

Speaker Hall

REPORT OF THE HOUSE STUDY COMMITTEE ON
DEPARTMENT OF ECONOMIC SECURITY REORGANIZATION

December 31, 1990

Members

Representative Leslie Johnson, Chairman
Representative Bev Hermon
Representative Lela Steffey
Representative Dave McCarroll
Representative Peter Goudinoff
Representative Sue Laybe

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DEPARTMENT OF ECONOMIC SECURITY REORGANIZATION

Background

The Legislative Study Committee on Department of Economic Security Reorganization was appointed by Speaker Jane Hull during the summer of 1990. The members appointed were Representative Johnson, Chairman, Representatives Hermon, Steffey, McCarroll, Goudinoff and Laybe.

The mandate of the Committee was to:

- review the effectiveness of the current structure of DES;
- consider alternatives to dividing DES into separate departments;
- make recommendations for the future structure of DES;
- submit a report of findings and recommendations to the Speaker by December 31, 1990.

The Committee held seven meetings from October through December, 1990, during which testimony was received from the following:

- Doug Norton, Auditor General
- Linda Moore-Cannon, Director, DES
- Lyn Rucker, Assistant Director, DES, Division of Developmental Disabilities
- Robert Harmon, Deputy Director DES
- Michael Slattery, Assistant Director, DES Division of Family Support
- Ray Weaver, Program Administrator, DES Child Support Enforcement Administration
- Joel Bankes, Assistant Deputy to Maricopa Clerk of the Superior Court
- Mark Steinberg, Executive Director, Interagency Coordinating Council for Infants and Toddlers
- Richard Stavneak, Analyst, Joint Legislative Budget Committee

- Dr. Leonard Kirschner, Director, AHCCCS
- Patricia Brown, Executive Director, Association for Retarded Citizens
- Rita Charron, Executive Director, Governor's Council on Developmental Disabilities
- Parents, foster parents and client advocates

The Department of Economic Security was created as an umbrella agency combining all the state social services in 1973, pursuant to Laws 1972, chapter 142. The law combined the agencies of the Employment Security Commission, Department of Public Welfare, Division of Vocational Rehabilitation, Veterans Service Commission, Office of Economic Opportunity, Apprenticeship Council and Office of Manpower Planning. Laws of 1973 added the Division of Mental Retardation. The legislative intent of this Act was as follows:

The purpose of this act is to provide an integration of direct services to the people of this state in a pattern that would reduce duplication of administrative efforts, services and expenditures. The department of economic security will provide the means by which people with multiple problems might find the solution to such problems in a single department's coordinated service. This act shall in no manner abridge the autonomy of the state, counties or municipalities in carrying out their authorized functions and responsibilities.

At that time, the reorganized DES budget for FY 1973-74 was \$46,329,900 state-only dollars and \$700,200 for the Division of Mental Retardation. The new Department employed 1914 people. However, the state had a much smaller population then with less demand for services.

Since then, the Department of Economic Security has become the largest of the state agencies in its number of personnel, employing 7992 people including 5132 federally/other funded FTEs. Its FY 1990-91 budget totals \$979,511,100, including \$349,566,400 appropriated dollars, \$356,178,300 federal dollars and \$273,766,400 in other funds from AHCCCS, U.I. benefits, grants, etc. A copy of the DES budget for FY 1990-91 follows in Appendix 2.

The Department has eight divisions, each of which is administered by an assistant director who reports to the director (see Appendix 1 for organizational chart). Of these eight divisions, there are four program and four support divisions which interact on many issues related to accountability, planning and client services.

The state is divided into six DES districts, with each having a program manager who coordinates services within the district and supervises local offices and programs. There are various levels of middle-management personnel at both the state and district offices.

The local program offices are single- or multi-purpose offices combining similar services as appropriate and as space allows. For example, Job Services and Unemployment Insurance are housed together, Family Assistance, DDD and Children, Youth and Families are often in the same building. There are more multi-purpose centers in the rural areas offering the range of DES services.

ISSUES CONSIDERED

DES Audits

Doug Norton, Auditor General, gave a preliminary report on the DES audits currently underway. These include a management study, long term care system audit, Handicapped Infants and Toddlers Program audit and a single audit of the entire Department.

The status of these audits is as follows:

- The second area of the management study on cost allocation is due about February, 1991. The first phase was the Study and Evaluation of Accumulator Fund Internal Controls released in October, 1990.
- The DD/Arizona Long Term Care System audit of the contract between DES and AHCCCS is due about the end of January, 1991.
- The audit of the Coordinating Council for Handicapped Infants and Toddlers is due about early February.
- The 1989 audit of the entire Department is due about March, 1991.

Overview of DES

The Committee received a thorough overview of the Department, including its organizational structure, programs, personnel profile, budget, federal connections and populations served.

Division of Developmental Disabilities

The Committee spent considerable time reviewing the DD programs, and receiving testimony from concerned parents, foster parents and client advocates. The Governor's Council on Developmental Disabilities was included in this review. Even though this Council is separate from DES, it is a key component of the state DD network. The Committee also heard testimony concerning AHCCCS becoming the medical acute care provider for all eligible DD clients.

Interagency Coordinating Council for Infants and Toddlers

This Council serves in an advisory capacity to the Governor and DES and has the goal of assisting in implementing a statewide

program for at-risk children, ages 0-36 months. It is federally funded and in its third year of operation.

Child Support Enforcement Administration

This section under the DES Division of Family Support provides intake, locates absent parents, collects, enforces and investigates child support orders. The CSEA also, in conjunction with the courts, establishes the legal obligation, the amount of child support, evaluates the absent parent's ability to pay, and modifies child support orders. Child support services are provided to people who receive Aid to Families with Dependant Children (AFDC) grants, as well as any other applicant for IV-D services.

The Committee received an update on the activities and collections of the program as well as projected growth and needs.

Of special interest to the committee were the parent locator program and paternity establishment. From January through September, 1990, the CSEA has located 34,632 absent parents compared to this period for 1989 which totaled 22,248. The number of paternities established from January through September, 1990 was 1041 compared to this period for 1989 which totaled 1047. A considerable amount of staff time is spent on these two programs which have been key factors in enhancing the Bureau's ability to increase collections to an average of approximately \$10 million per quarter, a 19.6% increase in the last two years.

Committee Findings and Concerns

From the testimony and much documentation submitted to the Committee, it was concluded that DES is a very complex agency with multi-layers of management and questionable accountability from one layer to another, and from the Department to the Executive and Legislative branches.

The following lists the key findings and concerns of the Committee:

1. The degree of accountability within the Department and between the Department and the Executive and Legislative branches could be improved.
2. The co-mingling of funds and lack of ability to track dollars in the Accumulator Fund is a problem addressed in the Auditor General's Report on Evaluation of Accumulator Fund Internal Controls, October, 1990.

However, in the response from Linda Moore-Cannon, DES Director, in the same report, she concurs that the Accumulator Fund should be eliminated and other corrective measures taken into account for federal, state and other funds (see Appendix 3 for copy of letter).

3. The number of exempt positions and reasons for creating them at higher grade levels raised some questions about the need and appropriateness of this practice. There are currently 90 exempt FTEs within the Department.
4. The number of contracted professional consultants to perform various studies and establish programs also raised some questions. These contracts are often renewable at greatly increased fees. The competitive bidding process was also questioned. In addition, this concern applies to contracts awarded by the Governor's

Council on Developmental Disabilities and the Interagency Coordinating Council for Infants and Toddlers.

5. The key concerns regarding the Division of Developmental Disabilities and the DD population included:
 - a. As more state dollars are needed to match Title 19 dollars for long term care eligible clients, this will create a shortfall of money for services for state-funded-only clients.
 - b. The fact that there is only one contracted acute care provider for DD/Title 19 clients in Maricopa County presents a problem for many parents. Except for foster care clients, the Arizona Physicians Independent Practitioners Association (APIPA) is the sole provider for acute care. Most of the parent testimony centered on difficulties in receiving services and a lack of response from both local and state personnel in resolving their problems. Such issues as lack of medical expertise on the part of caseworkers, difficulty in acquiring therapy in a timely manner and associated medical equipment, and lack of dental care were pointed out.
 - c. Parents also testified regarding their frustration with the grievance procedures that seem to be protracted or dead-ended with few or no results.
 - d. The number of private consultants contracted by DDD (five currently) seemed to be high in the opinion of the Committee.
 - e. Regarding the Governor's Council on Developmental Disabilities, parents were frequently unaware of their activities or advocacy role.

6. Concerning the Child Support Enforcement Administration (CSEA), the Committee found that as the CSEA program receives federal matching funds, federal incentives and a share of collections, it is a much larger program than the general fund contribution would indicate. In FY 1990, CSEA's total budget from all fund sources was estimated to be \$11,890,100, with only \$1,520,300 coming from the state general fund. Actual collections for FY 1990 were \$32,725,052, with projections of over \$100,000,000 by FY 1993 if a five-year restructuring plan was implemented.

Laws 1989, Chapter 295, appropriated \$1,200,000 in state general funds as part of a multi-year restructuring plan to increase child support collections by reducing collector caseloads from 5,600:1 to 1,500:1. The appropriation funded 113 new staff. In addition, \$299,800 was appropriated for the first year of a five-year lease purchase of both a central processing unit upgrade and individual hardware. Several studies have singled out the Department's lack of automation as the biggest obstacle to improving the program's collection rate.

Under the restructuring plan originally promoted by DES, the CSEA would eventually become self-sufficient through the use of retained AFDC child support collections. For example, the original DES plan would have reduced the state general fund contribution to \$600,000 in FY 1991. DES, however, had difficulty in filling its new positions, which caused the increase in collections to be less than expected. As a result, the general fund contribution and the FY 1991 appropriation remained at \$1,200,000.

This amount, however, has apparently proven insufficient as the November 24, 1990 DES report on expenditures is showing the need for \$2,200,000 in general funds in FY 1991. The report cites three factors as causing the shortfall:

1. The withdrawal of several contracting county attorneys over the past several years.
2. Unforeseen increases in the cost of the Arizona Tracking and Locating Automated System (ATLAS).
3. Federal audits and the efforts to comply with subsequent corrective action plans.

The CSEA has requested a general fund subsidy for FY 1992 in the amount of \$6,029,200. As the restructuring is supposed to be complete by June 30, 1992, and the program self-sufficient after FY 1994, it might be time to re-evaluate the program.

Due to problems associated with the conversion of existing case files to the Arizona Tracking and Location Automation System (ATLAS), a portion of restructuring funds will be spent on an outside contract to financially reconcile cases and prepare for conversion. Therefore, funds are not available to hire the planned staff and remain on the three-year restructuring schedule.

JLBC staff was requested to obtain and analyze a copy of this contract between CSEA and the consultant.

The restructuring plan called for 445 FTEs at the beginning and 648 FTEs at the end of FY 1991. An additional 135 FTEs was the target goal for a full staffing level of 783 FTEs by the end of FY 1992.

However, due to difficulties in hiring and funds going toward an outside contract, the full staffing level will probably not be achieved.

Recommendations

The Committee recommends the following:

1. Further study to create a separate Department of Human Services and leave the Department of Economic Security to manage Employment and Rehabilitation Services including Unemployment Insurance. A phase-in plan of up to five years shall be developed to restructure the Department.
2. Further study on whether to make the Developmental Disabilities Division a separate department.
3. Further study on the issue of AHCCCS becoming the acute care provider for the eligible DD population.
4. DES develop and refine procedures for greater accountability to the Executive and Legislative branches.
5. DES make better use of their own personnel to prevent hiring so many outside consultants.
6. DES streamline its administrative structure to minimize the layers of administration and maximize direct services to clients.
7. DES evaluate and simplify the grievance procedures for the DD-Arizona Long Term Care System. A revised expedited grievance procedure should be communicated to the Speaker and Chairman of House Human Resources and Aging Committee.

8. Auditor General perform an in-depth study of the nature and number of private consultant contracts, the procedures for competitive bidding and awarding contracts, including renewable contracts.
9. Further study on the issue of restructuring an appropriately funded Child Support Enforcement Administration which is state administered and county operated. The study should include the removal of CSEA from DES as now structured.
10. Further study on the feasibility and applicability of the counties delivering certain services now offered by DES.
11. A bill be drafted to require legislative oversight of federal funds which impact the state budget process.
12. The Governor's Council on Developmental Disabilities continue to sponsor public awareness programs to inform the public of their activities, advocacy services and contacts for assistance. The programs should be coordinated with those of the DD Division and other entities.
13. Before any reorganization of DES is planned, a fiscal study be done by the Legislature.
14. The Speaker appoint a study/oversight committee to continue the work started by the Committee and to follow up on recommendations, especially those relating to AHCCCS and DDD.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

GOVERNOR

GOVERNOR'S ADVISORY COUNCILS

GOV. ADVISORY COUNCIL ON AGING
 GOV. COUNCIL ON DEVELOP. DISABILITIES
 AZ EMPLOYMENT & TRAINING COUNCIL
 INTERAGENCY COORDINATING COUNCIL
 FOR INFANTS & TODDLERS

ECONOMIC SECURITY ADVISORY COUNCIL

VENTURE TEAM BOARD

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 Linda Moore-Cannon

PUBLIC INFORMATION OFFICE

Fernando Vender

Robert W. Harmon

Deputy Director

OFFICE OF INTERGOVERNMENTAL
 OPERATIONS

Georgia Alvarez
 Elouise Chicharelo

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 FAMILY & ADULT
 SERVICES
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 SERVICES
 HOME & COMMUNITY
 BASED SERVICES
 CASE MANAGEMENT
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 SERVICES
 ACUTE CARE
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Manuel Meila
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 SVCS. ADMIN.
 DISABILITY
 DETERMINATION
 SVCS. ADMIN.
 UNEMPLOYMENT
 INS. ADMIN.
 RESEARCH
 ADMINISTRATION
 JOB TRAINING
 PARTNERSHIP ACT
 ADMINISTRATION

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 & FAMILIES
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 DEVELOP. & SUPPORT
 EDP SYSTEMS
 QUALITY ASSURANCE

OFFICE OF
 BUDGET, POLICY
 PLANNING &
 PROJECT CONTROL
Mary Gill
 POLICY, PLANNING &
 PROJECT CONTROL
 BUDGET
 LEGISLATIVE SVCS/
 CLIENT ADVOCACY
 EVALUATION
 HUMAN RESOURCES
 VENTURE TEAM

Appendix 1

1 Sec. 24. COUNCIL FOR THE HEARING IMPAIRED

2 Lump sum appropriation \$ 198,500

3 Sec. 25. DEPARTMENT OF ECONOMIC SECURITY

4 Administration

5 Personal services \$ 9,292,900

6 Employee related expenditures 2,083,300

7 All other operating expenditures 11,604,600

8 AZTECS modification 669,300

9 FMCS modification 131,300

10 ACYF ASSISTS 972,500

11 Aging and adult ASSISTS 176,600

12 DD ASSISTS 203,600

13 DES west opening 298,000

14 LAN lease purchase 15,500

15 Mainframe lease purchase 237,300

16 From the public assistance collections fund, the following
17 is appropriated:18 Public assistance collection 190,700

19 Total - administration \$ 25,875,600

20 As authorized by Laws 1987, chapter 55, the \$190,700 appropriated
21 for public assistance collection is available for deposit into the public
22 assistance collections fund (personal services, \$121,300; employee related
23 expenditures, \$27,200; and all other operating, \$42,200).

1 The \$298,000 appropriated for DES west opening shall revert to state
 2 general fund if the building does not open by June 30, 1991.

3 Developmental disabilities

4	Personal services	\$ 14,442,800
5	Employee related expenditures	3,852,000
6	All other operating expenditures	3,429,700
7	Purchase of care	26,633,800**
8	Foster care	2,261,700**
9	Vocational rehabilitation contracts	119,200**
10	Stipends and allowances	10,400**
11	Out of district placement	807,700**
12	Housekeeping payments	336,000**
13	Assistance to families	463,200**
14	ASH community placement	<u>152,300**</u>
15	Total - developmental disabilities	\$ 52,508,800

16 The \$3,429,700 appropriated for all other operating expenses
 17 includes \$30,000 for contracted staff support for human rights committees.

18 The \$26,633,800 appropriated for purchase of care includes \$247,700
 19 to increase the salaries of direct care staff in vendor-operated
 20 facilities.

21 Long-term care system fund

22	Personal services	\$ 15,502,900
23	Employee related expenditures	4,134,600
24	All other operating expenditures	4,700,300

1	Purchase of care	49,265,100**
2	Foster care	6,728,500**
3	Stipends and allowances	205,400**
4	Fee for service	5,714,400**
5	Acute care	13,801,100**
6	Less title XIX and other funds	<u>(58,757,000)</u>
7	Total - long-term care system fund	\$ 41,295,300
8	The \$49,265,100 appropriated for purchase of care includes \$202,300	
9	in state general funds and \$527,000 in total expenditure authority to	
10	increase the salaries of direct care staff in vendor-operated facilities.	
11	<u>Family support</u>	
12	Personal services	\$ 15,714,100
13	Employee related expenditures	3,955,100
14	All other operating expenditures	3,793,100
15	Aid to families with dependent children	55,147,500**
16	General assistance	14,348,700**
17	Emergency relief	820,000**
18	Tuberculosis control	29,400**
19	Information and referral services	107,800**
20	Rural food bank	62,600**
21	Homeless shelter	309,400**
22	Food distribution information	23,200**
23	Child support restructuring	1,200,000**
24	Child support automation	<u>291,100</u>

1 Total - family support \$ 95,802,000

2 Except as otherwise provided by law, the \$55,147,500 appropriated
3 for aid to families with dependent children is based on 47.2 per cent of
4 need as defined by the 1983 uniform assistance payments standard. This
5 appropriation shall be exempt from the transfer of funds provisions of
6 section 35-173, subsection C, Arizona Revised Statutes, and a transfer of
7 funds to or from this account shall require approval of the joint
8 legislative budget committee.

9 It is the intent of the legislature that the \$107,800 appropriated
10 for information and referral services shall be used to fund such services
11 in each city of the state with a population of more than 250,000 persons
12 and that no contract shall be for less than \$20,000.

13 Social services

14	Personal services	\$ 14,529,800
15	Employee related expenditures	3,382,600
16	All other operating expenditures	2,711,600
17	Comprehensive medical and dental	11,210,800**
18	Children services	37,277,200**
19	Intensive family services	489,700**
20	High risk infant services	475,000**
21	Adult services	7,289,900**
22	Day care	18,810,400**
23	LTC ombudsman	116,000
24	Adoption services	14,639,800**

1	Child severance project	182,600**
2	Institutional support payments	490,800**
3	Transitional child care	948,600**
4	JOBS child care	<u>856,100**</u>
5	Total - social services	\$113,410,900

6 The \$18,810,400 appropriated for day care represents a day care
 7 subsidy for children of families whose income does not exceed a maximum of
 8 65 per cent of the state median income as determined by the department of
 9 economic security.

10 Employment and rehabilitative services

11	Personal services	\$ 2,161,100
12	Employee related expenditures	510,300
13	All other operating expenditures	532,500
14	Navajo employment services	257,000
15	Job search stipends	139,100**
16	Vocational rehabilitation services	1,702,000**
17	Comprehensive services for independent living	533,500**
18	JOBS	3,838,500**
19	Other receipts	<u>(1,000,000)</u>
20	Total - employment and rehabilitative services	\$ 8,674,000

21 It is the intent of the legislature that the special administration
 22 fund serve as the source of other receipts.

1 Child protective services training program

2 From the children and family services training program fund, the
3 following is appropriated:

4 Lump sum appropriation	\$ 440,600
5 Total appropriation - department of economic security	<u>\$338,007,200</u>

6 The above appropriation is in addition to funds granted to the state
7 by the federal government for the same purposes, but shall be deemed to
8 include the sums deposited in the state treasury to the credit of the
9 department of economic security, pursuant to the provisions of section
10 42-1341, Arizona Revised Statutes.

11 A monthly report comparing total expenditures for the month and
12 year-to-date shall be forwarded to the president of the senate, the
13 speaker of the house of representatives and the staff director of the
14 joint legislative budget committee by the twenty-fifth of the following
15 month. The report shall include an estimate of (a) potential shortfalls
16 in entitlement programs and (b) potential federal and other funds, such as
17 the statewide assessment for indirect costs, that may be available to
18 offset these shortfalls.

19 Sec. 26. DEPARTMENT OF HEALTH SERVICES

20 Office of the director

21 Personal services	\$ 4,383,600
22 Employee related expenditures	1,027,100
23 All other operating expenditures	3,434,100



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Rose Mofford
Governor

Linda Moore-Cannon
Director

OCT 23 1990

Douglas R. Norton, C.P.A.
Auditor General
State of Arizona
Office of Auditor General
2700 North Central Avenue, Suite 700
Phoenix, Arizona 85004

Dear Mr. Norton:

The department has reviewed the Summary Report on a Study and Evaluation of Accumulator Fund Internal Controls. The report is a reasonable evaluation of the problems facing the department in addressing the deficiencies of the past in its cash management practices and its present accounting system, the Financial Management and Control System (FMCS).

The Accumulator Fund has its basis in the July 1, 1982 implementation of AFIS. This fund was established due to a weakness in AFIS of not permitting payments of multi-funded claims to cross funds. Hence, the fund was established to pay these claims with a single warrant.

The department concurs with the recommendation of eliminating the concept of the Accumulator Fund from its accounting system. Furthermore, the department also concurs with the recommendation of establishing separate federal funds for each of the federal agencies participating in its programs. Each grant award will be an account within the appropriate federal fund.

The department has developed corrective action measures in its cash management practices, beginning with a complete reconciliation of all open prior years' funds and controls. To date over 500 of these accounts are in the process of being reconciled, cleared, closed and proper cash balances rolled forward or reverted to the General Fund.

The department, since March 1989, has been developing and will continue to develop the necessary internal controls, account code structure, system edits and management financial reports. All of these activities do incorporate the auditors' recommendations. Progress in these areas has been made.

During the conversion of the U.S. Department of Labor (DOL) financial requirements from the State Employment Security Agency's Cost Accounting System into FMCS, the revision of the account code structure was an integral part of the conversion efforts.

Douglas R. Norton, C.P.A.

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This conversion also addressed system generated DOL quarterly federal financial reports beginning with the quarter ended September 30, 1990 reporting cycle.

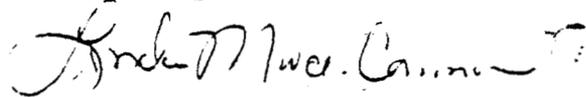
Furthermore, the department is presently testing system generated U.S. Department of Agriculture quarterly federal financial reports. The project is targeted to be complete by January, 1991 for the quarter ending December 31, 1990 reporting cycle. Thereafter, the U.S. Department of Health and Human Services reports will be addressed, starting with the AFDC program.

Several of the system edits recommended by the auditors have already been developed and migrated into production during this month, October. Others are presently being addressed.

The department has incorporated all of the auditors' recommendations in its fiscal year 1990/91 work plan. These tasks are targeted to be completed by July 1, 1991. However, this would be wholly dependent upon resources available to the department.

Please express the department's gratitude to your staff members for the numerous suggestions and professional courtesies extended to its personnel during the course of the study.

Sincerely,



Linda Moore Cannon

LMC:WMM:da