (DDD) Family Support program because there was never an appropriation for that program. Language in A.R.S. §36-596.52(A) suggests that an appropriation is required before implementing the program or writing rules for it.

5. **The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.**

The Department reports that it complies with all statutorily required methods of informing the public about rule-making activities, including publishing notices in

the Arizona Administrative Register, holding public meetings, publishing an annual regulatory agenda on the Department's Web site, and requesting and addressing public comments on rule-making packages.

The Department's programs solicit public input on rulemaking through means such as public hearings or by e-mail. Each division that promulgates rules maintains a database of stakeholders who are interested in its rule-making activities. Some programs post information on the Department's Web site, and others use e-mail and newsletters to inform the public.

Additionally, the Department seeks community input through several key community groups. For example, seven groups advise, provide input, or make recommendations to the Department: the Economic Security Advisory Council, the Homeless Trust Fund Advisory Committee, the DES Advisory Council on Hunger, the Interagency Council of Long Term Care, the Marriage and Communication Skills Commission, the Developmental Disabilities Advisory Council, and the State Rehabilitation Council groups.

In addition to these seven groups, there are Community Network Teams (CNTs) that were established by the Governor's 2003 Action Plan for Reform of Arizona's Child Protection System to help foster community involvement in improving the child welfare system in Arizona. State-wide, there are about 18 CNTs that hold regular meetings to provide input to the Department on how the State and communities can better serve their customers by working together.

Pursuant to A.R.S. §38-431.02, the Department is required to post statements with the Secretary of State's Office that provide information about where divisions and programs will post meeting notices. For example, on May 5, 2005, the Department's Child Care Administration, which is located in the Division of Rehabilitation Services, posted a statement with the Secretary of State to inform the public that it planned to hold public hearings on May 23 and May 26. The hearings' purpose was to obtain input on the provision of services identified in the Child Care & Development Fund State Plan.

6. The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction.

The Department appears to have sufficient authority to investigate and resolve the various types of complaints within its jurisdiction. The following department programs investigate and resolve complaints:

- **Adult Protective Services** investigates allegations of abuse, neglect, or financial exploitation of the elderly and other vulnerable adults.

- **Child Protective Services** investigates allegations of abuse or neglect. If an investigation substantiates the allegations, CPS may provide services to the family or refer them to services in the local community. If CPS determines that children are in imminent danger of harm, it may remove the children on an emergency basis. CPS seeks to protect children and to maintain and stabilize families, not to arrest or prosecute parents.
- **The Office of Licensing, Certification, and Regulation (OLCR)** licenses agencies that in turn monitor foster homes, which are also licensed by OLCR, for compliance with licensing standards. Complaints related to abuse/neglect of children are investigated by CPS. All other complaints are investigated by the licensing agency. The agency submits its report to OLCR, which is responsible for evaluating it to determine the need for corrective action.

Additionally, OLCR licenses and monitors child welfare agencies that operate group homes, emergency shelters, and outdoor experience programs. CPS is the lead investigative entity for complaints related to abuse/neglect of children. All other complaints are investigated by OLCR, which is responsible for reporting findings and determining the need for corrective action.

- **The Office of Special Investigations (OSI)** investigates cases of welfare fraud and unemployment insurance fraud.¹ In fiscal year 2004, OSI opened 15,820 welfare investigations and found 11,633 cases of fraud. During the same year, it opened 1,327 unemployment insurance cases for DERS and prosecuted 434. OSI sends cases to the Attorney General's Office to determine if the case is prosecutable. It also works on civil and criminal child support cases. For example, OSI looks for parents who are behind on their child support payments and children who run away from state-placed facilities. OSI also works with the Attorney General's Office on the civil side of child support cases. In addition, OSI investigates the Department's internal affairs complaints. Internal affairs investigations' results go back to the respective division's assistant director who requested the investigation.
- **The Appellate Services Administration (ASA)** in fiscal year 2005 processed more than 35,300 appeals to address grievances related to eligibility and benefit levels, licensing and certification of service providers, and claimant fraud. If the issue remains unresolved after ASA's three stages of hearing and appeals, the party may request a review of the action by the Arizona Court of Appeals.
- **The Protective Services Review Team** impartially reviews CPS investigations to see if the finding is accurate when a parent, guardian, or custodian who is alleged to have abused or neglected a child disagrees with the CPS finding.

¹ Welfare fraud includes Food Stamp, TANF (cash assistance), and childcare benefits.

- **The Office of the Ombudsman** handles inquiries, concerns, and complaints about department actions.
7. **The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.**

The Attorney General has the authority to prosecute cases that the Department brings pursuant to A.R.S. §§41-192 and 46-133. The Attorney General's Office provides representation to the Department in all department programs, and it also defends actions against the Department in administrative and all levels of court proceedings. The Attorney General's Office also prosecutes individuals who have committed fraud against the Department, as well as other criminal acts authorized by statute. In addition, the Attorney General's Office provides all required legal services for the administrative operations of the Department, such as procurement and personnel matters. The Attorney General's Child and Family Protection Division is the Department's legal counsel. The division employs more than 300 FTEs, and its sole responsibility is to provide legal services to the Department in the areas of aging and community services, benefits and medical eligibility, child abuse and neglect, child support developmental disabilities, employment and rehabilitation services, and general counsel.

8. **The extent to which the Department has addressed deficiencies in its enabling statutes, which prevent it from fulfilling its statutory mandate.**

The Department has been actively involved in recommending legislative changes when they are needed to clarify statutes, add statutory authority, or conform statutes to state or federal laws. The Department submitted several proposals in 2005 that were enacted into legislation.

Legislation in 2005 included statute changes such as the following:

- Laws 2005, Chapter 224, §1, amended A.R.S. §41-1958 to allow the Department to lease or sublease its vacant office space. This change increases the Department's ability to colocate with other programs (see Auditor General Report No. 05-05, page 15). The monies collected from these leases must be deposited into the Department's Occupancy Appropriation.

- Laws 2005, Chapter 174, §1, added A.R.S. §46-445 to establish a mandatory process to transfer child support payments electronically to individual accounts.
- Laws 2005, Chapter 108, §1, added A.R.S. §25-818 to establish a paternity case registry. The Department submitted a proposal for this legislation to conform state statute with a federal requirement for states to establish a central paternity registry in accordance with Title IV-D of the Social Security Act.
- Laws 2005, Chapter 178, §3, added A.R.S. §23-733.01 to comply with Public Law 108 295, the State Unemployment Tax Act (SUTA) Dumping Prevention Act passed in 2004. SUTA dumping refers to an employer's attempt to manipulate the unemployment tax rate that the employer pays to the State. The new law stipulates circumstances in which attempts to change unemployment tax rates are illegal. States must enact statutes to conform with the new law as a condition of participating in the federal-state Unemployment Insurance program.

In 2005, the Department also recommended two pieces of legislation related to TANF that were not enacted. House Bill 2245 would have removed differences in state work requirements for one- and two-parent families under TANF, and HB 2246 would have removed some current state restrictions on children's eligibility for TANF benefits.

9. The extent to which changes are necessary in the laws of the Department to adequately comply with the factors listed in the sunset laws.

Auditors' review of information security controls (Auditor General Report No. 05-04) found that the Department does not currently have the authority to do background checks on information technology employees whose positions involve security and access to sensitive information. The Department should request the authority, either through statute or executive order, to conduct background checks and ensure background checks are conducted on individuals in these positions.

10. The extent to which the termination of the Department would significantly harm the public health, safety, or welfare.

Terminating the Department would harm the public health, safety, and welfare because it is the Department's responsibility to protect and provide critical assistance services to Arizona's most vulnerable children, adults, and families.

The Department combines a broad range of human services programs, many that are federally mandated, within a single agency.

The Department reports that every month, it provides services to more than 1 million Arizona children, adults, and families, including:

- The Department receives, screens, and investigates reports of alleged child and elder adult abuse and neglect. It also administers a variety of programs that serve victims of domestic violence, refugees, the homeless, and the hungry. The Department also provides temporary financial assistance in emergencies.
- The Department provides centralized administrative support services for adoption, licensing of group homes, and client-centered, consumer-directed home- and community-based services.
- The Department also provides employment, rehabilitation, and training services to assist persons in attaining economic self-sufficiency and administers the Unemployment Insurance program, which collects taxes from employers and provides benefits to eligible workers.
- The Department provides economic assistance services and supports, such as TANF, cash assistance, food stamps, medical care eligibility, disability services, and subsistence expenses.
- The Department enforces child support obligations and medical support through various administrative and judicial means, including locating absent parents and establishing paternity.
- Finally, the Department administers and manages the various programs, services, and supports to certain Arizonans diagnosed with autism, cerebral palsy, epilepsy, or mental retardation.

If the Department were terminated, other agencies would have to take over responsibility for several federally mandated programs such as TANF and unemployment insurance. In addition, other agencies would need to conduct other important duties, such as protecting children and vulnerable adults and providing services to individuals with developmental disabilities.

11. The extent to which the level of regulation exercised by the Department is appropriate and whether less or more stringent levels of regulation would be appropriate.

The Department's primary role is not to regulate, but to administer a broad range of human services programs that promote Arizonan's safety, well-being, and

self-sufficiency. However, statutes assign the Department regulatory authority in the licensing and registration of services that aid children, individuals with developmental disabilities, the blind, and the vision-impaired. These statutes allow the Department an appropriate amount of regulatory authority over family foster homes, child welfare agencies, child placement and adoption agencies, child and adult development homes, and business enterprises. In addition, statutes designate the Department to prescribe certification standards for home- and community-based service providers and family childcare homes.

Licensing these human services agencies and homes allows the Department to protect vulnerable individuals by helping to ensure service providers and their staff have appropriate qualifications and that the agencies continue to meet agency standards.

12. The extent to which the Department has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.

The Department reports that it has over 14,000 contracts or agreements with private contractors to provide services to its clients. Additionally, it uses private consultants to perform some administrative services. Based on information from recent audits, the Department needs to ensure that it is in compliance with statutory guidelines for services covered under contracts. Additionally, it needs to improve its monitoring and oversight of contractors in some areas.

DES contracts with numerous providers

DES' six program divisions contract with private providers for a variety of services to clients. For example:

- **The Division of Aging and Community Services (DACS)** contracts for services such as:
 - Shelter and supportive services for victims of domestic violence.
 - Shelter and assistance services for homeless individuals and families.
 - Social services for refugees.
 - Assistance with utility services for low-income households.
 - Food for needy individuals and families.

- Services for aging adults such as employment services programs, congregate and home-delivered meals, transportation, home repair, and adult day care.
- **The Division of Children, Youth and Families (DCYF)** programs include services such as these offered by private providers:
 - Crisis Shelter.
 - Childcare.
 - Child Foster Care.
 - Family Support and Preservation.
 - Psychological Services.
 - Counseling and Consultation.
- **The Division of Developmental Disabilities (DDD)** contracts with private contractors for services to developmentally disabled individuals and their families. As of May 31, 2005, approximately 24,700 people were receiving services such as:
 - Day treatment and training.
 - Habilitation services.
 - In-home family support.
 - Physical, speech, or occupational therapy.
 - Residential services.
 - Housekeeping, attendant care, and transportation.
- **The Division of Employment and Rehabilitation Services (DERS)** contracts for services related to its rehabilitation services and employment and training programs. For example, private providers offer:
 - Occupational and vocational education.
 - Job development and placement.
 - Supported employment.

- Job training.
- Transportation.
- Behavioral-health assessment.

The other two department program divisions, the Division of Child Support Enforcement (DCSE) and the Division of Benefits and Medical Eligibility (DBME), contract primarily for services related to child support payments and food stamps. For example, DCSE contracts out with a private provider to receive and post child support payments to recipient accounts. DBME, which administers the federal food stamp program in Arizona, is required by federal law to provide food stamps through an electronic benefits transfer (EBT) card. DBME contracts with a private company to administer the EBT program.

In addition to the contractors who provide direct services to clients, the Department uses administrative consultants such as information technology consultants and individuals providing staff training. The Department does not maintain information on its consultants centrally, but in December 2004, it compiled a list of consultants for the Governor's Efficiency Review team. According to the list, the Department projects it will have 42 consultant contracts with expenditures totaling approximately \$5.8 million in fiscal year 2005.

According to a department report that accompanied its list, the Department considers using FTEs as a first option in performing its work. The Department has developed decision criteria for consultants' contracts. The criteria consists of eight reasons a consultant contract may be appropriate, such as when a project is a short-term specialized service, or when legal or funding requirements mandate using a contractor. The Department requires its divisions and programs to use these criteria in making the decision whether to use its own staff or contractors, and its central Office of Procurement must sign the consultant contract.

Some procurement and contract management practices can be improved

Because the Department uses contractors to provide so many of its services, it is important that it comply with regulations for contracting as well as adequately oversee provider contracts and performance. However, auditors reviewing DERS programs found that staff need to improve monitoring and oversight of contracts in order to prepare for state-wide privatization of DERS' Jobs program.

- Auditors' review of the Department's welfare programs in April 2004 (Auditor General Report No. 04-02) determined that DERS needs to improve monitoring and oversight of its Jobs program contracts. Auditors' subsequent follow-up report in June 2005 found that DERS had begun to

address these issues. DERS currently administers the federal Jobs program. By statute (Laws 2004, Chapter 185), the Department must change case management and employment-related services of the state-wide Jobs program from a program staff function to a contractor-operated function by July 1, 2006. The Department's role will change from direct provision to oversight of these services, except in areas of the State where qualified contractors have not submitted bids for services.

The report identified some past and current issues regarding the Department's readiness for contract oversight of a state-wide privatized program. For example, the Arizona Works Pilot Program, limited to parts of the Phoenix area and Greenlee County, was established by the Arizona Legislature in 1999 in order to determine the feasibility of privatizing Arizona's administration of public assistance. However, department staff did sporadic monitoring only of the program contractor until 2003, although the Department's internal reviews in 2000 and 2001 found problems such as weaknesses in internal controls and lack of documentation.

Additionally, at the time of the April 2004 report's release and a follow-up review in January 2005, the Department had not yet developed a training program for staff that will have oversight of contracts for the state-wide privatized Jobs program. In addition, it had not established a training plan for contractors, although it will need to inform contractors of policies and procedures to prevent potential sanctions due to lack of compliance. Further, the Department needed to improve internal controls for Jobs program data.

In a June 2005 followup, auditors found that the Department had partially implemented a training program for staff and had developed a training program for contractors. However, it had still not taken steps to develop security controls for Jobs data, although these controls are necessary to prevent the possibility of security breaches from contractor staff.

Audit work did not identify other uses for private contractors by the Department.

AGENCY RESPONSE



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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Janet Napolitano
Governor

David A. Berns
Director

Ms. Debra K. Davenport, CPA
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Thank you for the opportunity to review and respond to the Sunset Factors Audit, prepared by your staff, of the Arizona Department of Economic Security (DES). The DES staff appreciates the cooperation and professionalism shown by your staff and value the recommendations made in the audits that formed the basis of this report.

This report is based, in part, on five audits (Service Integration Initiative, Welfare Programs, Information Security, Division of Employment and Rehabilitation Services, and Division of Developmental Disabilities) and two reports (the Division of Children, Youth and Families, Child Protective Services - Caseloads and Training - and - CHILDS Data Integrity Process). The Department accepts the recommendations in all of these audits and reports that form the basis of this report, except for one part of the CPS report (Auditor General Report No. 03-09) where the Department adopted a different methodology in response to the recommendations. Enclosed is an explanation of our methodology. When all of the recommendations are implemented, they will help improve the quality of the services we provide and the performance of our agency.

The DES staff appreciate the positive tone of the Sunset Factors Audit and are pleased with your recognition of our initial efforts of developing a new service delivery model to improve the outcomes of the families we serve. The Department believes that by integrating the services we provide, we will help strengthen Arizona's most vulnerable families. We will continue to seek ways to improve our delivery of services to the people of Arizona.

Sincerely,

David A. Berns

Enclosure

Arizona Department of Economic Security (DES)

Additional Information on Sunset Factor 2 (pages 9 and 10) Division of Children, Youth and Families -- Child Protective Services Caseloads and Training (Auditor General Report No. 03-09)

As part of the Caseloads and Training Audit (Auditor General Report No. 03-09), the Auditor General made three recommendations related to ensuring that the Department could accurately project its case management staffing needs.

The Division should take steps to ensure that it can accurately project its case manager staffing needs. The Division should ensure that:

- a. Cases can be classified on its computerized case management system according to standards;
- b. It includes only cases that are actively being worked; and
- c. It includes all positions that regularly manage cases in its count of authorized case management positions.

While the Department agrees that accurate and timely information is vital to accurately determine caseload staffing needs, the Department declined to adopt the Auditor's specific recommendations based on a difference in approach and methodology. Despite this disagreement, the Department has continued to work to ensure the accuracy of the information used as a basis for determining caseload staffing needs.

Specifically, the Department agrees that classification of a CPS case in the automated system is the preferred methodology in determining the type of case that the worker is handling (investigative, in-home or ongoing), particularly as the Department enhances its capacity for in-home cases. Additional resources are necessary to fully implement such an automated system. The Department has also taken steps to ensure that only cases that are open and actively worked are included in the case count. The Department is also working to ensure that all case carrying FTE positions are appropriately classified and included in the number of case carrying staff (there were a very small number of CPS Program Specialists and Human Service Specialists that were previously excluded from the total number of case-carrying staff, but who in fact were carrying cases; these positions are being reclassified as CPS Specialists).

Performance Audit Division reports issued within the last 24 months

03-08	Arizona Department of Commerce	04-10	Arizona Department of Transportation, Motor Vehicle Division—Information Security and E-government Services
03-09	Department of Economic Security—Division of Children, Youth and Families, Child Protective Services—Caseloads and Training	04-11	Arizona Department of Transportation, Motor Vehicle Division—Sunset Factors
04-L1	Letter Report—Arizona Medical Board	04-12	Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
04-L2	Letter Report—Gila County Transportation Excise Tax	05-L1	Letter Report—Department of Health Services—Ultrasound Reviews
04-L3	Letter Report—Department of Economic Security—Population Estimates	05-01	Department of Economic Security—Division of Employment and Rehabilitation Services—Unemployment Insurance Program
04-01	Arizona Tourism and Sports Authority	05-02	Department of Administration—Financial Services Division
04-02	Department of Economic Security—Welfare Programs	05-03	Government Information Technology Agency (GITA) & Information Technology Authorization Committee (ITAC)
04-03	Behavioral Health Services' HB2003 Funding for Adults with Serious Mental Illness	05-04	Department of Economic Security—Information Security
04-04	Department of Emergency and Military Affairs and State Emergency Council	05-05	Department of Economic Security—Service Integration Initiative
04-05	Department of Environmental Quality—Water Quality Division	05-06	Department of Revenue—Audit Division
04-06	Department of Environmental Quality—Waste Programs Division	05-07	Department of Economic Security—Division of Developmental Disabilities
04-07	Department of Environmental Quality—Air Quality Division		
04-08	Department of Environmental Quality—Sunset Factors		
04-09	Arizona Department of Transportation, Motor Vehicle Division— State Revenue Collection Functions		

Future Performance Audit Division reports

Arizona State Retirement System

Foster Care Review Board