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Sunset Review of the Arizona Department of Economic Security



# Report November 2017

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### **Background**

Pursuant to <u>A.R.S. § 41-2953</u>, the Joint Legislative Audit Committee assigned the sunset review of the Arizona Department of Economic Security (Department) to the Senate Health and Human Services and House Health Committee of Reference (COR).

The Department was established by Laws 1972, Chapter 142. The Department is administered by a Director who is appointed by the Governor and approved by the Senate (A.R.S. § 41-1952). The Department is separated into seven divisions: the Division of Aging and Adult Services, the Division of Benefits and Medical Eligibility, the Division of Child Support Services, the Division of Developmental Disabilities, the Division of Employment and Rehabilitation Services, the Arizona Early Intervention Program, and the Division of Community Outreach. The Department is responsible for administrating employment services, individual and family services, income maintenance services, rehabilitation services, administrative services, manpower planning, economic opportunity services, intellectual disability and other developmental disability programs, and nonmedical home and community based services. (A.R.S. § 41-1954). The Department is required to prepare an annual comprehensive plan for the state guiding the development, funding and implementation of programs and develop longrange objectives for programs run by the Department (A.R.S. § 41-1956). The Director of the Department must also make an annual report of the state's economic security needs, resources and recommendations for the next fiscal year. The annual report is then transmitted to the Governor and legislature by the end of the calendar year (A.R.S. § 41-1960).

### **Committee of Reference Sunset Review Procedures**

The COR held one public meeting on Monday, November 27, 2017, to review and consider the Arizona Department of Economic Security's responses to the sunset factors (See *Appendix A*) and to receive public testimony (See *Appendix C*).

A video recording of the committee can be found at: <a href="http://azleg.granicus.com/MediaPlayer.php?clip\_id=19960">http://azleg.granicus.com/MediaPlayer.php?clip\_id=19960</a>

### **Committee Recommendations**

The Committee of Reference recommended that the Legislature continue the Arizona Department of Economic Security for eight years.

# **Arizona Department of Economic Security Sunset Factors**



**Debra K. Davenport** Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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DEBRA K. DAVENPORT, CPA AUDITOR GENERAL

# STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

MELANIE M. CHESNEY DEPUTY AUDITOR GENERAL

September 19, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Michael Trailor, Director Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, *A Sunset Review of the Arizona Department of Economic Security*. This report is in response to an October 22, 2014, 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.

As outlined in its response, the Arizona Department of Economic Security plans to implement all of the recommendations.

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

Sincerely,

Debbie Davenport Auditor General

Attachment



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# INTRODUCTION

# Scope and objectives

The Office of the Auditor General has conducted a sunset review of the Arizona Department of Economic Security (Department) using the criteria in Arizona's sunset law. This sunset review was conducted pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee and prepared as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This report includes responses to the statutory sunset factors specified in A.R.S. §41-2954 and is the final in a series of five reports on the Department. The first report addressed the Department's processes for managing its Vocational Rehabilitation Services Program's rehabilitation service costs and clients' progress, while the second report examined the Department's child care provider monitoring and complaint-handling processes. The third report focused on the effectiveness of department processes for safeguarding its information technology systems and the data contained in them. The fourth report addressed qualification requirements for the contracted agencies the Department uses to train and monitor developmental home licensees who provide a residential setting for individuals with developmental disabilities, and the Department's oversight of these contracted agencies.

# Mission and purpose

The Department's mission is to make Arizona stronger by helping Arizonans reach their potential through temporary assistance for those in need, and care for the vulnerable. The 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, into a single state agency. The State Department of Mental Retardation was also eliminated and transferred to the Department in 1974. The intent of these legislative actions was to provide an integrated approach to human services by reducing duplication of efforts and creating a single department that would provide coordinated services to the public. In 2014, the Legislature created the new Arizona Department of Child Safety, which assumed the Department's child welfare and child protective services functions.

# Services, organization, and staffing

The Department provides a variety of human services through more than 40 different programs, such as vocational rehabilitation and adult protective services, and has grouped these services under five client service divisions. As of July 2017, the Department reported serving approximately 3 million Arizonans. Additionally, the Department had 7,529.5 filled full-time equivalent (FTE) positions as of May 2017. The responsibilities and staffing of the Department's five client service divisions are as follows:

Division of Aging and Adult Services (DAAS)—221 filled FTE—DAAS serves at-risk and older adults
with an emphasis on delivering assistive services to those with the greatest social and economic needs.
For example, DAAS coordinates or contracts for services for this population that include emergency and
energy-related assistance, food distribution information for the hungry, and home- and community-based

<sup>&</sup>lt;sup>1</sup> A.R.S. §§41-1952(A) and 41-1953(E)(F).

<sup>&</sup>lt;sup>2</sup> A.R.S. §41-1953(E)(F).

<sup>&</sup>lt;sup>3</sup> A.R.S. §8-451.

services such as home-delivered meals, transportation, and adult day healthcare. It also administers the State Health Insurance Assistance Program that assists Arizona's Medicare beneficiaries in understanding and accessing the healthcare benefits to which they are entitled. Additionally, DAAS provides services to qualifying refugees; adults and their children experiencing domestic violence; and people who are, or are in danger of becoming, homeless. DAAS also operates the State's Adult Protective Services (APS) program. The APS receives, evaluates, and investigates allegations of abuse, neglect, or exploitation of vulnerable or incapacitated adults, including persons living in nursing homes or other care facilities. See Table 1, page 4, for additional information on DAAS clients and services for fiscal year 2016 and July through December 2016.

- Division of Benefits and Medical Eligibility (DBME)—2,681.5 filled FTE—DBME assists low-income families with temporary cash and/or nutrition assistance and determines eligibility to receive medical benefits from the Arizona Health Care Cost Containment System (AHCCCS). 4 Through the Temporary Assistance for Needy Families (TANF) cash assistance program, DBME provides temporary cash benefits and support services to low-income families while the recipients seek employment. Eligible adults may receive TANF cash benefits for up to a maximum of 24 months as long as they continue to meet eligibility requirements, including participating in the Jobs Program and ensuring their children maintain an attendance level at school of at least 90 percent, unless excused pursuant to statute (see the Division of Employment and Rehabilitation Services bullet on page 3 for additional information about the Jobs Program). DBME also administers the Supplemental Nutrition Assistance Program (SNAP), which provides low-income households with increased food-purchasing power. SNAP benefits are accessed through the electronic benefit transfer process and can be used like cash at retail grocery outlets and farmers' markets. Eligibility for SNAP benefits is based on income and other requirements such as state residency. DBME also determines eligibility to receive medical benefits from AHCCCS and for disability payments under the federal Social Security Disability Insurance and Supplemental Security Income programs. See Table 1 for additional information on DBME clients and services for fiscal year 2016 and July through December 2016.
- **Division of Child Support Services (DCSS)—524 filled FTE**—The DCSS assists custodial parents with identifying and obtaining financial resources from noncustodial parents to provide for their children's care. The DCSS' services include locating absent parents, establishing legal paternity for children born to single mothers, and establishing legal obligations to pay child support. Any person who needs assistance in establishing paternity or establishing, modifying, or enforcing a child support or medical support order is eligible for services. The DCSS enforces and collects child support through a variety of administrative and judicial remedies, such as an income withholding order, which requires the noncustodial parent's employer to withhold the monthly amount of current support. It is also responsible for the State Disbursement Unit, a centralized unit which receives, processes, and disburses child support payments for all child support cases state-wide, unless the court orders that support be paid directly to the party entitled to receive it. See Table 1 for additional information on DCSS services for fiscal year 2016 and July through December 2016.
- **Division of Developmental Disabilities (DDD)—2,042 filled FTE—**The DDD provides supportive services to individuals with developmental disabilities and their families. Services may include assistance with daily life activities, employment services, behavioral health, transportation, speech and other therapies, and home modifications. Most services are delivered by certified providers in the family's or person's own home, as well as their community, and are provided throughout the lifespan of an eligible member. Arizona residents diagnosed with autism, cerebral palsy, epilepsy, or an intellectual/cognitive disability that was manifested before the age of 18 and is likely to continue indefinitely may be eligible. However, the individual must have

<sup>4</sup> AHCCCS is the State's Medicaid program, which is a federal healthcare program for individuals and families that is jointly funded by the federal and state governments. The Department determines Medicaid eligibility for adults and children with limited income, and uninsured children under the age of 19 who have income higher than the Medicaid limit.

Arizona's SNAP program also allows certain participants to use their SNAP benefits to purchase prepared meals at participating restaurants. Participation in this specific SNAP benefit requires that every member of the household meets one or more of the following criteria: is disabled, elderly, or homeless.

Any person receiving TANF cash assistance, Medicaid, or federally assisted foster care is automatically referred to the DCSS for services. All other individuals must apply for DCSS services.

substantial functional limitations in three or more of seven life areas, such as self-care, learning, mobility, or economic self-sufficiency, that are directly attributable to the disability. Children under the age of 6 years may be eligible for services if there is a strongly demonstrated potential that the child has or will have a developmental disability. The DDD also administers the Arizona Early Intervention Program (AzEIP). AzEIP supports families of children with developmental disabilities or special developmental needs between birth and 36 months of age to enhance and promote their child's growth, development, and learning. Various contracted services are available to AzEIP families, including speech-language pathologists, physical therapists, occupational therapists, and others to work as a team in supporting the families, along with nutrition and assistive technology. See Auditor General Report 17-109 for information about the qualification requirements for the contracted agencies the Department uses to train and monitor developmental home licensees who provide a residential setting for individuals with developmental disabilities, and the Department's oversight of these contracted agencies. See Table 1, page 4, for additional information on DDD clients for fiscal year 2016 and July through December 2016.

Division of Employment and Rehabilitation Services (DERS)—1,368.25 filled FTE—DERS provides a range of employment and job training services and supports to assist individuals in varying situations, including the unemployed and individuals with disabilities, to achieve long-term and gainful employment. For example, DERS provides unemployment insurance benefits to eligible individuals based on their earnings for up to a maximum of 26 weeks. Eligibility generally requires that the individual must have earned sufficient wages in insured employment during a base period; become unemployed through no fault of his/her own; be physically able to work and actively seeking work; and has not refused an offer of employment or a referral to suitable work. DERS also administers the Jobs Program, which provides eligible individuals a variety of supportive and specialized services to help remove barriers to employment, such as instruction in job readiness competencies and enrollment in education or training activities. Individuals receiving TANF cash assistance are required to participate in the Jobs Program, unless otherwise excused by statute. Additionally, DERS provides vocational rehabilitation services to help individuals with disabilities prepare for, enter into, or retain competitive integrated employment. To be eligible for these services, individuals must have a physical or mental impairment that substantially impedes their ability to obtain or retain employment and should be able to secure, retain, or regain employment after receiving vocational rehabilitation services. See Auditor General Report 17-101 for additional information on the vocational rehabilitation program.

Finally, DERS assists eligible families with child care costs, enabling parents to participate in employment and specific education and training activities related to employment, or in certain other circumstances when parents are unable to provide care, such as when a child is in foster care. Families may choose from a variety of child care providers including those regulated by the Department or by the Arizona Department of Health Services, and in some instances, noncertified relatives. See Auditor General Report 17-103 for additional information on the Department's child care services. See Table 1 for additional information on DERS clients and services for fiscal year 2016 and July through December 2016.

In addition to the five client service divisions, the Department's Office of the Director, in conjunction with other department offices and operational divisions, provides centralized administrative services to department staff. These administrative services include business and finance, technology, human resources, professional development, and continuous improvement. According to the Department, the Office of the Director and other department offices and operational divisions had 692.75 filled FTE positions as of May 2017.

The Department provides services through administrative and direct service offices across the State, with its central administrative office located in Phoenix. Additionally, clients may access department-provided services through interactive voice response telephone systems and the Internet. For example, the Department's child support payment gateway allows noncustodial parents to make child support payments electronically over the Internet, by phone, or in person using point-of-sale terminals located in direct service offices. Additionally, new and continuing unemployment insurance claims and cash, nutrition, and medical assistance applications may be filed electronically via the Internet. For example, during July through December 2016, 107,895 initial claims for unemployment insurance were filed online.

**Table 1**Selected metrics for client service divisions
Fiscal year 2016 and July through December 2016

	2016	July through December 2016
DAAS		
Clients served (adult services)	301,031	131,735
Clients receiving emergency shelter	10,845	4,819
Households provided home energy assistance	31,470	17,133
Adult abuse/neglect/exploitation reported cases	11,629	6,451
Adult abuse/neglect/exploitation closed cases	17,395	5,481
Average length of investigation (days)	296	199
DBME		
Average monthly number of clients provided TANF benefits	22,171	19,592
Maximum monthly TANF benefit payment for a family of three	\$278	\$278
Average monthly number of clients provided SNAP benefits	980,536	970,953
Average SNAP daily allotment per client	\$3.94	\$3.94
DCSS		
Paternities established	9,940	5,807
Support orders established	4,507	2,044
Support amount collected	\$703,664,819	\$337,066,869
Support amount disbursed	\$701,656,046	\$340,945,542
DDD		
Average end-of-month number of clients served <sup>1</sup>	37,076	38,188
Average end-of-month percent of clients living in their own home as opposed to an institution or other residential setting <sup>1</sup>	87.9%	88.2%
Average monthly number of clients provided AzEIP services	2,906	2,573
DERS		
Number of initial claims for unemployment insurance benefits	214,235	108,402
Maximum weekly unemployment insurance benefit	\$240	\$240
Clients provided services through Jobs Program	13,226	7,988
Average monthly number of clients provided employment-related vocational rehabilitation services	12,808	12,979
Average monthly number of families provided child care subsidy	16,314	15,542
Average monthly child care subsidy payment	\$359.00	\$364.45

This measure does not include clients served through the AzEIP program.
Source: Auditor General staff summary of department-compiled data for fiscal year 2016 and July through December 2016.

In addition to these offices and divisions, the Department supports 11 advisory councils, boards, and committees that are subject to the State's open meeting law requirements. These public bodies fulfill various duties and purposes (see textbox). Auditors evaluated these public bodies for compliance with the State's open meeting law as part of the sunset factor analysis (see Sunset Factor 5, pages 15 through 16).

# Duties of the department-supported public bodies subject to Arizona's open meeting law requirements

**Appeals Board**—An independent body consisting of three members selected by the Department Director, which determines whether an administrative law judge made the correct decision based upon the law and the evidence.

**Arizona Apprenticeship Advisory Committee**—Coordinates, advises, and recommends approval of procedures for registration of apprenticeship programs, such as automobile mechanics, carpenters, electricians, and plumbers, to the Department in accordance with federal law. This committee also promotes the development, expansion, and improvement of apprenticeship and training programs.

**Arizona Developmental Disabilities Advisory Council**—Reviews new policies and major policy changes before the DDD submits the policies or changes for public comment. This council also makes recommendations to the Department regarding coordination and integration of services provided by developmental disability programs.

**Arizona Interagency Coordinating Council for Infants and Toddlers**—Advises and assists the Department in developing and implementing a state-wide, comprehensive, interagency service delivery system for eligible infants and toddlers and their families.

**Arizona State Rehabilitation Advisory Council**—Works with and advises the Department's Rehabilitation Services Administration on matters relating to vocational rehabilitation eligibility, the effectiveness of services provided, and other responsibilities.

**Child Care Advisory Committee—**Works with the Department to review issues, options, impacts, and recommendations related to child care regulation.

**Governor's Advisory Council on Aging**—Advises policy makers and state agencies and works with local communities, private enterprises, and older adults across Arizona to accomplish its mission of enhancing the quality of life for older Arizonans.

**Governor's Council on Blindness and Visual Impairment**—Ensures that the specialized needs of blind and visually impaired Arizonans are addressed effectively.

**Governor's Council on Spinal and Head Injuries**—Reviews and makes recommendations, plans, and strategies for meeting the needs of persons with spinal or head injuries on a state-wide basis. The Council also develops plans for the expenditure of the Spinal and Head Injuries Trust Fund established in A.R.S §41-3203.

**Human Rights Committee for the Developmentally Disabled**—Groups of local citizens who provide independent oversight related to the rights of clients receiving services from the DDD.

**Hunger Advisory Council**—Provides a forum for the development and advocacy of strategies to end hunger, with particular attention on empowering the disenfranchised in order to attain food security for everyone.

Source: Auditor General staff summary of Arizona Revised Statutes, Executive Orders, information from the public bodies, and department information.

## Revenues and expenditures

The Department is funded by various revenue sources including state appropriations, federal grants and reimbursements, and employers' unemployment insurance contributions. As shown in Table 2 (see page 7), the Department's total estimated fiscal year 2017 revenues were approximately \$4.1 billion. Approximately \$3 billion of fiscal year 2017 total revenues is estimated to come from grants and reimbursements, including federal grants such as the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, Child Care and Development Block Grant, Rehabilitation Services—Vocational Rehabilitation Grants to States, and Child Support Enforcement, and contract payments from AHCCCS for individuals with developmental disabilities. The Department also estimates it will receive approximately \$530.1 million in State General Fund appropriations during fiscal year 2017, with the majority of these monies paying for services for individuals with developmental disabilities. In addition, approximately \$473.8 million of fiscal year 2017 revenues is estimated to come from employers' unemployment insurance contributions. Most of the remaining fiscal year 2017 revenues come from the Arizona Industries for the Blind sales and other revenue, such as monies received from DDD members who are also enrolled in the Arizona Long Term Care System (ALTCS) for noncovered residential services.

As shown in Table 2, the Department's total estimated fiscal year 2017 expenditures were approximately \$4.3 billion. Of that total, approximately \$3.3 billion was used to provide aid or services to individuals or to organizations that provide services to participants in department programs. For example, the Department pays providers for services provided to individuals who are developmentally disabled and food assistance to help families in need. Most of the remaining expenditures were for payroll and related benefits, unemployment insurance benefit payments, professional and outside services, and other operating expenditures such as rent and utilities.

Arizona Industries for the Blind provides training and employment opportunities to blind and visually impaired individuals by providing goods and services to government and commercial customers. As indicated in Table 2, footnote 2 (see page 7), the Arizona Industries for the Blind became a 501(c)3 organization on July 1, 2017. After fiscal year 2017, it is no longer part of the Department.

ALTCS provides long-term care, behavioral health, and acute care services to eligible individuals with developmental disabilities who are at risk of institutionalization.

**Table 2**Schedule of revenues, expenditures, and changes in fund balance Fiscal years 2015 through 2017

(Unaudited)

	2015 (Actual)	2016 (Actual)	2017 (Estimate)
Revenues	(Autual)	(Aotaai)	(Estimate)
Grants and reimbursements <sup>1</sup>	\$2,959,753,512	\$2,900,927,011	\$3,045,973,362
State General Fund appropriations	482,587,200	523,934,200	530,124,400
Employer's unemployment insurance contributions	462,869,933	482,955,379	473,800,000
Arizona Industries for the Blind sales <sup>2</sup>	17,639,256	18,093,523	19,400,800
Fees	2,416,102	2,438,977	2,560,926
Fines, forfeits, and penalties	4,233,515	4,310,285	4,525,799
Interest <sup>3</sup>	1,420,790	4,721,193	4,957,253
Other⁴	69,344,173	65,400,705	68,670,740
Total revenues	4,000,264,481	4,002,781,273	4,150,013,280
Expenditures			
Payroll and related benefits	424,830,244	450,526,861	461,970,000
Professional and outside services	75,202,049	85,842,403	110,581,400
Travel and food	4,569,219	4,790,583	5,795,700
Aid to individuals and organizations <sup>1</sup>	2,828,772,311	2,892,864,601	3,273,242,900
Other operating	122,545,506	135,169,178	124,312,800
Capital outlay	6,015,452	7,056,769	224,500
Debt service principal and interest <sup>3</sup>	1,120,492	178,794	
Unemployment insurance benefit payments	319,359,176	291,295,534	309,656,600
Arizona Industries for the Blind operating expenditures <sup>2</sup>	18,278,218	18,683,160	19,400,800
Total expenditures	3,800,692,667	3,886,407,883	4,305,184,700
Reversions to the State General Fund <sup>5</sup>	73,087		
Total expenditures and reversions	3,800,765,754	3,886,407,883	4,305,184,700
Net change in fund balance	199,498,727	116,373,390	(155,171,420)
Fund balance, beginning of year	64,800,900	264,299,627	380,673,017
Fund balance, end of year	\$ 264,299,627	\$ 380,673,017	\$ 225,501,597

Grants and reimbursements include grants from the federal government, primarily from the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, Child Care and Development Block Grant, Rehabilitation Services—Vocational Rehabilitation Grants to States, and Child Support Enforcement. In addition, it includes capitation payments, or contract payments, from AHCCCS for individuals who are developmentally disabled. These revenues are primarily spent providing aid or services to individuals or aid to organizations that provide services to participants in department programs.

Source: Auditor General staff analysis of financial information provided by the Department as of June 19, 2017, for fiscal years 2015 through 2017.

<sup>&</sup>lt;sup>2</sup> The Arizona Industries for the Blind became a 501(c)3 organization on July 1, 2017. After fiscal year 2017 it became a stand-alone, nongovernmental entity that is no longer under the direction of the Department.

<sup>&</sup>lt;sup>3</sup> Debt service principal and interest expenditures decreased substantially in fiscal year 2016 because, according to the Department, it paid off a federal government loan during fiscal year 2015 that was needed to meet the State's unemployment insurance program payment obligations during the last recession. After the loan was paid off and the balance of the Unemployment Trust Fund grew, the Department reported it could invest these monies and earn interest: therefore, the interest revenue increased beginning in fiscal year 2016.

<sup>&</sup>lt;sup>4</sup> According to the Department, other revenues include various sources such as revenues from DDD clients who are also enrolled in ALTCS who paid the Department for the actual cost of residential services or up to 70 percent of their income for these noncovered services and revenues from third-party community rehabilitation provider contributions that help individuals with disabilities in preparing for and engaging in employment readiness activities.

<sup>&</sup>lt;sup>5</sup> Reversions to the State General Fund represent unspent State General Fund appropriations for fiscal year 2015. The Department did not know the fiscal year 2016 amount at the time of the audit.

# SUNSET FACTORS

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following factors in determining whether to continue or terminate the Arizona Department of Economic Security (Department).

Auditors' analysis of sunset factors found that the Department should make changes in the following two areas:

- Determine whether and when it can proceed with rulemaking to establish required rules (see Sunset Factor 4, pages 14 through 15); and
- Ensure that the councils, boards, and committees it staffs consistently comply with the State's open meeting law (see Sunset Factor 5, pages 15 through 16).

In addition to the recommendations in this report, the Department should address the recommendations directed to it in the other four audit reports issued as a part of this sunset review (see Auditor General Reports 17-101, 17-103, 17-104, and 17-109).

1. The objective and purpose in establishing the Department and the extent to which the objective and purpose are met by private enterprises in other states.

The Department was established by the Legislature in 1972 to integrate the delivery of human services and this purpose is not met by private enterprises in Arizona and other states. To help Arizonans reach their potential through temporary assistance for those in need and care for the vulnerable, the Department provides a broad range of human service programs and services, such as social service programs for children, adults, and families; income maintenance services, including child support collection services; unemployment compensation; rehabilitation services; work training; and services for individuals with developmental disabilities. The Department reported serving approximately 3 million Arizonans as of July 2017.

According to information compiled by the American Public Human Services Association, all 50 states have one or more state-level human services agencies. Auditors' review of the other state agencies' websites found that these agencies provide or coordinate similar types of human services for their citizens. Similar to other state human services agencies, the Department uses private contractors to conduct some of its activities (see Sunset Factor 12, pages 25 through 26, for more information on the extent to which the Department has used private contractors as compared to two other states).

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

The Department has generally met several of its statutory objectives and purposes but should improve in some areas. Some examples of where the Department has met its purpose and improved its efficiency include:

• Improving access for clients—In April 2017, the Division of Developmental Disabilities (DDD) consolidated 16 telephone numbers into one toll-free number that clients state-wide can use to access any resources within the DDD. The automated system is managed by representatives in the DDD's Customer Service Center, which receives 700 to 1,100 calls per month. Additionally, according to the Department, a 2016 legislative change allowed it to develop an online application for its child support

<sup>&</sup>lt;sup>9</sup> The American Public Human Services Association is a nonprofit membership organization representing state and local human service agencies' leadership.

program. Specifically, the change allows the Department to accept electronic, rather than physical, signatures on applications. As of May 2017, the Department was developing the online application and expected to start using it by the fall of 2017.

• Implementing the Arizona Management System (AMS)—The Department is implementing the AMS, which is an initiative from the Governor's Office that is based on the principles of continuous improvement. To monitor the overall progress and performance in the AMS, each agency has a scorecard with performance metrics. The Department's client service divisions are tracking two common areas: the number of days to contact a client and/or to determine client eligibility for a program. For example, the Department's Division of Benefits and Medical Eligibility (DBME) has a goal of determining eligibility for the Temporary Assistance for Needy Families (TANF) cash assistance program within 20 or fewer days. According to the Department's scorecard, DBME reduced the average number of days to determine eligibility for TANF from 22 days in September 2016 to 19 days in April 2017.

Additionally, the Department is completing breakthrough projects, which are major initiatives that focus on improving specific areas within a process. As of May 2017, the Department had three breakthrough projects underway within its Division of Employment and Rehabilitation Services (DERS), DBME, and the DDD.<sup>11</sup> For example, the DBME breakthrough project has a goal of reducing the Supplemental Nutrition Assistance Program (SNAP) payment error rate from 6.66 percent in federal fiscal year 2016 to 4.99 percent by June 30, 2018.<sup>12</sup> This would reduce the amount of misspent federal monies that result from SNAP payment processing errors by approximately \$19.7 million.

Reducing Adult Protective Services (APS) caseloads—In fiscal year 2015, the annual average caseloads for APS investigators reached a high of 139 cases per investigator, which prompted APS management to take several actions to reduce caseloads (see the Introduction, pages 1 through 2, for more information about the APS). Specifically, APS management reported that the program has focused on the safe reduction of APS caseloads through a multi-pronged approach, including increased staffing, comprehensive and targeted case management, and continuous quality improvement. For example, in fiscal year 2015, temporary staff were hired to help review and close outstanding cases using a client safety-focused assessment of the case. According to APS management, temporary staff closed over 4,000 cases in fiscal years 2015 and 2016. 13 The APS also acted to equalize its investigators' workloads when its staff identified disparities in the number of new cases assigned to units and investigators within the APS' geographical districts. Specifically, APS management stated it used a mapping analysis of its new reports by zip code to more equitably balance the reports assigned to units in its two largest districts-Maricopa and Pima Counties; make staffing decisions state-wide; and realign its service areas from six to five districts. Additionally, according to APS management, the APS continued to take actions to help reduce caseloads in fiscal year 2017, including implementing targeted case record reviews to understand why cases are open longer than 6 months; reviewing and consulting on cases opened for more than 1 year; and scheduling time for investigators and supervisors to complete case record activities and reviews. According to the Department, the APS has been able to reduce the monthly average caseloads from 149 cases per investigator in July 2014 to 48 cases per investigator in February 2017.

<sup>&</sup>lt;sup>10</sup> The TANF cash assistance program provides temporary cash benefits and support services to low-income families while the recipients seek employment (see the Introduction, page 2, for more information about this program).

<sup>&</sup>lt;sup>11</sup> The Department's Office of Procurement began a breakthrough project in August 2017.

<sup>&</sup>lt;sup>12</sup> SNAP provides low-income households with increased food purchasing power (see the Introduction, page 2, for more information about this program).

<sup>&</sup>lt;sup>13</sup> According to APS management, cases were reassessed by either a permanent or temporary APS worker and complex cases were assigned to permanent APS workers. Additionally, temporary APS workers were supervised by APS supervisors to complete investigations and close cases, according to APS management.

In addition to the Department's efforts to become more efficient, the performance audits completed as part of the Department's sunset review also identified areas for improvement. Specifically:

- Managing rehabilitation service costs and clients' progress—The Office of the Auditor General's January 2017 performance audit found that the Department should enhance its Vocational Rehabilitation Services Program's (Program) processes for managing rehabilitation service costs and clients' progress (see Report 17-101). The Program is responsible for assisting clients with a significant physical or mental impairment to prepare for and find work on a full- or part-time basis. However, the Department had a higher average rehabilitation cost and a lower rehabilitation rate than comparable agencies in other states. This high cost limits the number of eligible clients that the Department can serve. In addition, because the Program's goal is to help eligible clients obtain or retain competitive employment, it is also important for the Department to work toward increasing its rehabilitation rate. Therefore, the Department should enhance its program oversight, staff guidance, and supervisory and staff training to effectively manage program costs and clients' progress.
- Improving child care monitoring and complaint-handling processes—The Office of the Auditor General's February 2017 performance audit found that the Department should improve its child care provider monitoring and complaint-handling processes and examine consolidating child care regulation under one agency (see Report 17-103). The Department is responsible for establishing and administering child care services, including providing a child care subsidy for eligible families, certifying and monitoring child care home providers who are not regulated by the Arizona Department of Health Services (DHS), and developing and implementing services to increase child care affordability, availability, and quality. Auditors found that the Department did not always conduct two required comprehensive on-site inspections annually of each child care home provider (provider) in calendar years 2012 through 2014. Department inspectors also did not consistently assess provider compliance with child care requirements during inspections. Additionally, auditors found that although the Department is required to investigate and resolve complaints and provide information on valid complaints to the public, it had not established procedures to effectively receive, investigate, and monitor complaints. Therefore, the Department should develop and implement a differential monitoring approach to more effectively and efficiently monitor its providers; ensure inspections are consistently performed; and develop and implement policies and procedures for complaint investigations, enforcement processes, and follow-up activities. Finally, the Department and the DHS share responsibility for child care regulation in Arizona, and the Department should work with the DHS and stakeholders to examine the costs and benefits of consolidating their child care regulatory functions.
- Improving security processes and controls for information technology systems and data—The Office of the Auditor General's April 2017 performance audit found that the Department should improve security processes and controls over its information technology (IT) systems and data, and establish an information security program (see Report 17-104). The Department has a significant responsibility to safeguard its IT systems and the data contained in them from misuse or attack because of the volume and nature of the sensitive data it maintains. Although the Department had established various IT security processes to help protect its IT systems and data, by performing common attack patterns, auditors identified weaknesses and were able to access these IT systems and sensitive data, including social security numbers and confidential health information. Additionally, the Department lacked an information security program as required by state policy. Establishing such a program would help ensure the Department sufficiently protects its IT systems and data. Finally, auditors' in-depth review of three key policy areas—data classification, incident response, and security awareness education and training—found that the Department had not developed or fully developed associated procedures and had not incorporated some best practices within its incident response policy. Therefore, the Department should further develop and implement information security policies and procedures for the areas of data classification, incident response, and information security awareness education and training.

Establishing minimum qualifications and oversight process for contracted agencies that monitor developmental homes—The Office of the Auditor General's September 2017 performance audit found that the Department should establish minimum qualifications for its contractors, called monitoring agencies, that train and monitor child and adult developmental home licensees and a process to oversee these monitoring agencies (see Report 17-109). As of May 2017, developmental home licensees provided a residential placement for over 1,400 individuals with developmental disabilities and are responsible for their care and safety. Although the Department uses monitoring agencies to train and monitor developmental home licensees, it has not established initial minimum education or experience requirements or subsequent annual training requirements for these monitoring agencies to ensure they are and remain qualified to fulfill their responsibilities. Therefore, the report recommended that the Department establish minimum qualifications and annual training requirements for monitoring agency applicants and their staff. In addition, the Department does not formally oversee these monitoring agencies, such as conducting onsite visits or requesting and reviewing documentation to verify monitoring agencies' activities. To ensure monitoring agencies are effectively fulfilling their responsibilities, the report recommended that the Department clearly define monitoring agencies' responsibilities within its contractual agreements, develop and provide standardized guidance to assist monitoring agencies in training and monitoring developmental home licensees, and develop and implement a process for overseeing the monitoring agencies.

### 3. The extent to which the Department serves the entire State rather than specific interests.

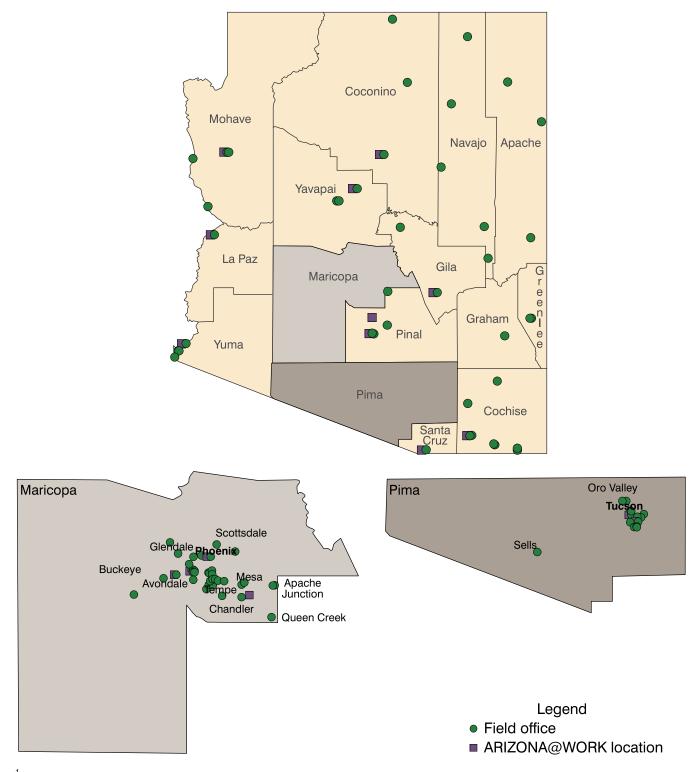
The Department serves the entire State by providing critical protective and assistance services to some of Arizona's most vulnerable children, adults, and families through more than 40 different programs. As of July 2017, the Department reported serving approximately 3 million Arizonans. Clients can receive services through various department programs, including SNAP, Unemployment Insurance, and the Vocational Rehabilitation Services Program. (See the Introduction, pages 1 through 3, for more information on the Department's programs.) The Department's services are available through offices state-wide, and some services can be accessed online. Specifically:

- **Field offices**—The Department provides its services through 91 direct-service field offices state-wide that are located in all of Arizona's 15 counties, with a central administration facility located in Phoenix. See Figure 1, page 13, for a map of the Department's field offices around the State. Most field offices are open from 8 a.m. to 5 p.m. and 57 of the Department's 91 field offices, or approximately 63 percent, provide services from multiple department client service divisions and programs. For example, clients can visit one office and apply for a child care subsidy or SNAP benefits, and receive vocational rehabilitation services.
- ARIZONA@WORK centers—In addition to its field offices, the Department provides a full range of
  employment services to job seekers at 16 comprehensive ARIZONA@WORK centers across the State.
  Employment services include career counseling, skills development, and job search and placement
  services (see Figure 1 for a map of the Department's ARIZONA@WORK locations around the State).
  ARIZONA@WORK centers are open from 8 a.m. to 5 p.m. on weekdays.<sup>14</sup>
- Online services—In addition to the field offices and ARIZONA@WORK centers, individuals can also obtain information about or apply for some department services online. Some of the general information the Department offers on its website includes telephone numbers for its different programs and services; forms, policies, and pamphlets about specific programs and services; an online office locator; and links to frequently asked questions. The Department also offers several online services, including applying for food, medical, and cash benefits; filing weekly unemployment insurance claims; and checking on child support cases.

There are also affiliate sites, which are sites that make one or more of the ARIZONA@WORK services available to job seekers and employers. The affiliate sites are used to supplement and enhance customer access to employment services in addition to the comprehensive ARIZONA@WORK centers. According to the Department, these sites might be at a library or community center.

**Figure 1**Department field office and ARIZONA@WORK locations in Arizona counties As of March 2017<sup>1</sup>

(Unaudited)



<sup>&</sup>lt;sup>1</sup> The ARIZONA@WORK locations are as of April 2017.

Source: Auditor General staff analysis of department-provided information.

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

General Counsel for the Auditor General has reviewed the Department's rulemaking statutes and believes that, in general, the Department's rules are consistent with the legislative mandate. However, General Counsel for the Auditor General identified four areas in which the Department has not established statutorily required rules.

According to the Department, it has not developed rules for three of the four areas because it has not received funding for the associated program or the program was recently developed. Specifically:

- Family Support Program—A.R.S. §36-596.52(A) requires the Department to adopt rules to administer a family support program, which provides services, supports, and other assistance to families of an individual who is developmentally disabled. However, statute also states that the family support program is subject to funding appropriated by the Legislature or otherwise available for this purpose. According to the Department, funding has not been provided for this program, so it has not developed rules for it.
- Certification standards for service providers—A.R.S.§ 36-596.54(A) allows the Department to provide family support vouchers for services provided to individuals who are developmentally disabled and who are members of the Arizona Long Term Care System (ALTCS), as long as the services are provided by certified providers, are included in the individual's program plan, and are approved for Title XIX funding within the Social Security Act.<sup>15</sup> It also requires the Department to prescribe certification standards for these providers through rules. According to the Department, funding has not been provided for this program, so it has not developed rules for it.
- Achieving a Better Life Experience (ABLE) Act—According to the U.S. Internal Revenue Service, the ABLE Act allows individuals with disabilities and their families to establish and contribute after-tax monies to an ABLE account to help pay for disability-related expenses. The monies in the ABLE account, including interest or other earnings, can be withdrawn tax-free when used to pay for qualified disability expenses for the eligible individual, such as education, transportation, and health expenses. According to federal law, one purpose of the ABLE program is to provide secure funding for individuals with disabilities that will supplement, not supplant, benefits from other sources, such as Medicaid, Supplemental Security Income, and private insurance. A.R.S. §46-902(1), which became effective in August 2016, requires the Department to establish rules to implement the ABLE program. As of July 2017, the Department indicated that the ABLE program's executive director was working with the Department's Rules Unit to develop a request for an exception to the moratorium on state agencies' rulemaking. Therefore, the Department should continue with its efforts to determine whether and when it can proceed with rulemaking to establish these required rules.

Additionally, according to the Department, rules are pending completion for the remaining area. Specifically, A.R.S. §46-452.01 requires the Department to adopt rules to implement the State's long-term care ombudsman program. The long-term care ombudsman is federally required and includes the following duties: hearing, investigating, and attempting to resolve complaints; referring cases of abuse or neglect to adult protective services; and providing advice to residents of long-term care facilities. The Department has been operating this program without formally drafted rules. As of July 2017, the Department stated that rules for the program had been informally drafted and it would need to make a request for an exception to the rulemaking moratorium.

<sup>&</sup>lt;sup>15</sup> Title XIX of the Social Security Act was enacted in 1965 and established Medicaid, a federal/state entitlement program that pays for medical assistance for individuals and families with low incomes and resources.

<sup>&</sup>lt;sup>16</sup> US Code Title 26, Section 529A, defines an eligible individual as someone who is entitled to benefits based on blindness or disability under Title II or XVI or the Social Security Act, and such blindness or disability occurred before the date on which the individual attained age 26.

<sup>&</sup>lt;sup>17</sup> An ABLE account balance, up to and including \$100,000, is not counted toward the individual's Supplemental Security Income resource limit of \$2,000.

<sup>18</sup> Executive Order 2017-02 was signed by Governor Doug Ducey on January 11, 2017, and expires on December 31, 2017. This moratorium restricts rulemaking without the prior written approval of the Governor's Office and provides justification for exceptions to the rulemaking moratorium, such as complying with a state or federal statutory requirement or preventing a significant threat to the public health or safety.

Therefore, the Department should continue with its efforts to determine whether and when it can proceed with rulemaking to establish these required rules.

In addition to these four statutory areas for which the Department is required to develop rules but has not yet done so, the Department has worked with the Governor's Office to obtain exceptions to the existing rule moratorium to update some of its outdated rules. As of May 2017, the Department had been granted an exception to proceed with rulemaking for six of its chapters within the Arizona Administrative Code, including topics related to developmental disabilities; unemployment insurance; and the TANF cash assistance program.

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 has provided opportunities for public input before adopting rules. Specifically, the Department has encouraged input from the public and stakeholders before amending its rules by publishing notices of proposed rulemaking in the Arizona Administrative Register. For example, in May 2016, the Department requested and received written input on its rule related to first aid and CPR training for child care providers. The Department responded to this input by making an adjustment to its proposed rule.

However, the Department should ensure that it helps the councils, boards, and committees it staffs and supports to consistently comply with the State's open meeting law. As described in the Introduction, the Department provides staff and administrative support to 11 councils, boards, and committees, including helping them to comply with the open meeting law (see textbox on page 5). Overall, these councils, boards, and committees provide oversight, guidance, and recommendations to the Department for several programs and services it provides. For example, the Arizona State Rehabilitation Advisory Council advises the Department regarding specific vocational rehabilitation services responsibilities, such as the effectiveness of services provided. To assess these councils, boards, and committees' compliance with open meeting law requirements, auditors reviewed and attended a sample of public meetings held between February and May 2017. Specifically, auditors tested 5 of the 11 councils, boards, and committees for compliance with multiple open meeting law requirements, including posting meeting notices and agendas 24 hours prior to the meeting on their websites and in any specified physical locations, following the posted agenda, and making their meeting minutes available within 3 working days of the meeting dates. Specifically, auditors reviewed the Appeals Board, the Governor's Council on Blindness and Visual Impairment, the Governor's Council on Spinal and Head Injuries, the Human Rights Committee for the Developmentally Disabled, and the Hunger Advisory Council for compliance with these open meeting law requirements. Although these five councils, boards, and committees generally complied with the open meeting law requirements reviewed, auditors identified some areas of noncompliance as follows:

- First, auditors found that three of the five councils, boards, and committees—the Governor's Council on Spinal and Head Injuries, the Human Rights Committee for the Developmentally Disabled, and the Hunger Advisory Council—did not include a conspicuously posted statement on their websites indicating where their meeting notices would be posted. According to A.R.S. §38-431.02(A), public bodies must conspicuously post a statement on their website indicating where all public meeting notices will be posted, including the physical and electronic locations. However, because these three councils, boards, and committees did not have the required posting statement, auditors could not determine whether they posted their meeting notices in the specified locations, that meeting notices and agendas were posted at least 24 hours prior to the meeting, and that notices and agendas included the statutorily required elements.
- Second, auditors identified one council—the Hunger Advisory Council—that did not have meeting minutes available within 3 working days of a meeting and did not include some required information within its meeting minutes. According to A.R.S. §38-431.01(D), meeting minutes must be made available to the public within 3 working days. Additionally, A.R.S. §38-431.01(B) provides information that must be included within the meeting minutes, such as "the members recorded as either present or absent" and "a

general description of the matters considered." However, the Hunger Advisory Council's meeting minutes did not list which members were either present or absent; listed a topic as a "roundtable" and described it as a "limited discussion," which does not provide a general description of the matters considered during the discussion; and did not include the name of each person making statements or presenting material to the public body for all meeting topics.

Finally, the meeting notice for the Department's Appeals Board indicates that the Appeals Board meets
on a daily basis. However, according to an Appeals Board member, the Appeals Board generally meets
on Tuesdays and Thursdays each week.

Further, auditors reviewed the remaining six councils, boards, and committees for compliance with select open meeting law requirements, including posting meeting notices and agendas 24 hours prior to scheduled meetings on their websites and in any specified physical locations. However, 5 of these 6 councils, boards, and committees did not include a conspicuously posted statement on their websites about where the meeting notices would be posted. Therefore, auditors could not determine whether these councils, boards, and committees complied with posting requirements. For the one council that had a conspicuously posted statement on its website—the Governor's Advisory Council on Aging—the meeting notice and agenda were posted in the correct locations and at least 24 hours prior to the meeting.

Although the Department has some training materials related to open meeting law, such as materials that the Department or the councils, boards, and committees have developed, guidance from the Arizona Ombudsman-Citizens' Aide, and/or the Arizona Attorney General's Agency Handbook, these materials do not sufficiently direct department staff on all the necessary procedures for assisting the 11 councils, boards, and committees in complying with open meeting law requirements. Therefore, to help ensure that these councils, boards, and committees consistently comply with the State's open meeting law requirements, the Department should take several steps. First, the Department should develop and implement policies and procedures regarding staff responsibilities for helping to ensure that the councils, boards, and committees comply with the State's open meeting law, including how it will oversee staff's adherence to these policies and procedures. These policies and procedures should reflect staff responsibilities such as posting a statement on the website where councils', boards', and committees' meeting notices will be posted and providing meeting minutes within 3 working days of the meeting. Second, based on its open meeting law policies and procedures, the Department should develop and implement training for all department staff who provide support to the councils, boards, and committees. This training should cover policies and procedures for complying with all open meeting law requirements as outlined in statute, explain the staff's responsibilities for helping the councils, boards, and committees meet these requirements, and be provided to appropriate department staff on a regular basis.

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

The Department has been able to investigate and resolve complaints within its client service divisions and other department offices. Administrative rules require the Department to investigate complaints in several client service program areas, including child care, developmental disabilities, and employment services. Complaints may be made to the Department in written, verbal, and electronic format and can be submitted directly to its client service divisions or to the Department's Ombudsman Office (Ombudsman). The Ombudsman assists clients who cannot determine whom to see or where to go, or feel that their attempts to resolve their problems through other channels within the Department have been unsuccessful. The Ombudsman logs all inquiries and complaints received and directs those requesting assistance to the appropriate client service division. All of the Department's client service divisions have one or more client advocates who work to resolve complaints received either directly by the division or through the Ombudsman. According to the Ombudsman, client inquiries or complaints usually consist of (1) needing general information, such as the location of the nearest office; (2) requesting assistance, such as an explanation for the client's case determination; or (3) requiring an administrative review of the client's case by the Ombudsman. Ombudsman's Office data indicates that 906 of the 3,585 inquiries and complaints received during July through December 2016 were sent to the appropriate client service division for response, and the remaining 2,679 inquiries and complaints were

responded to by the Ombudsman. The Ombudsman Office's internal goals for responding to inquiries and complaints are 24 hours for those addressed by ombudsman personnel and 72 hours for those addressed by client service division personnel. According to Ombudsman's Office data, the Ombudsman responded to clients within the established time frame for 2,631 of the 2,679 complaints and inquiries it received during July through December 2016, or approximately 98 percent of the complaints and inquiries. In addition, the client service divisions responded to the Ombudsman within the established time frame for 859 of the 906 inquiries and complaints sent to them by the Ombudsman, for a timely response rate of approximately 95 percent.

Examples of the complaint-handling processes for three key service areas—DBME, the Division of Child Support Services (DCSS), and the DDD—are explained in more detail below. Specifically:

- **DBME**—The DBME liaison team addresses complaints involving the Department's TANF cash assistance. SNAP, and family assistance services; and Arizona Health Care Cost Containment System (AHCCCS) eligibility determinations. When the liaison team receives a complaint, it is logged into a DBME database, and tracked and monitored to ensure timely resolution. Liaisons have 1 day to resolve serious complaints, such as a client wanting immediate medical approval due to an emergency, and 3 days to resolve other complaints. The liaison updates the complainant on the complaint's disposition, via phone, email, or a letter, after it is resolved. According to department information, common complaints regarding DBME are a client's inability to get through on the interview line to complete the eligibility interview component of the benefits application process or issues with the clients' cases, such as a client not receiving his/ her benefits on time. According to liaison team management, one challenge facing liaisons is that they often need to make multiple attempts to contact complainants for information because the complainant uses voice mail and/or email and does not promptly respond to the liaison's messages. Management reported that although it does not happen often, if the complainant does not respond after several contact attempts, the liaison will close the complaint with no action taken or written notification provided to the complainant. However, DBME liaison team management reported that the liaisons are typically able to resolve complaints within the required time frames. Specifically, DBME data indicated that 5,899 of the 6,000 complaints, or 98 percent, received during fiscal year 2016 and July through December 2016 were resolved by the liaison team within established time frames. In addition, there was not a complaint backlog as of December 2016.
- DCSS—The DCSS' Customer Resolution Unit addresses client complaints and disputes through two
  units, its Executive Correspondence Unit and its Administrative Review Unit. Specifically:
  - The Executive Correspondence Unit addresses child support complaints requiring review and response received through the department director's office, the DCSS assistant director's office, and the Department's legislative services office. When a complaint is received, it is entered into a database and tracked and monitored to ensure it is addressed in a timely manner. Executive correspondence unit staff are required to contact the complainant within 2 business days to acknowledge receipt of the complaint and obtain additional information, if needed. The Executive Correspondence Unit typically has 10 days to resolve the complaint.<sup>20</sup> At the completion of the complaint investigation, the Executive Correspondence Unit prepares and sends a letter to the complainant that outlines the actions taken and final results. According to department records, the most common complaints received involve failure of the obligee, i.e., person or agency entitled to receive support, to receive payment from the obligor, i.e., person obligated to pay support; the inability of DCSS clients to access Arizona's online child support portal or reach their DCSS caseworker; and payment issues, such as the obligee receiving a late payment or not receiving a payment because it has been directed to the State to

<sup>&</sup>lt;sup>19</sup> According to ombudsman office personnel, inquiries and complaints are typically resolved within the time frames established for responding to the inquiry or complaint.

<sup>&</sup>lt;sup>20</sup> If the complaint comes from a legislator through the Department's legislative services office, the DCSS' Executive Correspondence Unit has 5 business days to resolve the issue.

repay public assistance received by the obligee. Similar to DBME (see previous bullet), at times, DCSS executive correspondence unit staff have difficulty contacting complainants, which may delay the resolution of the complaint. According to DCSS personnel, executive correspondence unit staff will make several attempts to contact the complainant and will also send a letter to the complainant providing contact information before they close the complaint. Executive correspondence unit data indicated that 1,146 of the 1,164 complaints, or 98 percent, received during fiscal year 2016 and July through December 2016 were resolved within the established time frames. In addition, DCSS personnel reported that there was not a complaint backlog as of December 2016.

- The Administrative Review Unit conducts administrative reviews of obligor or obligee disputes about enforcement actions taken by the DCSS and the distribution or disbursement of child support payments.<sup>23</sup> Enforcement actions can include issuing an administrative order to withhold income for child support, intercepting lottery winnings and tax refunds, denying passport issuance, and suspending or denying an obligor's driver or recreational license. Depending upon the type of review requested, the Administrative Review Unit is required to issue a final determination between 2 and 55 business days after receiving the request. 24,25 Administrative review unit records show that the most common requests involve disputes about income wage withholding orders and state tax refund intercepts for reasons such as the client claims he/she has a new court order that modifies payment amounts or the child(ren) is over 18 years of age and therefore payments no longer need to be made. Although most reviews are completed in a timely manner, according to DCSS personnel, some completion delays may occur. For example, if the responsible person in the central or regional DCSS office is absent or unfamiliar with the process of sending the request to the Administrative Review Unit a delay may occur. According to administrative review unit data, 3,468 of the 3,640 requests for reviews, or 95 percent, received during fiscal year 2016 and July through December 2016 were completed within established time frames. In addition, DCSS personnel reported that there was not a review backlog as of December 2016.
- **DDD**—The DDD has four units involved with the investigation and resolution of grievances/complaints, incidents, and disputes. Specifically:
  - The Customer Service Center reviews grievances/complaints regarding any issue that can affect a DDD member or provider, including problems related to claims payments, communication, or courtesy. The DDD's contract with AHCCCS requires that the DDD have a written grievance process.<sup>26,27</sup> In addition, the DDD must have a mechanism for tracking the receipt, acknowledgment,

<sup>&</sup>lt;sup>21</sup> The Arizona child support portal is available for obligees to view a history of child support payments, correspond with their caseworkers, review their case status, provide updates to their contact information, and fill out child support forms. If the individual is not receiving services from the DCSS, he/she will not have access to the online portal.

<sup>&</sup>lt;sup>22</sup> According to DCSS staff, complaint resolution is considered timely if the complaint has been received and resolution action has been initiated within the established time frame.

Pursuant to A.R.S. §25-522(A), an obligor may contest an enforcement action by the DCSS; an obligee may contest the distribution or disbursement of support payments by the DCSS; and the obligor or the obligee may contest the disbursement of support to a noncustodial person other than the State.

<sup>&</sup>lt;sup>24</sup> If the basis for the request for review is issuance of an income withholding order by the DCSS pursuant to A.R.S. §25-505.01 or a levy made pursuant to A.R.S. §25-521, the DCSS is required to review the request and issue a final determination within 10 business days after it receives the request for review. If the basis for the request for review is a mistake in identity pursuant to A.R.S. §25-521, the DCSS is required to issue a final determination by first-class mail to all parties within 2 business days after the receipt of the request.

<sup>25</sup> If the individual requesting the review disagrees with the final determination and/or denial of administrative review, he/she may request a judicial review of the Department's administrative decision. Depending on the type of administrative decision, a request for a judicial review must be made within 30 to 35 days of receiving the decision.

AHCCCS contracts with the DDD to provide ALTCS services to the DDD's eligible members. ALTCS services include medical care and homeand community-based services, such as housekeeping, occupational therapy, and transportation (see Auditor General Report 17-109 for more information).

<sup>&</sup>lt;sup>27</sup> The DDD's written grievance process must include procedures for addressing the enrollee's grievances, appealing department decisions, and accessing the hearing process. The written process must also include dispute procedures for contracted and noncontracted providers, including claims disputes, and accessing the hearing process.

investigation, and resolution of grievances/complaints. The DDD's written process requires that customer service center staff resolve grievances/complaints received from service providers within 30 days but allows up to 90 days to resolve grievances/complaints received from members. Once the grievance/complaint is resolved, the DDD is required to provide a written explanation of the resolution to the complainant within 2 business days of closure. Customer service center data indicated that a common member grievance/complaint concern is support coordination, such as a lack of followup with the member by their support coordinator or support team or the support coordinator failing to respond to phone calls from the member or a family member. Common provider grievance/complaint concerns are claims issues, such as delays in being paid or not receiving the full amount billed. Although customer service center staff are typically able to resolve grievances/complaints within required time frames, delays in other department units providing needed records and information to research the grievance/complaint sometimes prevent customer service center staff from resolving the grievance/complaint in a timely manner. According to customer service center data, 2,083 of the 2,125 grievances/complaints, or 98 percent, received during fiscal year 2016 and July through December 2016 were resolved by the Customer Service Center within established time frames and there was not a grievance/complaint backlog as of December 2016.

o The Quality Management Unit performs fact-finding processes for cases involving quality of care/service incidents reported by DDD service providers, DDD members, family members, community members, and others. <sup>28,29</sup> Incidents typically involve health and safety concerns or incidents where there is an issue with the provider not delivering proper care. <sup>30</sup> Incidents are received by the DDD through email, phone, and fax. Incidents are prioritized on a level of 1 to 3. Priority 1 incidents, such as a DDD member receiving residential services being left alone without supervision from staff, thereby putting their health and safety in danger, are considered the most serious and require that fact-finding be initiated within 24 hours of notification. Priority 2 incidents, such as a neighbor threatening physical harm to an individual if he/she comes over into the neighbor's yard, require that a fact-finding be initiated within 10 days of notification. Priority 3 incidents, such as an individual receiving rug burns from crawling on his/her hands and knees across the carpet, do not typically require a fact-finding, but are reviewed as part of the member's program planning, which is conducted every 90 to 180 days depending on where the member resides, to assess any changes in the member's status, such as an increase in behavioral incidents that may indicate a need for a behavioral health assessment or behavioral plan change.

DDD policy requires quality management unit staff to enter incidents into the incident tracking system within 2 days and complete their fact-finding within 30 days of being notified of the incident. <sup>31,32</sup> Quality management unit data indicated that common incidents involve medication errors and accidental injuries. DDD management indicated that challenges facing the Quality Management Unit include limited staffing compared to the high volume of incidents received and delays by providers and others in providing information needed to complete fact-findings. Although the Quality Management Unit did not track the timeliness of its fact-finding as of May 2017, its data show that 18,201 of

<sup>&</sup>lt;sup>28</sup> Fact-finding processes include coordinating with investigative authorities, such as the police or the Arizona Department of Child Safety (DCS); reviewing documents in the member's DDD case file; interviewing staff; and requesting remediation for the incident.

<sup>&</sup>lt;sup>29</sup> The Quality Management Unit is responsible for the DDD's quality management program, which includes other activities in addition to its fact-finding responsibilities, such as collecting and presenting monitoring data on the DDD's service delivery systems and implementing performance improvement activities.

<sup>&</sup>lt;sup>30</sup> An incident is defined as an occurrence that could potentially affect the health and well-being of a DDD member or that poses a risk to the community.

<sup>&</sup>lt;sup>31</sup> A fact-finding can be extended an additional 30 days twice for a total of 90 days if more time is needed to allow other department programs such as adult protective services, tribal social services, law enforcement, or other state agencies to complete their investigation and provide the results to the DDD.

An incident is complete when the fact-finding, if needed, is reviewed and approved by the DDD; recommendations for corrective action are identified and provided to appropriate DDD and provider personnel; corrective action plans, if needed, are requested and received from the provider and approved by the DDD; or, designated DDD personnel have verified the information entered into the incident management system and have verified that all corrective actions have been completed no later than 60 days from the acceptance of a plan.

the 29,018 incidents, or 63 percent, received during fiscal year 2016 and July through December 2016 were entered into the incident management system within the required 2-day time frame and there was a backlog of 1,323 incidents needing to be entered into the system. All but one of these backlogged incidents were classified as priority 3.<sup>33</sup>

- The Regulatory Support Unit monitors licensing and protective services incidents against DDDregulated providers, such as licensed developmental homes and certified home- and communitybased service providers. These incidents are primarily under investigation by other entities, such as the Department's APS program, the DCS, law enforcement, or by the department-contracted monitoring agencies responsible for overseeing the licensed developmental homes.<sup>34</sup> However, the DDD monitors the resolution of these incidents. The Regulatory Support Unit receives systemgenerated notifications of the incidents through the DDD's incident management system, at which point staff enter the information into the DDD's licensing database. The Regulatory Support Unit has an internal goal of 30 days to follow up on the status of the incidents after notification. Once the investigation is complete and all of the required documentation is received, regulatory support unit staff document the outcome of the incident investigation and disposition in the licensing database. DDD management reported that the most common incidents monitored involve member rights violations, inadequate supervision of members, or inappropriate use of discipline with members. The Regulatory Support Unit reported that it monitored 582 incidents involving DDD-regulated entities during fiscal year 2016 and July through December 2016 and that on average, incidents were open a total of 58 days.<sup>35</sup>
- Office of Administrative Review conducts administrative reviews of disputed department decisions relating to DDD provider claims, member eligibility, and the termination of or reduction in services. Administrative review staff are required to complete a review and provide a written decision within 30 calendar days of receiving the review request. According to office of administrative review management, the most common administrative review requests involve denial of eligibility related to autism and reduction of services. Management also reported that administrative reviews are generally conducted timely, and when they are not, it is typically due to families continuing to provide supporting documentation or asking for extensions, thus extending the review period. According to office of administrative review data, 2,394 of the 2,784 requests for reviews, or 86 percent, received during fiscal year 2016 and July through December 2016 were completed by the Office of Administrative Review within the established time frame. Office of administrative review management reported that there was a significant backlog of administrative reviews as of June and December 2016 due to the limited availability of medical reviewers. However, management also reported that the DDD retained contracted physicians to assist with the backlog and as of June 2017, there were only 26 untimely reviews.

The Department's Office of the Inspector General (OIG) also investigates and resolves complaints and adjudicates disputes related to department programs. Specifically, the OIG:

Conducts internal affairs investigations involving fraud, waste, abuse, and misconduct by department
employees and contractors. It also investigates allegations of fraud involving recipients of public
assistance and unemployment insurance, and child care providers, as well as trafficking of SNAP
benefits. The OIG has established internal goals for completing its investigations, which range from
60 days for an internal affairs investigation to 120 days for an investigation of child care provider fraud.

<sup>&</sup>lt;sup>33</sup> DDD quality management unit staff review incidents every day, so any priority 1 or 2 incidents needing fact-finding would be moved to the top of the list for entry into the incident tracking system. In addition, the Quality Management Unit's management is considering some changes to timeliness tracking, including routinely capturing and reporting fact-finding timeliness to help ensure that the process is being initiated and completed within established time frames.

<sup>34</sup> According to DDD personnel, if a minor incident is received, DDD staff will investigate the incident to determine if there is any validity to the allegations, enter the findings into its licensing database, and notify the complainant of the outcome.

<sup>&</sup>lt;sup>35</sup> The number of days an incident is open represents the time from the date the Regulatory Support Unit is first notified of the incident until it closes the incident.

According to OIG management, these goals have not been met, in part, because of situations out of their control such as locating people to interview and waiting on banks and employers to provide needed documentation. OIG management reported that a significant challenge it faces is the high volume of work in comparison to available staffing. For example, OIG data indicates that during fiscal year 2016 and July through December 2016, the OIG received nearly 17,000 fraud and internal affairs referrals and completed about 13,050 investigation cases. As of March 2017, it had a backlog of approximately 3,300 cases awaiting investigation.<sup>36</sup>

Adjudicates disputes of decisions affecting client eligibility, and adverse actions taken against contractors, clients, and employees involving department programs through its appellate services administration (administration). The administration incorporates two levels of review. The first level of review is through the Office of Appeals, where a department administrative law judge will conduct an administrative hearing to arrive at a decision on the disputed issue. If the individual is not satisfied with the decision, he/she can request a second level of review by the Appeals Board, which determines whether the administrative law judge made the correct decision based upon the law and the evidence.<sup>37</sup> According to administration data, 26,522 of the 52,790 requests for review by the Office of Appeals, or approximately 50 percent, that were disposed of in fiscal year 2016 and July through December 2016, were disposed within time frames established in rules or U.S. Department of Labor performance expectations. 38 All matters decided by the Appeals Board are appealable to either the Arizona Court of Appeals or the Arizona Tax Court. 39 Despite being untimely for approximately 50 percent of its Office of Appeals reviews, administration management reported that it had no review backlog as of June 2017. The administration reported that they were able to eliminate the backlog by increasing the number of scheduled hearings before a department administrative law judge and implementing a process to "short-notice" when the individual appealing the decision agreed to waive their right to a 10-day business notice so that they could be moved up to an available open hearing slot.

The Department is also required to receive, investigate, and resolve complaints against certified child care home providers. However, a 2017 Auditor General performance audit of the Department's child care services found several weaknesses with the process, including the lack of a centralized log for recording key complaint information, such as the date, time, and place of an incident; and the complainant's contact information (see Report 17-103). Without such a log, the Department is at risk for some complaints not being documented, investigated, and/or resolved, and it cannot easily track complaints or analyze trends. Additionally, although the Department's complaint-handling policy indicates that inspectors should conduct on-site investigations for specific complaints and may interview pertinent individuals, the policy does not specify what investigative activities are required, such as what type of documentation should be obtained and reviewed. The policy also does not include adequate guidance regarding what disciplinary actions should be taken based on the violations found or how to follow up with providers and complainants. The audit made several recommendations to address the complaint-handling weaknesses, including recommending that the Department modify its data system to capture complaint information and develop and implement policies and procedures for complaint investigations, enforcement processes, and follow-up activities.

 $<sup>^{</sup>m 36}$  Backlogged cases are ones that have not yet been opened for an investigation.

 $<sup>^{</sup>m 37}$  The Appeals Board consists of three members selected by the Department Director.

<sup>&</sup>lt;sup>38</sup> The data on requests for hearings and timeliness by the Office of Appeals in fiscal year 2016 and July through December 2016 concerned the four largest appeal type areas—unemployment insurance, SNAP, cash assistance, and AHCCCS eligibility determinations—and represented approximately 99 percent of requests for hearings during that time period. According to administration data, approximately 85 percent of the untimely dispositions were between 1 and 30 days late.

<sup>&</sup>lt;sup>39</sup> In early 2017, the administration learned that it had several backlogged cases that had been heard by the Appeals Board and were to be sent to the Arizona Court of Appeals or the Arizona Tax Court for judicial review. According to the Department, this backlog resulted from weak oversight and the deliberate actions of one employee who hid and mischaracterized the applications received for judicial review. According to the Department, this has since been addressed through the development of a new assignment of duties, a simplified process flow, and a new audit process to ensure cases are moved through the process in an appropriate and timely manner.

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.

A.R.S. §41-192(A)(1) requires the Attorney General to act as the Department's legal advisor and to provide all the legal services the Department requires. In addition, the Department's enabling statute, A.R.S. §46-133, authorizes the Attorney General to act as its attorney, meaning that the Attorney General has the authority to represent and defend the Department in matters pertaining to all of the programs it administers. Finally, the Attorney General, as well as the appropriate county attorney, have concurrent jurisdiction to prosecute individuals who have committed fraud as well as other criminal acts against the Department, such as the unlawful use of food stamps or unemployment insurance, as well as welfare fraud.

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

According to the Department, several statutory changes were enacted during 2016 and 2017 that clarify the Department's statutes, add statutory authority, or conform statutes to federal laws. These changes include:

- Laws 2016, Ch. 286—This law primarily amended statutes relating to the Department's program for people with developmental disabilities in foster care homes. Specifically, this legislation requires foster homes licensed by the DCS to apply for certification with the Department as a child developmental certified home if either of the following situations apply: 1) the DCS places a foster child with a developmental disability in a foster home, or 2) the Department determines that a foster child in a foster home has a developmental disability, after the child has been placed in the foster home. 40
- Laws 2016, Ch. 21—This law amended A.R.S. §46-201 by removing the requirement that public assistance applicants must have a witness for their signature and allowing the Department to accept electronic signatures. According to the Department, this allows the Department to develop online applications for individuals applying for child support services.<sup>41</sup>
- Laws 2016, Ch. 185—This law made several changes to the Department's Unemployment Insurance program. These changes included clarifying work search requirements to specify that a claimant must have at least one job contact per day for 4 days of the week and reestablishing an exemption for employers from submitting quarterly unemployment insurance taxes or contributions that are less than \$10.00. Additionally, this law eliminated the requirement for a second review by the Appeals Board before a dissatisfied party can apply for review by the judicial system (see page 21 for more information on this Board and the appeals process). According to the Department, Arizona was the only state in its region to have an appeals board review its own decisions. 42
- Laws 2016, Ch. 290—This law amended statutes relating to electronic benefit transfer (EBT) cards to remain in compliance with federal legislation regarding the TANF block grant. <sup>43</sup> This legislation established a class 1 misdemeanor for the unlawful use of EBT cards at specific locations. Specifically, this law makes it a class 1 misdemeanor for liquor stores, commercial horse racing or dog racing facilities, and adult-oriented entertainment establishments to operate an automatic teller machine or point of sale device that accepts EBT cards. In addition, this law makes it a class 1 misdemeanor for the head of household receiving TANF cash benefits to use an EBT card at prohibited businesses, such as a casino or liquor store, and adds medical marijuana dispensaries to that list.

<sup>&</sup>lt;sup>40</sup> According to the Department, this provides a child-specific certification to foster families who are caring for a child who is eligible to receive services from the DDD. This legislation contains a provision that the child development certification terminates when the child with developmental disabilities leaves the foster home or is adopted by the foster parents.

 $<sup>^{</sup>m 41}$  The Department has online applications for the AHCCCS, SNAP, and TANF programs.

<sup>&</sup>lt;sup>42</sup> Arizona is within the U.S. Department of Labor's Region 6, which includes a total of eight states. In addition to Arizona, Region 6 includes Alaska, California, Hawaii, Idaho, Nevada, Oregon, and Washington.

<sup>&</sup>lt;sup>43</sup> The U.S. Department of Health and Human Services, Administration for Children and Families, provides the TANF block grant to states to assist low-income families and support a range of services to improve employment and other child and family outcomes.

- Laws 2016, Ch. 187—This law amended statutes relating to child care assistance by modifying the eligibility review period to be no more than once a year. This change was needed to ensure Arizona's compliance with federal requirements for the federal Child Care and Development Block Grant (CCDBG). 44 Specifically, this legislation changed how often the Department reviews each case to determine eligibility for child care assistance to no more than once a year. According to the Department, this allows families to continue to receive child care subsidies for their current eligibility period when their income exceeds 165 percent of the federal poverty level, but does not exceed 85 percent of the state median income. The Department also noted that without this legislation, Arizona would not have been in compliance with CCDBG requirements and could have faced a 5 percent withholding of CCDBG funding. The Department estimated that a 5 percent withholding in federal fiscal year 2017 would have totaled more than \$6 million and would have decreased the subsidy available for approximately 1,500 children.
- Laws 2016, Ch. 20—This law amended A.R.S. §13-3701 by updating state law to reflect the federal definition of eligible food in the SNAP program and clarifying unlawful use of SNAP benefits. Specifically, this law made it a class 5 felony to buy, sell, transfer, acquire, or redeem food stamps or eligible food purchased with food stamps in exchange for items other than eligible food. According to the Department, this will assist the Department's OIG, as well as prosecuting entities, in pursuing criminal prosecution of trafficking of SNAP benefits.
- Laws 2017, Ch. 15—This law established some standard time frames for unemployment insurance appeals and extended the due date for employers submitting unemployment insurance voluntary payments. Additionally, this legislation requires interest on all benefit overpayment debts to accrue at 10 percent per year but allows the Department to waive a portion of accrued interest on a benefit overpayment debt when good cause is shown.
- Laws 2017, Ch. 183—This law amended statutes relating to family support to establish a noncommercial restricted driver license as an alternative legal remedy for the willful failure to pay child support for at least 6 months. The restricted driver license allows noncustodial parents to drive to employment, medical appointments, school, and parenting time locations. According to the Department, this will increase the chances that the individual can maintain employment and, in turn, provide support for their children.
- Laws 2017, Ch. 317—This law repealed A.R.S. §§46-217 and 46-218, which required the Department to establish a finger-imaging program to help prevent an individual from enrolling in the SNAP or TANF programs multiple times.
- 9. The extent to which changes are necessary in the laws of the Department to adequately comply with the factors listed in this sunset law.

The performance audits conducted as a part of the Department's sunset review (see Reports 17-101, 17-103, 17-104, and 17-109) did not identify any needed changes to the Department's statutes.

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

Terminating the Department would affect the public health, safety, or welfare if its functions were not transferred to another agency. The Department is responsible for helping protect and provide critical assistance services to some of Arizona's most vulnerable children, adults, and families, such as child support enforcement services, which help reinforce the responsibility of parents to provide financially for their children; the SNAP or TANF programs, which provide food-purchasing support and cash assistance for low-income families or households; and adult protective services, which investigates allegations of abuse, neglect, or exploitation of vulnerable or incapacitated adults. The Department also provides supportive services to individuals with developmental disabilities, such as assistance with daily life activities and speech therapy, as well as vocational rehabilitation services to help individuals with disabilities prepare for, enter, or retain gainful

<sup>&</sup>lt;sup>44</sup> The U.S. Department of Health and Human Services, Administration for Children and Families, provides the CCDBG to states to help provide child care assistance to low-income families.

employment. See the Introduction, pages 1 through 3, for more information about these programs. If the Department were terminated without these programs and services being provided by another agency, abuse, neglect, and exploitation of the elderly and individuals with disabilities could go unreported and untreated, resulting in harm to individuals. As reported in Sunset Factor 1 (see page 9), all states have one or more human services agencies that provide services to its citizens that are similar to the services the Department provides. Further, according to the Department, its integrated structure improves the coordination and delivery of human services by providing access to an array of programs and services through a single state agency. The Department reported serving approximately 3 million Arizonans as of July 2017.

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

Although the Department's primary function is administering a broad range of human services programs that promote public health, safety, and welfare, the Department has regulatory authority in four areas: the Business Enterprise Program, the Child Care Services program, developmental homes, and home- and community-based services (see textbox for more information about these four areas). The Department appears to exercise an appropriate level of regulation in the areas where it has regulatory authority when compared to the two other states reviewed, Nevada and Washington. <sup>45</sup> For example, for child care services, Arizona, Nevada, and Washington all license or certify child care homes, have similar license and/or certification requirements such as requiring a background check of the applicant, and conduct at least one monitoring inspection annually of the child care home. However, the Department and the DHS share responsibility for child care regulation

### Department's four regulatory areas

**Business Enterprise Program (BEP)**—The BEP provides legally blind persons the opportunity to become independent entrepreneurs through the operation of vending facilities on federal and other property. The Department licenses individuals before they are assigned to operate a vending facility. To become licensed, an individual must have a referral from a department vocational rehabilitation counselor, undergo a background check, and successfully complete the Department's required training.

**Child Care Services program**—Through this program, the Department provides a child care subsidy for eligible families. This subsidy can be used to cover child care costs at child care providers the Department or the DHS regulate. Regulation involves activities such as fingerprint background checks, home inspections, and ongoing monitoring of child care providers (see Auditor General Report 17-103 for more information about the Department's Child Care Services program).

**Developmental homes**—In Arizona, these homes are family homes where a licensed caregiver provides full-time care and supervision for up to three individuals with developmental disabilities. The Department is required to license these homes before an individual with developmental disabilities can be placed in the home. To become licensed, a developmental home license applicant must undergo a background check and attend prelicensure training, and their home must undergo an inspection (see Auditor General Report 17-109 for more information on the Department's oversight of monitoring agencies that oversee developmental home licensees).

**Home- and community-based services (HCBS)**—These services provide help and/or training with daily activities that allow many individuals with developmental disabilities to remain in their own homes or live with their families. HCBS include such things as attendant care, home health aide, hospice care, and respite services. The Department is responsible for certifying individuals and agencies that provide HCBS. Certification requires undergoing a fingerprint background check, taking both CPR and first-aid training, and providing documents such as letters of references and liability insurance (see Auditor General Report 17-109 for more information on the Department's certification process for individuals and agencies that provide HCBS).

Source: Auditor General staff review of statutes, administrative rules, and information from the Department's website.

 $<sup>^{45}</sup>$  For information on how these states were selected, see Appendix A, pages a-1 through a-2.

in Arizona, and the Department should work with the DHS to examine the costs and benefits of consolidating their child care regulatory functions (see Auditor General Report 17-103 for more information).

Also, all three states license developmental homes and require a background and/or fingerprint check when someone is applying for a developmental home license. Although the Department's level of regulation for developmental homes appears appropriate, auditors determined that the Department should enhance its oversight of the contracted agencies that assist in monitoring and training developmental home licensees by establishing qualifications for, clarifying responsibilities of, and improving its oversight of the contracted agencies (see Auditor General Report 17-109 for more information).

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

Auditors found that the Department uses private contractors to fulfill several of its client service duties. In fiscal year 2016, the Department spent about \$1.6 billion, or 75 percent, of its client service funding on approximately 5,400 contracts for services and goods. Specifically:

- DAAS—DAAS, which serves at-risk and older adults, contracted for various services and goods, including
  shelter and permanent housing assistance for homeless people and victims of domestic violence, rent
  and utility assistance to households experiencing financial crises, case management and employment
  assistance to refugees new to the United States, food boxes for families in need of food, and over 40
  services to adults 60 years and older. According to department data and documents, DAAS spent about
  \$100 million, or 84 percent of its funding, on approximately 130 contracts for services and goods in fiscal
  year 2016.
- **DBME**—DBME, which assists low-income families with temporary cash and/or nutrition assistance, contracted for various services and goods, including direct deposit and debit card services for SNAP; physicians to help determine eligibility for the Social Security Disability Insurance and Supplemental Security Income programs; a call center to assist callers with questions about their applications for nutrition, cash, and medical assistance; and an integrated system to process eligibility enrollment for nutrition, cash, and medical assistance. According to department data and documents, DBME spent about \$99 million, or 32 percent of its funding, on approximately 140 contracts for services and goods in fiscal year 2016.
- **DCSS**—The DCSS, which helps custodial parents identify and obtain financial resources from noncustodial parents, contracted for various services and goods, including genetic paternity testing, centralized child support payment processing, attorneys and legal process servers, parent locating tools, new hire reporting to verify employment and income for child support obligors, financial institution data matches, and online forms. According to department data and documents, the DCSS spent about \$13 million, or 22 percent of its funding, on approximately 40 contracts for services and goods in fiscal year 2016.
- **DDD**—The DDD, which provides supportive services to individuals with developmental disabilities and their families, contracted for various services and goods, including center-based and group-supported employment, day treatment and training, habilitation, nursing, therapies, transportation, attendant care, goods and services for state-operated group homes and facilities, and eligibility determination and information and referral for the Arizona Early Intervention Program. <sup>46</sup> According to department data and documents, the DDD spent about \$1.1 billion, or 84 percent of its funding, on approximately 2,330 contracts for services and goods in fiscal year 2016.
- **DERS**—DERS, which provides a range of employment and job training services and supports to assist individuals achieve long-term and gainful employment, contracted for various services and goods,

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<sup>&</sup>lt;sup>46</sup> Center-based employment is a setting where participants are engaged in paid work and work-related activities with little or no interaction with the general community. Group-supported employment provides participants with an on-site supervised work environment that allows for maximum interaction with other coworkers or the general community.

including workforce employment and training programs, career exploration/supported education, vocational assessment, psychology assessment/therapy, rehabilitation instructional services, home modifications, child care provider training, child care resource and referral services, child care home recruitment services, and child care providers. According to department data and documents, DERS spent about \$283 million, or 85 percent of its funding, on approximately 2,780 contracts for services and goods in fiscal year 2016.

In addition to these contracts, the Department also contracted for several business functions. These contracts included mailroom services, office supply delivery, specialized printing, office-moving services, and telephone systems. In addition, the Department purchased from state-wide contracts established by the Arizona Department of Administration's State Procurement Office. These contracts were established for the benefit of government entities throughout Arizona and include items such as vehicles, furniture, computers, network cabling, temporary staffing, and office supplies

Auditors contacted state-level human services agencies in two states, Nevada and Washington, and found that the Department generally used contractors for similar purposes as the human services agencies in these states. <sup>47</sup> For example, like Arizona, both Nevada and Washington contract for home- and community-based services for the elderly and individuals with disabilities who need assistance to obtain and maintain employment and/or live independently in their community. Additionally, similar to Arizona, Nevada and Washington also contract for a variety of child support services, including insurance claim and financial institution data matches to help collect past-due child support and genetic testing to establish paternity. <sup>48</sup>

According to information provided by Nevada's and Washington's human services agencies, they spent approximately 19 percent and 74 percent, respectively, of their fiscal year 2016 funding on contracted services and goods in several client service areas. <sup>49</sup> Similar to Arizona, the two states' percentages of fiscal year 2016 funding spent for contracted services and goods varied by client service area. For example, Washington's human services agency spent 92 percent of its \$2.1 billion in aging and long-term care support services funding on contracted services and goods and 33 percent of its \$197 million in rehabilitation services funding on contracted goods and services. Nevada's percentage of expenditures for contracted services and goods also varied by client service area.

The audit did not identify other opportunities for the Department to use private contractors.

### Recommendations

- 1.1. Because of the existing moratorium on state agencies' rulemaking, the Department should:
  - Continue with its efforts to determine whether and when it can proceed with rulemaking to establish rules for the ABLE program; and
  - b. Continue with its efforts to determine whether and when it can proceed with rulemaking to establish rules for the long-term care ombudsman program (see Sunset Factor 4, pages 14 through 15, for more information).

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 $<sup>^{</sup>m 47}$  For information on how these states were selected, see Appendix A, pages a-1 through a-2.

<sup>&</sup>lt;sup>48</sup> Insurance matches help states collect past-due child support by comparing information about the delinquent obligor with information maintained by insurers or their agents about upcoming insurance claims, payments, settlements, and awards for which the obligor is eligible. If the state chooses to act on the match, it can request the insurer withhold the payment. Financial institution matches are also used to help states collect past-due child support by identifying accounts belonging to the delinquent child support obligors and then freezing and seizing the accounts.

<sup>&</sup>lt;sup>49</sup> Nevada's client service areas were the Aging and Disability Services Division, Division of Child and Family Services, Division of Health Care Financing and Policy, Division of Public and Behavioral Health, and Division of Welfare and Supportive Services. Washington's client service areas were the Aging and Long-Term Support Administration, Behavioral Health Administration, Children's Administration, Developmental Disabilities Administration, Economic Services Administration, and Rehabilitation Administration.

- 2.1. To help ensure that the councils, boards, and committees the Department staffs consistently comply with the State's open meeting law requirements, the Department should:
  - a. Develop and implement policies and procedures regarding staff responsibilities for helping to ensure that the councils, boards, and committees comply with the open meeting law, including how it will oversee staff's adherence to these policies and procedures. These policies and procedures should reflect staff responsibilities such as posting a statement on the website where councils', boards', and committees' meeting notices will be posted and providing meeting minutes within 3 working days of the meeting.
  - b. Develop and implement training for all department staff who provide support to the councils, boards, and committees based on its open meeting law policies and procedures. This training should cover policies and procedures for complying with all open meeting law requirements as outlined in statute, explain the staff's responsibilities for helping the councils, boards, and committees meet these requirements, and be provided to appropriate department staff on a regular basis (see Sunset Factor 5, pages 15 through 16, for more information).

#### **APPENDIX A**

### Methodology

The Arizona Department of Economic Security's (Department) performance was analyzed in accordance with the statutory sunset factors. Auditors used various methods to address the sunset factors. These methods included gathering information on the Department's statutory duties and responsibilities; filled staff positions; revenues and expenditures; and contracts. Auditors also reviewed applicable statutes and rules; information from the Department's website; information from the Department's fiscal year 2016 annual report; and other department documentation. In addition, auditors interviewed department management and staff.

Further, performance audit work provided information for this report. That work related to the Department's processes for managing its Vocational Rehabilitation Services Program's rehabilitation service costs and clients' progress (see Report 17-101); its child care provider monitoring and complaint-handling processes (see Report 17-103); its processes for safeguarding its information technology systems and the data contained in them (see Report 17-104); and its lack of qualification requirements for and oversight of contracted agencies that train and monitor developmental homes licensees who provide a residential setting for individuals with developmental disabilities (see Report 17-109).

Auditors also used the following additional methods:

- To assess the efficiency with which the Department has operated, auditors observed a training held on the
  Arizona Management System for department employees in April 2017. Additionally, auditors reviewed and
  summarized the Department's breakthrough projects and its performance metrics from September 2016
  through April 2017. Auditors also reviewed caseload data from the Adult Protective Services (APS) from July
  2015 through February 2017 and obtained information from APS management on the efforts taken to reduce
  caseloads.
- To assess the Department's compliance with the State's open meeting law requirements, auditors reviewed a sample of public meetings held between February and May 2017 for all 11 councils, boards, and committees for which the Department is responsible for ensuring compliance with the open meeting law. Specifically, auditors tested 5 of the 11 councils, boards, and committees for compliance with multiple open meeting law requirements, including posting meeting notices and agendas 24 hours prior to meetings on their websites and in any specified physical locations, following the posted agenda, and making meeting minutes available within 3 working days of the meeting. Auditors also attended one public meeting for each of these councils, boards, and committees. Further, auditors tested the remaining 6 of 11 councils, boards, and committees for compliance with posting meeting notices and agendas 24 hours prior to the meetings on their website and in any specified physical locations.
- To assess the Department's effectiveness in resolving complaints within its jurisdiction, auditors obtained
  metrics on the number of complaints received, the number resolved within required or internal time frames,
  and complaint backlogs for fiscal year 2016 and July through December 2016 for department client service
  divisions and offices. Specifically, auditors obtained metrics from the Division of Benefits and Medical
  Eligibility; the Division of Child Support Services; the Division of Developmental Disabilities; the Office of the
  Inspector General; and the Ombudsman's Office.
- To compare the Department's regulatory activities and use of private contractors with other states, auditors
  contacted state-level human services agencies in two western states—Nevada and Washington—based on
  similarities to Arizona in the other states' overall mission/purpose, services, number of staff, and percentage

of the population served. The states were requested to provide information on their regulatory responsibilities, client services, and use of contractors in client service areas. Auditors reviewed this information, in addition to the states' statutes, administrative rules, and websites.

- To assess the Department's use of private contractors, auditors reviewed and analyzed unaudited expenditure
  data provided by the Department to determine the amount of state and federal monies the Department
  spent on services and goods in fiscal year 2016. Additionally, auditors reviewed and summarized contract
  information compiled by the Department's client service divisions on the types and numbers of contracts
  used in fiscal year 2016.
- To obtain information for the report Introduction, auditors obtained data on services provided by the Department's five client service divisions during fiscal year 2016 and July through December 2016. Additionally, auditors compiled and analyzed unaudited financial information provided by the Department as of June 19, 2017, for fiscal years 2015 through 2017.
- Auditors' work on internal controls was limited and focused on the Department's processes for ensuring that it
  helps the 11 councils, boards, and committees that it supports comply with the State's open meeting law, such
  as posting meeting notices and agendas 24 hours prior to their meetings and making the meeting minutes
  available to the public within 3 working days of the meeting (see Sunset Factor 5, pages 15 through 16).
  Conclusions on this work are included in the response to Sunset Factor 5. Computerized system information
  was not significant to auditors' objective; therefore, auditors did not conduct test work on information system
  controls.

Auditors conducted this audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Department's director, management, and staff for their cooperation and assistance throughout the audit.



Douglas A. Ducey Governor ner For A Stronger Arizona Michael Trailor
Director

SEP 13 2017

Ms. Debra K. Davenport, Auditor General Office of the Auditor General 2910 North 44<sup>th</sup> Street, Suite 410 Phoenix, Arizona 85018

Dear Ms. Davenport,

The Arizona Department of Economic Security (ADES) appreciates the opportunity to provide a response to the Sunset Factors Audit conducted by your office that was received on September 6, 2017. The Department is committed to continuous quality, improvement, transparency, and accountability.

Enclosed is the Department's response to your findings and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Michael Trailor Director

Enclosures: ADES Sunset Factors Audit Response

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

Recommendation 1.1: Because of the existing moratorium on state agencies' rulemaking, the Department should:

**Recommendation 1.1a:** Continue with its efforts to determine whether and when it can proceed with rulemaking to establish rules for the ABLE program; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The ABLE Oversight Committee and Executive Director were appointed in 2017. The Department will seek a rulemaking moratorium exception to establish rules for the ABLE program during the second quarter of SFY 2018.

**Recommendation 1.1b:** Continue with its efforts to determine whether and when it can proceed with rulemaking to establish rules for the long-term care ombudsman program (see Sunset Factor 4, pages 14 through 15, for more information).

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will seek a moratorium exception to establish rules for the long term care ombudsman program in the second quarter of SFY 2018.

**Sunset Factor 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.

**Recommendation 2.1:** To help ensure that the councils, boards, and committees the Department staffs consistently comply with the State's open meeting law requirements, the Department should:

Recommendation 2.1a: Develop and implement policies and procedures regarding staff responsibilities for helping to ensure that the councils, boards, and committees comply with the open meeting law, including how it will oversee staff's adherence to these policies and procedures. These policies and procedures should reflect staff responsibilities such as posting a statement on the website where councils', boards', and committees' meeting notices will be posted and providing meeting minutes within 3 working days of the meeting.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will develop and implement policy addressing Open Meeting Law requirements and the specific procedures necessary to ensure staff compliance. The policy will ensure staff are aware of all public notification requirements for meetings, agendas, and minutes. The policy will identify a Department Open Meeting Coordinator to track compliance.

Recommendation 2.1b: Develop and implement training for all department staff who provide support to the councils, boards, and committees based on its open meeting law policies and procedures. This training should cover policies and procedures for complying with all open meeting law requirements as outlined in statute, explain the staff's responsibilities for helping the councils, boards, and committees meet these requirements, and be provided to appropriate department staff on a regular basis (see Sunset Factor 5, pages 15 through 16, for more information).

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has contacted the Staff Attorney with the Arizona Citizens Aide Ombudsman Office and confirmed the availability of Open Meeting Law training. Training will be provided to all DES staff responsible for providing support to councils, boards, and committees. The training will address the legal requirements of the Open Meeting Law and will be provided on a regular basis for existing staff, and to new staff as needed, which provide support to councils, boards and committees.



# Arizona Department of Economic Security Information Technology Security

Department should improve security processes and controls over its information technology systems and data, and establish an information security program



**Debra K. Davenport** Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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DEBRA K. DAVENPORT, CPA AUDITOR GENERAL

# STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

MELANIE M. CHESNEY DEPUTY AUDITOR GENERAL

April 18, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Henry Darwin, Interim Director Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Economic Security (Department)—Information Technology Security. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement all of the recommendations.

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

Sincerely,

Debbie Davenport Auditor General

Attachment





## REPORT HIGHLIGHTS

Performance Audit April 2017

# Arizona Department of Economic Security Information Technology Security

CONCLUSION: The Arizona Department of Economic Security (Department) has a significant responsibility to safeguard its information technology (IT) systems and the data contained in them from misuse or attack because of the volume and nature of the sensitive data it maintains. Although the Department has established various IT security processes to help protect its IT systems and data, by performing common attack patterns, we identified weaknesses that allowed us access to these IT systems and sensitive data, including social security numbers and confidential health information. Additionally, the Department lacks an information security program as required by state policy. Establishing such a program would help ensure the Department sufficiently protects its IT systems and data. Finally, our in-depth review of three key policy areas—data classification, incident response, and security awareness education and training—found that the Department had not developed or fully developed associated procedures and had not incorporated some best practices within its incident response policy.

### Department responsible for safeguarding its systems and data

As of December 2016, the Department reported using more than 120 IT systems or applications to store and process large volumes of sensitive data to administer various programs. These programs provide many services, such as unemployment insurance benefits, cash and/or nutrition assistance, child care assistance, and adult protective services, to assist more than 2 million Arizonans in need annually. Because of the volume and nature of the sensitive data the Department maintains—which includes names, social security numbers, driver license or state identification numbers, mailing addresses, and other information—it is a potential target for malicious attacks. The Department's responsibility to protect its data is specified in various federal and state laws and regulations, which include requirements for safeguarding health information and federal tax information.

# Department should improve security processes and controls over its IT systems and data

**Department's IT systems and sensitive data exposed because of security weaknesses**—By simulating common attack patterns and exploiting security weaknesses, we accessed the Department's core IT systems and the sensitive data contained in them. Specifically, we exploited a weakness in the Department's network and gained unauthorized access to IT systems and sensitive data. With this access, we could control all network user accounts and view, alter, or delete confidential health information and other sensitive data. We also gained unauthorized access to sensitive data by exploiting security flaws in one of the Department's external web-based applications. Finally, we gained unauthorized access to IT systems and sensitive data through various social engineering techniques that requested department employees to perform actions and/or provide information needed to gain access.

Department has various IT security processes but should take steps to strengthen them—Although the Department has established various IT security processes and took steps to fix the specific security weaknesses we identified, its processes are not sufficiently robust to effectively identify, prevent, and remediate IT security weaknesses. Therefore, the Department needs to take several steps to more effectively secure its IT systems and the sensitive data contained in those systems. Specifically, the Department should improve three key security management processes: (1) vulnerability management, which involves systematically identifying, reviewing, and correcting IT system vulnerabilities; (2) patch management, which entails applying patches, or updates and fixes, to systems to ensure they remain secure; and (3) system configuration, which helps to ensure that the settings that control how systems operate are securely configured. In addition, the Department should strengthen its process for restricting access to its IT systems, including ensuring that user accounts for terminated employees are disabled or removed as soon after the employee leaves as is practical. Further, the Department should develop and implement a continuous process for monitoring system activity and policies, procedures, and practices for securely developing web-based applications.

#### Recommendations

The Department should develop or continue to develop and implement written policies and procedures for:

- Improving its vulnerability assessment, patch management, and system configuration processes;
- Ensuring the access-removal process is properly conducted;
- Establishing a continuous monitoring program for critical IT activities; and
- Developing, securing, and testing web-based applications.

### Department should establish an information security program

**Department has not established an information security program**—To help ensure IT security state-wide, the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET) requires state agencies to develop and implement an information security program. An information security program would help ensure that the Department has processes for identifying and safeguarding its IT systems and data against security vulnerabilities. Although the Department had developed a general policy outlining some requirements for an information security program, it lacked an overall security program that was consistent with ASET's requirements and best practices. For example, the Department had not conducted a department-wide IT risk assessment or developed procedures for doing so on a regular basis, and it had not adequately established the authority and responsibilities for information security.

**Department should create written plan for developing an information security program**—To help ensure the Department's IT systems and data are sufficiently protected, the Department should establish a written plan for developing and implementing a department-wide information security program. Consistent with ASET requirements, this plan should also address areas such as risk assessment; staff authority, roles, and responsibilities related to IT security; and the resources needed to implement an information security program.

#### Recommendations

The Department should:

- Establish a written plan for developing and implementing a department-wide information security program;
- Develop and implement department-wide IT risk assessment procedures;
- Further define information security program authority, roles, and responsibilities; and
- Ensure that needed resources are available to implement the program, such as staffing and budget.

# Department should enhance efforts to establish information security policies and procedures

**Department has not adequately implemented policies and procedures in three key information security areas**—Although the Department has drafted or finalized policies for the 17 information security areas required by ASET, our review of three key areas—data classification, incident response, and information security awareness education and training—found that the Department had not incorporated some best practices within its incident response policy, and had not developed or improved the associated procedures to fully implement these policies.

**Department had not implemented policies and procedures in other information security program areas**—Our high-level review of several other ASET-required areas needed for a strong information security program found similar issues with inadequate, undeveloped, and/or unimplemented policies and procedures. For example, the Department's contingency planning policy, which states how it would restore unexpectedly unavailable data and operations, only applies to some systems and is missing critical best practices elements, such as detailed recovery procedures for restoring data. Further, the Department's written procedures for applying patches—or updates and fixes—to its IT systems inadequately address updating software and employee workstations. Without adequately developing policies and procedures to secure its IT systems and data, the Department is at a higher risk of a data breach.

#### Recommendations

The Department should:

- Further develop and implement information security policies and procedures for the areas of data classification, incident response, and information security awareness education and training; and
- Ensure its written plan for developing and implementing a department-wide information security program includes a process for adequately developing and implementing all ASET-required policies and procedures.

Arizona Auditor General

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#### INTRODUCTION

### Scope and objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department)—Information Technology (IT) Security pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit is the third in a series of five audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) 41-2951 et seq. It examines the effectiveness of department processes for safeguarding its IT systems and the data contained in them, including sensitive data. The first audit addressed the Department's processes for managing its Vocational Rehabilitation Services Program's rehabilitation service costs and clients' progress. The second audit addressed the Department's child care provider monitoring and complaint-handling processes. The two remaining audits will focus on the Department's licensing and oversight of homes for the developmentally disabled and the statutory sunset factors.

## Department processes, uses, and stores large volumes of sensitive data

The Department provides a variety of services, such as unemployment insurance benefits, cash and/or nutrition assistance, child care assistance, and adult protective services, to assist more than 2 million Arizonans in need annually. To administer the department programs that provide these services, the Department uses many IT systems to store and process large volumes of sensitive data. For example, when applicants apply for unemployment insurance benefits through the Department's website, they must enter their name, social security number, driver license or state identification number, mailing address, and other information for the Department to process the application. Similarly, to apply for cash assistance, child care assistance, or nutrition assistance, applicants may need to provide names, social security numbers, birthdates, financial information, and health information. As of December 2016, the Department reported having more than 120 IT systems or applications.

### Department responsible for safeguarding its systems and data

Because of the volume and nature of the sensitive data the Department maintains, it is a potential target for attacks by malicious individuals or organizations; therefore, the Department has a significant responsibility to safeguard its systems and data from misuse or attack. Various federal and state laws and regulations specify the Department's responsibility in protecting this data. For example, because the Department collects and uses both health information and federal tax information, the U.S. Department of Health and Human Services (HHS) and the Internal Revenue Service (IRS) have regulations that require the Department to protect its systems and this information. Specifically, HHS, under the Health Insurance Portability and Accountability Act (HIPAA), has established a set of security standards for protecting certain health information that is held or transferred in electronic form. These standards require that entities storing certain health information perform an ongoing risk analysis and implement policies and procedures that allow only authorized individuals to access health information and ensure that health information is not improperly altered or destroyed. In addition, the IRS has established specific requirements that the Department must follow regarding the use and protection of federal taxpayer information (FTI), including specific requirements pertaining to IT systems. For example, the IRS requires the Department to maintain an inventory of all department programs and systems that collect, use, maintain, and/ or share FTI. Additionally, the IRS requires the Department to scan for vulnerabilities within its IT systems at least once a month. Arizona state agencies are also required to develop IT-security-specific policies and procedures consistent with a state-wide policy implemented by the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET) (see Finding 3, pages 21 through 25, for details about ASET-required policies). ASET's policies and procedures are intended to help state agencies implement recommended IT security best practices and to protect the State's IT infrastructure and the data contained in it.

Additionally, state law and federal regulations require agencies that collect, use, and store personally identifiable information—like the Department—to notify individuals affected by a breach—in other words, an incident in which sensitive data is inappropriately accessed, viewed, stolen, or stored. For example, A.R.S. §18-545 requires that any person or entity in Arizona holding electronic personal data notify all affected parties if it determines there has been a security breach in which unauthorized access to unredacted or unencrypted personal information has occurred. Health-specific information is subject to a similar notification requirement under HIPAA. In addition to notifying the affected individuals, HIPAA also requires the organization that experienced the breach to notify the Secretary of HHS. Further, HIPAA requires that when an organization storing health information, like the Department, experiences a breach involving more than 500 residents of a state or jurisdiction, it must also notify prominent media outlets serving the area.

Proper IT security is vital to protecting the department systems that use and store sensitive data from security breaches. According to the Privacy Rights Clearinghouse, a nonprofit consumer education and advocacy organization dedicated to helping individuals protect their privacy, various government organizations reported approximately 79 electronic breaches affecting approximately 30 million people between 2012 and 2016 (see textbox, page 3, for examples of breaches).<sup>2,3</sup> Additionally, Symantec, a well-known IT security company, reported discovering more than 430 new pieces of malware in 2015, a 36 percent increase from the year before (see

textbox). Symantec estimated that security breaches resulted in more than half a billion lost or stolen records.

Breaches have considerable costs to both organizations and individuals. For example, a research paper published in the *Journal of Cybersecurity* explained that the median loss from a data breach is

**Malware**—Malware is software intended to damage a computer, mobile device, or computer system, take control over its operation, or gather sensitive data. Malware can be used to facilitate a breach of an IT system.

\$170,000.<sup>5</sup> Further, when the Utah Department of Health experienced a breach, the state spent \$2.75 million in fiscal years 2012 and 2013 to address the breach (see textbox, page 3, for more information). Organizations that are breached must generally notify potential victims, may provide credit-monitoring services to victims, may experience legal and other costs, and may lose public trust. Further, individuals who have their information improperly accessed or stolen may spend time and resources monitoring their credit and may become victims of identity theft.

#### Department IT staff and expenses

The Department employs staff responsible for ensuring department IT systems and data are secure. The Department reported that, as of February 2017, its Division of Technology Services employed 259 staff. Of these staff, 32 were dedicated to IT security, including a Chief Information Security Officer (CISO), 4 employees who performed network security functions such as protecting the Department's email system, and others who

A.R.S. §18-545 does not apply to financial institutions obligated to protect nonpublic personal information of its customers per title V of the federal Gramm-Leach-Biley Act, covered entities as defined under HIPAA, the Arizona Department of Public Safety, county sheriffs' departments, municipal police departments, prosecution agencies, or courts.

<sup>&</sup>lt;sup>2</sup> Privacy Rights Clearinghouse reported that this number fluctuates as new breaches are identified and reported. Likewise, breaches may be reported without information on the number of people affected.

This figure does not include breaches that occurred at educational institutions.

<sup>&</sup>lt;sup>4</sup> Symantec. (2016) Internet Security Threat Report, Vol. 21. Mountain View, CA.

Romanosky, S. (2016). Examining the costs and causes of cyber incidents. *Journal of Cybersecurity*, 1-15. The median figure is calculated from a dataset of 602 data breaches, which the author defines as "the unintentional disclosure of personally identifiable information stemming from loss or theft of digital or printed information." Of the 602 data breaches, the losses ranged from near zero to \$572 million.

#### Examples of electronic data breaches in government and healthcare

Banner Health—In August 2016, the Arizona hospital system Banner Health contacted 3.7 million individuals whose personal information may have been accessed because of a security breach in their system. Banner Health reported that the breach may have exposed credit card information and patient information such as names, birthdates, dates of service, claims information, and possibly health insurance and social security numbers. Additionally, information regarding health plans, beneficiaries, physicians, and healthcare providers may have been exposed. In response, Banner Health reported conducting an investigation, hiring a forensic firm, and providing a year of free credit monitoring to those whom the breach may have impacted.

U.S. Office of Personnel Management—In 2015, the U.S. Office of Personnel Management discovered that, through two separate but related security incidents, the background investigations and personnel records of current, former, and prospective federal employees and contractors had been compromised. In the first breach, the personnel data of 4.2 million former and current federal government employees was compromised. In the second breach, the background investigation records of approximately 21.5 million current, former, or prospective federal employees and contractors were compromised. The compromised information included social security numbers, address, date and place of birth, and other information. The federal government provided identity restoration service, identity theft insurance, and continuous identity and credit monitoring to those the breach impacted.

**Anthem Healthcare**—In 2015, 78 million patients had their personal information accessed through a data breach conducted by external hackers on Anthem Healthcare, a private company that provides health insurance. Personal identification information such as social security numbers, email addresses, and home addresses was accessed and compromised. Anthem Healthcare provided those affected with identity protection services.

Utah Department of Health-In March 2012, IT hackers gained access to a Utah Department of Technology Services computer server that stored Medicaid and Children's Health Insurance Program claims data. Hackers accessed approximately 780,000 records. The Utah Department of Health offered free credit-monitoring services for 2 years to those the breach impacted. According to the Utah Department of Health, Utah spent \$2.75 million in fiscal years 2012 and 2013 in response to the breach. In addition to the breach costs, Utah's governor requested a security review for all state agencies at a cost of \$1.3 million.

Source: Auditor General staff analysis of information primarily from the websites of the organizations that were breached.

performed functions such as monitoring employee access to systems in various divisions. 6 Prior to November 2016, 21 of the 32 IT security staff were housed in various department divisions and reported to management in their respective divisions. However, in November 2016, the Department centralized its IT security functions by consolidating IT security employees from various divisions into a central management reporting structure under the CISO, as opposed to having security teams report to management in their respective divisions.

The Department estimated that it spent approximately \$1.7 million in fiscal year 2016 for information security, including staff, equipment, and other expenses.

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The Department's other IT staff include systems project managers, programmer analysts, applications developers; and data center, service center, and help desk staff.

# Department should improve security processes and controls over its IT systems and data

The Arizona Department of Economic Security (Department) should improve its information technology (IT) security processes and controls to ensure that its IT systems and the data contained within them, including sensitive data, are better protected from unauthorized access. Malicious attackers use various methods to try to exploit security weaknesses to gain access to and/or compromise IT systems, which may result in a disruption of services or the theft of sensitive data. Although the Department has established various IT security processes to help protect its IT systems and data, by performing common attack patterns, auditors discovered weaknesses that resulted in auditors gaining access to these IT systems and sensitive data, including social security numbers and confidential health information. To better protect its IT systems and the sensitive data contained in them, the Department should improve key security management processes, including its processes for identifying and correcting IT security vulnerabilities. In addition, the Department should enhance its processes for restricting access to and identifying and addressing unusual or unauthorized activity on its IT systems, and develop and implement written policies and procedures for developing, securing, and testing web-based applications.

### Security attacks exploit IT weaknesses

Security weaknesses can be exploited to gain access to and/or compromise IT systems, which could result in a disruption of important services, or theft and/or loss of sensitive data (see Introduction, pages 1 through 3, for specific examples). Although each security incident is unique, most attacks against an IT system follow a similar process. Subsequently, security testing activities generally try to mirror how an attack may be performed. In most instances, security attacks include the following three general steps:

- Public information gathering—An attacker will attempt to gather as much information about an entity as
  possible using public resources, such as information available through the internet, to focus attacks on weak
  points.
- 2. **IT system scanning**—An attacker will perform some direct probing steps to attempt to find weaknesses, such as scanning entity resources with automated tools.
- 3. **Exploitation**—An attacker will attempt to exploit weaknesses to obtain unauthorized access to an IT system.

These steps may be used both externally—outside of an entity's network or building—and internally—inside of an entity's network—depending on the attacker, the attacker's goal, and the resources available. When performed with success, the steps may build on one another to allow an attacker to gain unauthorized access. Consequently, the steps are not always performed in the order listed above and may be performed multiple times or over a long period of time during an attempt to gain access. Further, attackers may use social engineering in tandem with these steps to convince users to provide them with information or the means needed to obtain unauthorized access to IT systems (see textbox on page 6).

**Social engineering**—These attacks attempt to persuade an entity's employees to provide some information about, or direct access to, the entity's network using devious means. Social engineering attacks may include:

- Email phishing—Sending devious emails in an attempt to convince a user to click on a link to open an external connection the attacker may use to gain unauthorized access.
- Phone phishing—Calling employees under false pretenses to persuade them to divulge sensitive information, such as personal information or their usernames and passwords.
- Physical social engineering—Attempting to convince employees at an entity to grant access to a physical building by playing a part or pretending to have the appropriate permission for access.

Source: Auditor General staff analysis of IT definitions from various sources.

### Department's IT systems and sensitive data exposed because of security weaknesses

By simulating common attack patterns and exploiting security weaknesses, auditors accessed the Department's core IT systems and the sensitive data contained in them. Specifically, auditors exploited weaknesses in the Department's internal systems, an external web-based application, and its security awareness efforts. Specifically:

Internal systems security weakness allowed auditors to gain access to sensitive data—As part of its IT security testing, auditors discovered and exploited a specific weakness in the Department's network and gained unauthorized access to IT systems and sensitive data. Based on this access, auditors found that they could control all network user accounts, including accounts with high-level access. These accounts could then be used to view, alter, or delete confidential health information and other sensitive data, including client social security numbers, names, and addresses.

Department staff reported that it began testing a fix for this specific issue in November 2016 shortly after auditors notified the Department of the security weakness, and the fix was implemented department-wide in January 2017. However, auditors also identified deficiencies in the Department's system configuration processes (see pages 9 through 10) that require the Department to take additional steps to adequately protect its systems and data. System configurations are settings that control how systems operate and should be designed in a secure manner whenever a new server, workstation, or other critical resource is introduced to the network environment.

Web application security flaws allowed auditors to gain access to sensitive data—Auditors also gained unauthorized access to sensitive data by exploiting security flaws in one of the Department's external

web applications (see textbox). Specifically, when auditors conducted manual testing on some of the Department's external web applications, auditors identified and exploited security weaknesses, which would have allowed them to view, alter, or delete sensitive data, including protected health information, names, and addresses for an estimated 100,000 individuals.

A **web application** is a software program or system that is accessed by an end user to perform a transaction with a web browser, such as Internet Explorer, over a network such as the internet. An external web application is accessible from any user connected to the internet and could be more susceptible to attack.

Source: Auditor General staff analysis of IT definitions from various

Auditors notified the Department of the discovered

vulnerabilities, and the Department reported it fixed them in August 2016. However, the Department will need to take additional steps to ensure that all of its web-based applications are properly secured (see page 11 for more information).

Security awareness efforts did not prevent auditors from simulating successful social engineering attacks—Finally, auditors gained unauthorized access to IT systems and data through security vulnerabilities

Auditors were granted internal access to the Department's network to conduct automated testing on the Department's network and IT systems to attempt to identify security weaknesses and vulnerabilities.

identified during auditors' social engineering testing. For example, using various social engineering techniques that requested department employees to perform actions and/or provide information, auditors accessed the Department's internal network and could have accessed sensitive data within the Department's internal IT systems. Although some department controls intercepted or prevented some of auditors' social engineering attempts to access department systems and sensitive data, these controls did not successfully prevent all attempts. A substantial number of department staff were susceptible to the attacks, indicating potential deficiencies in the Department's security awareness user training and education programs. Specifically, auditors' phishing attack success rate on the Department was more than double the percentage of successful attacks outlined in a recent phishing susceptibility report where a similar attack method was used against government agencies.<sup>8</sup>

Auditors immediately notified the Department of the access they gained using social engineering techniques, and the Department reported that it was working on implementing several technical controls to correct the identified issues in addition to restructuring its annual security awareness training. Because various types of social engineering can be used, the Department should ensure that enhancements to its security awareness training and education program properly address all potential types of attacks. For example, using simulated social engineering exercises could help the Department identify and mitigate weaknesses within its security awareness training and education program (see Finding 3, pages 21 through 25, for recommendations to enhance the Department's security awareness training and education program).

# Department has various IT security processes but should take steps to strengthen them

Although the Department has established various IT security processes and took steps to fix the specific security weaknesses discovered by auditors, its processes are not sufficiently robust to effectively identify, prevent, and remediate IT security weaknesses. Therefore, the Department needs to take several steps to more effectively secure its IT systems and the data contained in those systems. Specifically, the Department should improve three key security management processes: (1) vulnerability management, which involves systematically identifying, reviewing, and correcting IT system vulnerabilities; (2) patch management, which entails applying patches, or updates and fixes, to systems to ensure they remain secure; and (3) system configuration, which helps to ensure that the settings that control how systems operate are securely configured. In addition, the Department should strengthen its process for restricting access to its systems, including ensuring that accounts for terminated employees are disabled or removed as soon after the employee leaves as is practical. Further, the Department should develop and implement a continuous process for monitoring system activity and policies, procedures, and practices for securely developing web-based applications.

**Security management processes need improvement**—Although the Department uses several IT security management processes, auditors identified three processes that need improvement to help better secure the Department's IT systems. Specifically:

- Vulnerability management process should be developed and implemented—Vulnerability management
  is the process of identifying vulnerabilities such as IT security weaknesses, evaluating the associated risks,
  and either correcting or mitigating the vulnerabilities or documenting the acceptance of the risks. Although
  the Department performs vulnerability scans of its IT systems, it has not created a documented vulnerability
  management process to help ensure this process is performed with sufficient rigor and timeliness. Specifically:
  - Not all IT systems scanned for vulnerabilities—Vulnerability scanning involves using automated tools to identify security weaknesses within networks and IT systems. The Department scans its IT systems on a regular, scheduled basis; however, the Department lacks a process to identify and inventory all IT systems and devices that should be scanned, such as servers, workstations, routers/switches, and applications. Therefore, although the Department reported that it scans most of its IT systems every

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PhishMe, Inc. (2015). Enterprise phishing susceptibility report: An inside look at employee behavior pertaining to highly-effective phishing scenarios. Leesburg, VA.

month, it cannot provide documentation to support that assertion. For example, auditors scanned 752 department servers in August 2016 and, after comparing auditors' results to the Department's scans, found that the Department had not scanned a majority of those servers that month.<sup>9</sup>

- Vulnerability and penetration testing insufficient—Vulnerability and penetration testing is the process of simulating attacks on IT systems by systematically looking for potential security weaknesses across the IT environment and then attempting to gain access to systems and data by exploiting these vulnerabilities. The Department does not routinely perform this type of testing but has hired contractors to perform these tests periodically. However, auditors identified several security issues using common attack methodologies that had not been previously discovered, highlighting shortcomings in the depth and frequency of the testing that is performed. In addition, department IT security staff do not have the knowledge or expertise required to identify common attack strategies currently used by hackers. For example, based on interviews with department staff, these staff were not adequately familiar with the strategies auditors used to attack the Department's IT systems.
- Remediation process to address vulnerabilities lacking—Remediation of identified vulnerabilities entails reviewing and addressing these vulnerabilities or formally accepting their associated risks, such as when business needs outweigh security requirements. However, the Department has not established an adequate remediation process. As a result, many identified vulnerabilities have not been addressed. For example, auditors scanned 752 department servers in August 2016 and found that more than 63 percent had critical and high vulnerabilities, some dating back to 1999. Department staff reported that historically, vulnerability reports were distributed to IT staff within each division who were directed to apply fixes. Additionally, due to varying remediation results, the Department moved this responsibility to two of its central IT security staff in February 2016, but because these staff have other job functions, auditors determined this to be an inadequate distribution of resources assigned to vulnerability management activities. The Department also reported that moving the IT staff distributed across the Department into its newly centralized IT security structure should help improve the efficiency of vulnerability management processes (see the Introduction, page 3, for more information on the centralization effort).

To help ensure vulnerabilities are effectively identified and addressed, the Department should develop and implement written policies and procedures establishing a formal vulnerability management process. Specifically, as part of its vulnerability management process, the Department should:

- Ensure that regular vulnerability scanning occurs and is comprehensive, meaning that it includes all systems. To do so, the Department will need to develop and implement procedures for identifying and creating an inventory of all systems, such as with automated tools or software.
- o Include regular, comprehensive vulnerability and penetration testing. If the Department chooses to continue using contractors to perform this work, it should ensure its contractors effectively identify vulnerabilities by conducting more frequent, comprehensive testing. If the Department will primarily rely on using internal staff for vulnerability and penetration testing, the Department will need to develop inhouse expertise on vulnerability and penetration testing, including common attack strategies currently used by hackers. For example, in addition to formal training, widely used IT security sources, such as IT security conferences and blogs, contain information on the newest attack methods and defenses.
- Include a well-defined remediation process. This process should identify the specific staff responsible for addressing identified vulnerabilities, including the number and type of staff involved; specify staff roles and responsibilities related to reviewing and addressing detected vulnerabilities or formally accepting their associated risks; and set specific time frames for completing the remediation process.

Auditors found that the Department had not scanned 74 percent of the 752 servers auditors scanned. However, according to the Department, its August 2016 scan was the first one conducted after the Department moved its data center, and this move could have impacted the results of its scan.

- Train appropriate staff on the vulnerability management process and the supporting policies and procedures.
- Patch-management process should be improved—Patch management is another important process for helping to secure IT systems and data. Hardware and software vendors periodically issue updates, or patches, to their products to correct security vulnerabilities and additional flaws that have been identified, and to improve usability, performance, and security. The process of reviewing updates, establishing a plan to apply them, and applying them, as appropriate, is referred to as patch management. Although the Department has begun to develop policies and procedures to guide its patch-management process and performs some patching on most of its IT systems, its process does not include some older systems and third-party software, which require updates to mitigate vulnerabilities. As a result, patching is performed inconsistently, and many of the Department's IT systems are not fully updated with necessary and recommended patches. Specifically, auditors discovered third-party software and operating system security updates that had been available for several years but had not been applied on 354 of the 752 department servers that auditors reviewed, or 47 percent, resulting in vulnerabilities that potentially place department systems and data at risk.

To improve its patch management process, the Department should continue to develop and implement written patch management policies and procedures to guide its staff and efforts in this area. These written policies and procedures should include the following:

- Identifying and determining the third-party software and operating system security updates that are available and whether a software or system update should be applied, including testing and documenting the effectiveness and potential side effects of available patches before installation;
- Applying available patches in a timely manner and reviewing third-party software and operating system security updates to ensure they are effectively applied; and
- Accepting, justifying, and documenting the risk of not updating the software or system if there are extenuating circumstances, such as older applications that may not be able to run or will not perform properly with the updates applied.
- IT system configuration process should be strengthened—The Department does not sufficiently review the configurations of its servers, workstations, and other critical network resources to ensure that they are as secure as possible. Configurations are settings that control how systems operate, such as software that is appropriate to install on a server versus a workstation and services that should or should not be run. IT servers and other devices, such as IT storage systems, provide and hold a significant portion of the critical functionality and sensitive data department employees need to complete their job duties. When IT systems are not properly configured, errors may occur, system functionality may be inhibited, and data contained within those systems may be more susceptible to attacks.

Auditors' review determined that the Department has improper server configurations and unnecessary services and applications enabled on many of its IT systems, which unnecessarily expose these systems to risks. Specifically, auditors found that an unnecessary configuration was enabled on some of the Department's workstations, a configuration that allowed auditors to gain access to other resources within the Department's internal network and unauthorized access to sensitive data. Although a draft policy regarding system configuration had been created, auditors found that the Department had not performed some commonly recommended configuration changes that would have mitigated certain vulnerabilities and that cannot otherwise be resolved by installing a patch. In addition, the Department's process for configuring some of its IT resources contained common settings that, if not individualized or randomized, could provide potential attackers with a means to move from system to system. Some critical settings need to be made unique to limit the broad access that could otherwise result.

To address these issues, the Department should continue its efforts to develop and implement written policies and procedures for securely configuring its IT systems. These policies and procedures should include requirements for:

- Configuring the Department's IT systems so that they do not provide more functionality than is necessary, including provisions and controls to ensure that baseline configurations, which provide an agreed-upon set of attributes that serve as a basis for information system settings, are developed and documented for each IT system, as appropriate;
- Developing and documenting specific configuration settings;
- Ensuring unique or randomized settings are used for critical functionality; and
- Defining the frequency of reviews and of updates to configurations.

Process for restricting access to only authorized users should be strengthened—Access control is critical to IT security in any organization. Access control is the process of granting or denying specific requests for obtaining and using data and related data-processing systems or services, or entering specific physical facilities. Although the Department has some controls in place, such as access forms and an electronic ticketing system to document access, auditors identified some deficiencies that provide excessive access to the Department's IT systems. Specifically:

- Terminated and unused accounts with active access to IT systems—The Department does not have a process for reviewing user access on a regular basis or ensuring that employee access to IT systems is terminated upon employee separation from the Department. Auditors' review of the Department's network found numerous active accounts that were either unused or linked to terminated employees. In addition, access for the network is not reviewed on a periodic basis for changes and discrepancies. By not reviewing access periodically, the Department runs the risk of not detecting improper access to its systems and the sensitive data they contain. To ensure the access-removal process is properly conducted, the Department should develop and implement written policies and procedures for reviewing and adjusting, as needed, user access and account access privileges periodically, and ensure that accounts for terminated or separated employees are disabled or removed as soon after the employee leaves as is practical.
- Some passwords not changed frequently—The Department has established a policy that requires passwords on all network accounts to be changed at least once every 30 days; however, auditors found numerous accounts with passwords that were older than 30 days. Many of these accounts were service accounts—privileged accounts used directly by computer systems to administer or operate functions or applications—although some belonged to individuals. Service accounts are often on a different password age schedule than employee accounts; yet, the Department does not have a defined password expiration schedule for these accounts, and most of them had passwords older than 1 year. Consequently, any person who had prior knowledge of these account passwords could still have access to them, and any malicious user who gains access to such credentials may have been able to obtain access to the corresponding systems. In addition, the Department has not established a process for evaluating the need to change these passwords based on the separation of individuals who had access to these passwords based on their department employment. Therefore, the Department should develop and implement written policies and procedures that establish requirements and time frames for changing service account passwords, and ensure that all passwords are changed in accordance with its policies.

Continuous IT system log monitoring program should be developed and implemented—The Department has not adequately monitored the logs that capture information for its IT systems' user and computer activities. Collecting and monitoring logs of critical IT system activities enable organizations to track events on IT systems and networks and to detect improper actions by any person who may access its IT systems, whether staff or nonstaff. These activities may include logins and connections to critical applications, systems, and devices, as well as changes to data and data transfer activities. However, auditors found that the Department's monitoring activities were insufficient. For example, although the Department reported it detected auditors' testing of external web applications, it did not detect auditors' attempts and success in obtaining unauthorized access to the Department's internal network.

To improve its log-monitoring efforts, the Department should develop and implement a continuous log-monitoring program that includes written policies and procedures for monitoring critical IT activities. The Department's policies and procedures should:

- Describe the IT systems and functions within each IT system that should be logged;
- Specify how frequently each log should be monitored;
- Identify who is responsible for ensuring log events are captured and reviewing log events on a regular basis;
- Develop standard response actions that should be taken for detected events, including informing designated personnel of security risks to the Department and for individual information systems; and
- Include requirements for securely protecting the logs and time frames for how long the logs should be retained before being deleted.

Process needed to incorporate security when developing web-based applications—To better ensure the security of web-based applications, the Department should establish department-wide security standards for developing, securing, and testing web-based applications that are in line with IT standards and best practices. Although the Department develops new web-based applications using a department-wide standard, the standard lacks detailed security requirements and guidance for developers. As a result, the Department's web-based applications may be developed with security weaknesses, such as the weakness discovered by auditors in one of the Department's external web applications. In addition, the Department's web-based application development processes do not include comprehensive security testing requirements or processes. For example, auditors interviewed department staff and found that web applications are not evaluated for security vulnerabilities individually prior to being put into service.

According to IT standards and best practices, building security into the web-based application development process is more cost-effective and secure than applying it afterwards. These IT standards and best practices also recommend that organizations' application development process employ security practices and requirements during all phases, including the definition of requirements, design and construction of the application, testing, and implementation. Therefore, the Department should develop and implement written policies and procedures for developing, securing, and testing web-based applications. The Department's policies and procedures should include the following:

- **Gathering security requirements**—Security requirements should include classifying the data in the application according to confidentiality and defining how the web-based application will comply with all relevant laws, regulations, and standards.
- **Up-to-date secure coding standards or conventions—**These are the steps that should be followed to develop a web-based application based on best practices.
- **Threat modeling during development**—Threat modeling involves defining how the application works, exploring potential vulnerabilities and threats by thinking of possible ways an attacker would attack the application, and then developing mitigating controls for each of the realistic threats identified.
- **Source code review**—Source code review is the process of manually checking the web-based application's operational structure for security issues that cannot be detected with any other form of analysis or testing.
- Security testing before releasing a web-based application to the live environment—Security testing before release helps ensure that the web-based application functions as intended and does not contain critical flaws when it is released.

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<sup>&</sup>lt;sup>10</sup> Open Web Application Security Project. (2014). *OWASP testing guide, version 4.0*. Bel Air, MD: OWASP Foundation.

<sup>&</sup>lt;sup>11</sup> Open Web Application Security Project, 2014.

#### Recommendations

- 1.1. To help ensure vulnerabilities are effectively identified and addressed, the Department should develop and implement written policies and procedures establishing a formal vulnerability management process. Specifically, as part of its vulnerability management process, the Department should:
  - a. Ensure that regular vulnerability scanning occurs and is comprehensive, meaning that it includes all systems. To do so, the Department will need to develop and implement procedures for identifying and creating an inventory of all systems, such as with automated tools or software.
  - b. Include regular, comprehensive vulnerability and penetration testing. If the Department chooses to continue using contractors to perform this work, it should ensure its contractors effectively identify vulnerabilities by conducting more frequent, comprehensive testing. If the Department will primarily rely on using internal staff for vulnerability and penetration testing, the Department will need to develop inhouse expertise on vulnerability and penetration testing, including common attack strategies currently used by hackers. For example, in addition to formal training, widely used IT security sources, such as IT security conferences and blogs, contain information on the newest attack methods and defenses.
  - c. Include a well-defined remediation process. This process should identify the specific staff responsible for addressing identified vulnerabilities, including the number and type of staff involved; specify staff roles and responsibilities related to reviewing and addressing detected vulnerabilities or formally accepting their associated risks; and set specific time frames for completing the remediation process.
  - d. Train appropriate staff on the vulnerability management process and the supporting policies and procedures.
- 1.2. The Department should continue to implement written patch management policies and procedures to guide its staff and efforts in this area. These written policies and procedures should include the following:
  - Identifying and determining the updates that are available and whether a software or system update should be applied, including testing and documenting the effectiveness and potential side effects of available patches before installation;
  - b. Applying available patches in a timely manner and reviewing the updates to ensure they are effectively applied; and
  - c. Accepting, justifying, and documenting the risk of not updating the software or system if there are extenuating circumstances, such as older applications that may not be able to run or will not perform properly with the updates applied.
- 1.3. The Department should continue its efforts to develop and implement written policies and procedures for securely configuring its IT systems. These policies and procedures should include requirements for:
  - Configuring the Department's IT systems so that they do not provide more functionality than is necessary, including provisions and controls to ensure that baseline configurations, which provide an agreed-upon set of attributes that serve as a basis for information system settings, are developed and documented for each IT system, as appropriate;
  - b. Developing and documenting specific configuration settings;
  - c. Ensuring unique or randomized settings are used for critical functionality; and
  - d. Defining the frequency of reviews and of updates to configurations.
- 1.4. To ensure the access-removal process is properly conducted, the Department should develop and implement written policies and procedures for:

- Reviewing and adjusting, as needed, user access and account access privileges periodically, and ensure that accounts for terminated employees are disabled or removed as soon after the employee leaves as is practical.
- b. Establishing requirements and time frames for changing service account passwords, and ensure that all passwords are changed in accordance with its policies.
- 1.5. The Department should develop and implement a continuous log-monitoring program that includes written policies and procedures for monitoring critical IT activities. The Department's policies and procedures should:
  - a. Describe the IT systems and functions within each IT system that should be logged;
  - b. Specify how frequently each log should be monitored;
  - c. Identify who is responsible for ensuring log events are captured and reviewing log events on a regular basis;
  - d. Develop standard response actions that should be taken for detected events, including informing designated personnel of security risks to the Department and for individual information systems; and
  - e. Include requirements for securely protecting the logs and time frames for how long the logs should be retained before being deleted.
- 1.6. The Department should develop and implement written policies and procedures for developing, securing, and testing web-based applications. The Department's policies and procedures should include the following:
  - a. Gathering security requirements;
  - b. Up-to-date secure coding standards or conventions;
  - c. Threat modeling during development;
  - d. Source code review; and
  - e. Security testing before releasing a web-based application to the live environment.

# Department should establish an information security program

The Arizona Department of Economic Security (Department) should develop and implement an information security program. The Department lacks an information security program as required by state policy, and establishing such a program would help ensure that the Department sufficiently protects its information technology (IT) systems and the data contained in them, including sensitive data. Therefore, the Department should create a written plan to guide the development and implementation of a department-wide information security program. Consistent with state requirements, this plan should address areas such as risk assessment, staff roles and responsibilities, training, and resources related to its IT systems and data.

## Department lacks information security program

The Department has not established an information security program as required by state policy. To help ensure IT security state-wide, the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET) requires state agencies to develop and implement an information security program.<sup>12</sup> An information security program would help ensure that the Department has processes for identifying and safeguarding its IT systems and data against security vulnerabilities, such as those auditors identified (see Finding 1, pages 5 through 13). Although the Department had developed a general policy outlining some requirements for an information security program as of November 2016, it lacked an overall security program that was consistent with ASET's state-wide security program policy requirements and best practices. Specifically, the Department:

- Has not conducted a department-wide IT risk assessment—Although the Department approved a written risk assessment policy in September 2015, it has not conducted a department-wide IT risk assessment or established procedures for doing so. A risk assessment is a structured process that identifies risks within the organization, such as weak security practices, outdated systems, or the lack of a plan for restoring IT or other business operations following a disaster, and determines what controls are needed to lessen these risks. Risk assessments are also used to identify threats that originate outside of the Department, such as individuals attempting to disrupt or gain unauthorized access to the Department's IT systems, or fires and other unexpected events that could damage IT equipment. However, the Department has not performed a department-wide IT risk assessment or developed procedures for doing so on a regular basis. Instead, the Department primarily learns about security risks from external parties conducting periodic work with a limited scope, such as external auditors assessing only some portions of some IT systems and contractors using limited techniques to conduct vulnerability scans of only some portions of the Department's computer network. Without procedures for conducting a department-wide risk assessment, the Department cannot effectively identify potential IT security risks and then develop a plan for mitigating those risks.
- Has not adequately established authority and responsibilities for an information security program—
   IT standards and best practices indicate that to provide effective management, direction, and support for information security, an information security program should be formalized into a department-wide written plan that identifies a governance structure, or the method by which information security will be directed,

<sup>&</sup>lt;sup>12</sup> Arizona Revised Statutes §18-105 requires the Arizona Department of Administration to develop and implement standards for state-wide information security and privacy.

administered, and/or controlled.<sup>13</sup> These standards and best practices also recommend that the plan should be disseminated and communicated to appropriate persons. Although the Department established a chief information security officer (CISO) position as early as 2006, it was not until September 2015 that the Department established in its information security program policy that one of the CISO's responsibilities is to coordinate, develop, implement, and maintain the department-wide information security program. However, the Department has not established in policy the CISO's authority to enforce the information security program or prescribed how the CISO's authority would be communicated to other staff. As a result, department staff might not be aware of the CISO's authority to implement and enforce information security policies department-wide. For example, auditors interviewed three department IT staff members in different divisions who are responsible for securing significant department IT systems. All three indicated that they were unfamiliar with information security policies created by the CISO's team that pertained to their specific responsibilities and indicated that they could not recall instances where the CISO had enforced information security policies.

Additionally, in contrast to ASET requirements, the Department's information security program policy does not describe the roles and responsibilities of any other staff who would be responsible for implementing the information security program. Without this information, department staff may not know how to best support the CISO and the Department in developing and implementing the information security program, and some program responsibilities may be discontinued or stalled when turnover occurs with IT security staff. For example, the Department reported it had setbacks in some areas after some IT security staff members, including staff responsible for developing IT policies and/or procedures, left the Department.

• Has not developed and implemented information security procedures—As part of an information security program, ASET has required state agencies to develop and implement policies and procedures in 17 security areas. These areas focus on processes such as data classification, security awareness education and training, and incident response, and are based on IT standards and best practices. <sup>14</sup> ASET required state agencies to have draft policies for the 17 areas established by July 2015 and has worked on additional policies that may be required in the future. As of November 2016, the Department had established or drafted the 17 required policies, but it had not yet developed or fully developed the associated procedures—the written steps the Department would take to implement these required policies—consistent with ASET requirements (see Finding 3, pages 21 through 25, for more information on some of these areas). The Department reported that staff turnover, including in the CISO position and other positions responsible for drafting IT policy, had hampered its efforts to develop the ASET-required policies and associated procedures. However, absent the ASET-required procedures, the Department cannot ensure that it is taking the necessary steps to effectively safeguard its IT systems and data, and its staff may not fully understand their responsibilities related to helping ensure IT security.

# Department should create written plan for developing an information security program

To help ensure the Department's IT systems and data are sufficiently protected, the Department should establish a written plan for developing and implementing a department-wide information security program. The Department's plan should identify the specific tasks required to develop and implement an information security program, time frames for completion, and persons responsible for completing the specific tasks. Consistent with ASET requirements, this plan should also address areas such as risk assessment, staff roles and responsibilities related to IT security, training, and resources. Specifically, the Department's written plan should include the following:

• Establishing a department-wide risk assessment process—ASET requirements and IT standards and best practices state that organizations should have documented policies and procedures for regularly performing organization-wide IT risk assessments. For example, according to IT standards and best practices,

<sup>&</sup>lt;sup>13</sup> National Institute of Standards and Technology (NIST). (2013). Security and privacy controls for federal information systems and organizations. Washington, DC: U.S. Department of Commerce.

 $<sup>^{14}</sup>$  The security areas are based on IT standards and best practices, such as NIST, 2013.

the risk assessment process should consist of a structured methodology and its results used to make changes to the security program (see textbox). Conducting a department-wide risk assessment would help the

Department identify and prioritize its information security program efforts. For example, once the Department has identified the IT system and data risks across the Department, it could determine which risks are the most serious and should be addressed first, such as excessive vulnerabilities within department systems or ineffective security awareness and training procedures (see Finding 1, pages 5 through 13, for information on security risks auditors identified). Therefore, the Department should develop and implement department-wide IT risk assessment procedures that are consistent with ASET requirements and best practices, regularly perform department-wide IT risk assessments, document the results and potential impacts of the identified risks, and use the risk assessment results to prioritize its information security program efforts and address identified risks.

#### Risk assessment criteria

A documented organization-wide risk assessment process should be established that:

- Assigns responsibility;
- Mandates regular assessments;
- Consists of a structured methodology for assessing risks, including control weaknesses and operational/environmental threats;
- Documents results and potential impacts of risks;
- Uses results to make changes to the security program and addresses risks; and
- Reports results to top management.

Source: Auditor General staff analysis of IT standards and best practices: International Organization for Standardization (ISO). (2013). Code of practice for information security controls, ISO/IEC 27002. Geneva, Switzerland; and NIST, 2013.

• Further defining information security program authority, roles, and responsibilities—The Department should take additional steps to clarify the CISO's authority and the roles and responsibilities of other department staff for the information security program. In November 2016, the Department centralized its IT functions, including IT security. As part of this effort, the Department consolidated IT security employees from various divisions under a central management reporting structure under the CISO, thus increasing central IT security staff from 11 to 32 employees. Prior to the centralization, department IT security staff operated independently from one another while providing support to their respective divisions. The centralization effort may help the Department enforce consistent information security standards department-wide and help ensure security staff have clear responsibilities and adequate oversight.

However, because its information security program policy does not clearly establish the CISO's authority to enforce an information security program nor does it describe the roles and responsibilities of any other staff who would participate in implementing the program, additional policy clarification is needed. ASET policy and IT standards and best practices indicate that authority, roles, and responsibilities should be clearly defined for each position involved in developing and implementing an information security program. Therefore, the Department should strengthen the CISO's authority to monitor and ensure compliance with the program by including this responsibility in its information security program policy. In addition, the Department should ensure the roles and responsibilities of any other IT security staff who will be involved in implementing the information security program are clearly defined in its information security program policy.

- Establishing required security procedures—As recommended in Finding 3 (see pages 21 through 25), the Department should ensure that its written plan for developing and implementing an information security program includes a process for adequately developing and implementing all ASET-required policies and procedures. These policies and procedures should include the policy area mentioned previously related to developing an information security program, the three key security areas auditors assessed in detail in Finding 3, the remaining 13 ASET-required areas, and any other areas ASET requires in the future.
- Establishing a workforce development strategy—The Department should follow best practices to establish an IT security workforce development strategy, which is a structured approach to further develop the core information security skills of department staff who work on the information security program. Although the Department provides some training for IT staff, the training does not include elements of best practices for workforce development, such as defining the knowledge and skill levels needed to perform

job duties, conducting role-based training programs, and defining standards for measuring and building individual qualifications for employees with IT security-related positions. <sup>15</sup> IT security workforce development programs are important so that staff have the necessary skills to implement and maintain an information security program.

• Assessing information security resources—To help ensure the information security program is maintained, the Department should assess its resources, such as staffing levels and the budget needed to implement the information security program, and ensure that resources are available as needed. For example, although the Department has processes to request monies for specific, large IT projects, the Department should ensure that its current resources are being used effectively and efficiently and should develop a process to ensure it will have sufficient resources to implement and operate the information security program. In addition, although department IT management reported measuring ratios of security staff to computers and to total department staff, the Department has not determined whether it needs to adjust its staffing based on these ratios. The Department should analyze the number and type of staffing needed to implement an information security program and ensure it has adequate staff, whether through reassigning staff, contracting for additional services, or other means. Without sufficient planning and analysis, the Department may be less able to acquire sufficient monies and staff for information security, and critical duties may not be assigned or performed.

Finally, the Department should ensure all department staff are aware of its information security program, including the CISO's authority for establishing and enforcing compliance with the program. Therefore, the Department should also establish a method for regularly communicating the authority, roles, and responsibilities for the information security program to department staff.

#### Recommendations

- 2.1. To help ensure the Department's IT systems and data are sufficiently protected, the Department should establish a written plan for developing and implementing a department-wide information security program. The Department's plan should establish the specific tasks required to develop and implement an information security program, time frames for completion, and persons responsible for completing the specific tasks.
- 2.2. The Department's written plan for developing and implementing a department-wide information security program should include the following tasks:
  - a. Developing and implementing department-wide IT risk assessment procedures that are consistent with ASET requirements and best practices, regularly perform department-wide IT risk assessments, document the results and potential impacts of the identified risks, and use the risk assessment results to prioritize its information security program efforts and address identified risks.
  - b. Further defining information security program authority, roles, and responsibilities, including strengthening the CISO's authority to monitor and ensure compliance with the program by including this responsibility in its information security program policy, and ensuring the roles and responsibilities of any other security staff who will be involved in implementing the information security program are clearly defined in its information security program policy.
  - c. Establishing an IT security workforce development strategy consistent with best practices, such as defining the knowledge and skill levels needed to perform job duties, conducting role-based training programs, and defining standards for measuring and building individual qualifications for employees with IT security-related positions.
  - d. Assessing its resources, such as staffing levels and the budget needed to implement the information security program, and ensuring that resources are available as needed. For example, the Department should ensure that its current resources are being used effectively and efficiently and should develop a process to ensure it will have sufficient resources to implement and run the information security

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<sup>&</sup>lt;sup>15</sup> NIST, 2013.

program. In addition, the Department should analyze the number and type of staffing needed to implement an information security program and ensure it has adequate staff, whether through reassigning staff, contracting for additional services, or other means.

e. Establishing a method for regularly communicating the authority, roles, and responsibilities for the information security program to department staff.

# Department should enhance efforts to establish information security policies and procedures

As a part of developing its overall information security program (see Finding 2, pages 15 through 19), the Arizona Department of Economic Security (Department) should continue and enhance its efforts to establish information security policies and procedures. As of November 2016, the Department had drafted or finalized the 17 information security policies required by the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET). However, auditors' in-depth review of three key policy areas—data classification, incident response, and security awareness education and training—found that the Department had not developed or fully developed the associated procedures and had not incorporated some best practices within its incident response policy. In addition, as mentioned in Finding 2, the Department is missing required elements in another key policy area related to developing an information security program. Further, auditors' high-level review of the Department's efforts to establish several of the remaining 13 ASET-required policies and associated procedures identified similar concerns. Therefore, the Department should ensure that it further develops and implements information security policies and procedures consistent with ASET requirements and best practices for the areas of data classification, incident response, and information security awareness education and training. In addition, in conjunction with creating a written plan for developing and implementing an information security program as recommended in Finding 2, the Department should include in its written plan a process to ensure all ASET-required policies and procedures are adequately developed and implemented.

# Department has not adequately implemented policies and procedures in three key information security areas

Although the Department has drafted or finalized policies for the 17 ASET-required information technology (IT) security areas as of November 2016, auditors' review of three key areas—data classification, incident response, and information security awareness education and training—found that the Department had not incorporated some best practices within one of these policies, and had not developed or needed to improve the associated procedures to fully implement these policies.

**Department should establish data classification process**—The Department has developed a data classification policy but has not yet created adequate procedures to implement this policy. A data classification process identifies whether data is sensitive and stipulates how it should be protected based on the data's inherent level of risk, considering things such as whether the data is public or confidential, which would include health information, taxpayer information, or personally identifiable information. In April 2015, the Department approved a data classification policy consistent with ASET requirements. In addition, the Department has inventoried its IT systems, an important requirement for being able to properly identify and classify data, and classified data in those systems known to contain federal taxpayer information.

However, the Department has not created adequate procedures to implement its data classification policy. Specifically, the Department has not inventoried and classified all the data that it processes and stores, such as health information or personally identifiable information, nor has it developed procedures for how it would do this. By not classifying its data, the Department runs the risk that it or its employees may provide external entities with access to data or other information they do not need and/or should not have. IT standards and best practices incorporated into ASET requirements indicate that data classification should include an organization-

wide classification process (see textbox). Therefore, the Department should develop and implement procedures for its data classification process that are consistent with ASET requirements, such as protecting the data based on its level of risk; for example, whether the data is confidential; and developing a data classification inventory that is updated regularly.

Department should develop and implement incident response process—The Department has developed an incident response policy consistent with ASET standards, but the policy lacks areas recommended by best practices, and the Department has not yet created all procedures necessary to implement this policy. Incident response is the process of detecting, reporting, and responding to information security incidents, such as a breach involving confidential data. Effective incident

#### Data classification process criteria

A documented organization-wide data classification process should be established that:

- Protects data based on requirements such as confidentiality;
- Is reviewed and updated regularly;
- Consists of an inventory of data classification details that includes classification, identity of the data owner, and a brief description of the data classified.

Source: Auditor General staff analysis of IT standards and best practices: International Organization for Standardization (ISO). (2013). Code of practice for information security controls, ISO/IEC 27002. Geneva, Switzerland.; and National Institute of Standards and Technology (NIST). (2013). Security and privacy controls for federal information systems and organizations. Washington, DC: U.S. Department of Commerce.

response reduces the risk of these incidents occurring, minimizes their overall impact, and ensures that legal requirements are followed if a security breach occurs. Additionally, Arizona Revised Statutes §18-545 requires that any person or entity in Arizona holding electronic personal data notify all affected parties if it determines there has been a security breach in which unauthorized access to unredacted or unencrypted personal information has occurred. In December 2014, the Department established a general incident-response-planning policy.

Although the Department has an incident-response-planning policy, it needs to enhance its policy to ensure it is consistent with best practices. Specifically, the policy lacks information regarding information spillage response, which is recommended by best practices. Information spillage is a security incident that occurs whenever classified data is transferred to unaccredited or unauthorized systems, applications, or computer media, such as portable storage devices. <sup>16</sup> Additionally, best practices recommend a comprehensive incident response plan that provides staff with detailed guidance and procedures to follow in response to an incident, but the Department lacks such a plan. Further, the Department has not developed procedures for its incident-response-planning policy related to incident response training, testing, and monitoring. IT standards and best practices incorporated into ASET requirements recommend organizations have a standardized, organization-wide process that identifies roles and responsibilities for the incident response process and provides the responding individuals with the authority to make critical decisions (see textbox). Therefore, the Department should enhance its incident-

response-planning policy to include an information spillage response, identify roles and responsibilities for the incident response process, and provide responding individuals with the authority to make critical decisions. In addition, the Department should develop and approve a comprehensive incident response plan and associated procedures related to incident response training, testing, and monitoring.

**Department should improve security awareness program**—The Department has implemented an information security awareness training policy consistent with ASET requirements, but its security awareness training and education program lacks two processes and has not been as effective as it should be. Information security

#### Incident response criteria

A standardized, documented, organization-wide process for managing information security incidents should be established that:

- Identifies roles and responsibilities;
- Provides the responding individuals with the authority to make critical decisions; and
- Provides information on how to identify, respond to, recover from, and follow up on information security incidents.

Source: Auditor General staff analysis of IT standards and best practices: ISO, 2013; and NIST, 2013.

 $<sup>^{16}</sup>$  National Security Agency. (2012). Securing data and handling spillage events. Washington, DC.

awareness education and training helps to ensure that an organization's employees understand the meaning of information security, risks associated with information security, the importance of complying with information security policies, and their responsibilities for information security. These education and training efforts are critical to help employees detect and avoid information security problems and incidents. IT standards and best practices incorporated into ASET requirements indicate that there should be a documented information security awareness education and training program (or set of activities) that is mandatory for all individuals who have access to the organization's information and IT systems (see textbox). The Department had a few elements of

security awareness in a policy as early as 2005 and approved a policy in September 2015 consistent with ASET requirements. For example, consistent with the policy, the Department has a mandatory security awareness training and education program during employee orientation and includes an annual test on security awareness that all employees are required to take to retain network access.

Despite its efforts, the Department lacks two security training processes—role-based training and an insider threat program—and its security awareness efforts have not been as effective as they should be. Without an effective information security awareness program, the Department may not adequately inform staff of common and emerging information security threats and concerns as well as staff responsibilities and liabilities related to these threats, or ensure its staff are equipped to support the Department's security policy during their normal work. The Department indicated that it would implement training that is specifically geared toward an individual's role within the Department, as ASET requires, in 2018. However,

## Information security awareness education and training criteria

A documented organization-wide information security awareness education and training program should be established that consists of the following:

- Awareness or training activities for all individuals with access to the organization's information or IT systems;
- Is geared toward the individual's role;
- Is mandatory and kept up to date; and
- Provides information that helps individuals understand (a) the meaning of information security, (b) the importance of complying with information security policies, and (c) their responsibilities for information security (e.g., reporting actual and suspected incidents or not giving credentials out over the phone).

Source: Auditor General staff analysis of IT standards and best practices: ISO, 2013; and NIST, 2013.

the Department has not created an insider threat program as recommended in best practices, which would include training on recognizing and reporting potential indicators of insider threats, such as staff attempts to gain access to information not required for job performance and malicious activity by employees and/or persons claiming to be employees. In addition, weaknesses in the Department's current training efforts contributed to auditors' successful social engineering attacks, as reported in Finding 1 (see pages 6 through 7). One approach the Department could take to better evaluate the effectiveness of its training efforts would be to simulate social engineering attacks similar to those used by auditors as described in Finding 1 and provide additional training to individuals who do not appropriately respond to simulated attacks.

Therefore, the Department should improve its information security awareness training and education program and procedures to ensure that they are effective and consistent with ASET requirements and best practices, such as implementing role-based training based on users' job duties and training for employees to recognize and report malicious activities internal to the Department. This training should inform users about common methods used by attackers, such as phishing emails and practical examples of phishing attacks to foster a more security-focused culture within the Department. In addition, the Department should simulate attacks to test the training's effectiveness and provide additional training to individuals who do not appropriately respond to simulated attacks.

# Department has not implemented policies and procedures in other information security areas

Similar to the three key areas mentioned previously, the Department also has not implemented policies or developed and implemented written procedures in other ASET-required areas needed for a strong information security program. Specifically, as described in Finding 2 (see pages 15 through 19), the Department has not

implemented its policy and has not developed and implemented written procedures for one of the foundational ASET-required policies—establishing an information security program. In addition, auditors conducted a high-level review of several other ASET-required areas and found similar issues with policies and procedures that were inadequate, undeveloped, and/or not implemented. For example, the Department's contingency planning policy, which states how it would restore data and operations when that data unexpectedly becomes unavailable, applies to only some systems and is missing critical elements recommended by best practices, such as detailed recovery procedures for restoring data. Further, the Department's written procedures for applying patches—or updates and fixes—to its IT systems do not adequately address updating software and employee workstations. Finding 1 (see pages 5 through 13) provides further information on the weaknesses auditors identified in the Department's patching and update processes. Therefore, without adequately developing and implementing policies and procedures to secure its IT systems and data, the Department is at a higher risk of a data breach.

As of November 2016, the Department had begun to improve its process to ensure that its information security policies and procedures were developed and conformed with ASET requirements, but these efforts should be enhanced. As indicated in Finding 2 (see pages 15 through 19), the Department reported that staff turnover, including in the CISO position and other positions responsible for drafting IT policy, had hampered its efforts to develop these policies and associated procedures. During the audit, the Department began consolidating and revising prior IT security policies to be aligned with ASET requirements by dedicating a full-time IT policy-writing staff position and involving other staff with reviewing these policies. However, the Department reported that some policies needed to be revised and it has not adequately defined and documented when it will complete each associated procedure or how it will ensure that the procedures will align with ASET requirements. Therefore, as the Department creates its written plan for developing and implementing an information security program (see Finding 2), it should ensure that its written plan includes a process for adequately developing and implementing all ASET-required policies and procedures. This process should include documenting time frames for completing key steps such as developing each written procedure and specifying persons responsible for completing specific tasks, such as developing the procedures, reviewing them to ensure consistency with ASET requirements and best practices, and approving the policies and procedures.

#### Recommendations

- 3.1. The Department should ensure that it further develops and implements information security policies and procedures consistent with ASET requirements for the areas of data classification, incident response, and information security awareness education and training. Specifically, the Department should:
  - a. Develop and implement procedures for its data classification process that are consistent with ASET requirements, such as protecting the data based on its level of risk; for example, whether the data is confidential; and developing a data classification inventory that is updated regularly;
  - Enhance its incident-response-planning policy to include an information spillage response, identify roles and responsibilities for the incident response process, and provide responding individuals with the authority to make critical decisions;
  - c. Develop and approve a comprehensive incident response plan and associated procedures related to incident response training, testing, and monitoring; and
  - d. Improve its information security awareness training and education program and procedures to ensure they are effective and consistent with ASET requirements and best practices, such as implementing role-based training based on users' job duties and training for employees to recognize and report malicious activities internal to the Department. This training should inform users about common methods used by attackers, such as phishing emails and practical examples of phishing attacks to foster a more security-focused culture within the Department. In addition, the Department should simulate attacks to test the training's effectiveness and provide additional training to individuals who do not appropriately respond to simulated attacks.

3.2.	As the Department creates its written plan for developing and implementing an information security program (see Finding 2, pages 15 through 19), it should ensure that its written plan includes a process for adequately developing and implementing all ASET-required policies and procedures. This process should include documenting time frames for completing key steps such as developing each written procedure and specifying persons responsible for completing specific tasks, such as developing the procedures, reviewing them to ensure consistency with ASET requirements and best practices, and approving the policies and procedures.

### **APPENDIX A**

### Methodology

Auditors used various methods to study the issues addressed in this report. These methods included reviewing applicable federal and state laws, the Arizona Department of Economic Security's (Department) policies and procedures, and information obtained from department staff; reviewing information on information technology (IT) breaches and IT definitions; and interviewing department officials and staff.

In addition, auditors used the following specific methods to address the audit objectives:

- To evaluate the security of the Department's IT systems and data, auditors tested applications and servers using both automated and more detailed security testing techniques. To identify the number and nature of the Department's IT systems, auditors interviewed staff, reviewed documents, and performed technical scanning techniques. According to the Department, it has over 120 IT systems and applications. Using a risk-based approach, auditors selected various IT systems to test with automated and manual methods. These methods identified potential vulnerabilities in the applications and associated servers, and auditors selected IT systems for further detailed testing. This testing allowed auditors to identify the potential risks that these applications might be compromised because of their vulnerabilities. Auditors also performed phishing attacks via email and telephone and reviewed access controls by testing user lists for terminated users, unused accounts, and password expirations. Additionally, auditors assessed the appropriateness of the Department's various security processes. Because of the information's sensitive nature, specific information about the security weaknesses identified has been excluded from this report and shared only with appropriate department officials.
- To determine if the Department had an adequate information security program and related policies and procedures, auditors analyzed the Department's IT security-related policies and other documents and compared them to state-wide requirements from the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office and to IT standards and best practices. Further, auditors reviewed several IT systems to determine the extent that IT security-related policies had been implemented, such as policies related to data classification, restoring data and operations when that data unexpectedly becomes unavailable, and applying patches—or updates and fixes—to its IT systems. Finally, auditors interviewed various staff in multiple divisions throughout the Department.
- Auditors' work on internal controls included reviewing and assessing department security policies and procedures and performing the test work described in the previous bullets. Auditors' conclusions on internal controls are reported in Findings 1, 2, and 3 of the report.

Auditors conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express their appreciation to the Department's interim director, management, and staff for their cooperation and assistance throughout the audit.



Douglas A. Ducey Governor Henry Darwin Interim Director

Ms. Debra K. Davenport, Auditor General Office of the Auditor General 2910 North 44<sup>th</sup> Street, Suite 410 Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Department of Economic Security appreciates the opportunity to provide a response to the Information Technology Security Audit conducted by your office that was received on April 5, 2017. The Department is committed to continuous quality improvement, transparency, and accountability.

Attached is the Department's response to your findings and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Henry Darwin Interim Director

**Enclosure: ADES Information Technology Security Audit Response** 

**Finding 1**: Department should improve security processes and controls over its IT systems and data

**Recommendation 1.1:** To help ensure vulnerabilities are effectively identified and addressed, the Department should develop and implement written policies and procedures establishing a formal vulnerability management process. Specifically, as part of its vulnerability management process, the Department should:

**Recommendation 1.1a:** Ensure that regular vulnerability scanning occurs and is comprehensive, meaning that it includes all systems. To do so, the Department will need to develop and implement procedures for identifying and creating an inventory of all systems, such as with automated tools or software.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The department has implemented a process to inventory all assets in the environment consolidating data from all available collectors. This dynamic list is maintained continuously and forms the basis for server vulnerability scanning. It currently reflects 1181 servers (including DCS) in the environment. Servers are scanned every 10 to 14 days. While this process has been improved since auditor's test work, it is also worth noting that the August 2016 comparison used the first scanning inventory conducted after DES' data center move. IP address changes caused by that move made that scan particularly unreliable.

Recommendation 1.1b: Include regular, comprehensive vulnerability and penetration testing. If the Department chooses to continue using contractors to perform this work, it should ensure its contractors effectively identify vulnerabilities by conducting more frequent, comprehensive testing. If the Department will primarily rely on using internal staff for vulnerability and penetration testing, the Department will need to develop in-house expertise on vulnerability and penetration testing, including common attack strategies currently used by hackers. For example, in addition to formal training, widely used IT security sources, such as IT security conferences and blogs, contain information on the newest attack methods and defenses.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Last year, the agency budgeted for penetration testing and application vulnerability scanning by a contractor on eight public-facing servers. The agency has recently scheduled penetration testing and vulnerability scanning by a contractor of all 75 public-facing applications and for 500 internal servers. In addition to extending this contract to all servers, the department has purchased application-scanning software and deployed it to security staff who will regularly run vulnerability scans on applications. Scans will be scheduled for existing applications and will be applied to all new applications before they are authorized for production. Licenses are provided to application developers to conduct scans during the development process.

**Recommendation 1.1c:** Include a well-defined remediation process. This process should identify the specific staff responsible for addressing identified vulnerabilities, including the

number and type of staff involved; specify staff roles and responsibilities related to reviewing and addressing detected vulnerabilities or formally accepting their associated risks; and set specific time frames for completing the remediation process.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Information Security Program Plan and the incident Response Plan are scheduled for publication in May 2017. The process of vulnerability response and remediation will be well defined, as will the roles for each participant in the remediation process. Service level expectations are included. Recognizing that not every vulnerability can be immediately addressed, the procedures define a process for assessing risk, implementing compensating controls, and formally accepting risk. Accepted risks will be prioritized and cataloged and a formal program of mitigation planning, implementation, and progress monitoring will be documented and integrated with the enterprise risk management strategy.

**Recommendation 1.1d:** Train appropriate staff on the vulnerability management process and the supporting policies and procedures.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency will incorporate the vulnerability management program training requirements into the existing security awareness program and the role-based security courses that are currently being designed. Training will alert system users to the concept of vulnerability recognition and give them clear guidance on how to report vulnerabilities to a central point for analysis. Personnel with relevant roles in the incident response program will receive role-based training on vulnerability discovery integration, categorization and assessment of vulnerabilities; remediation or integration into the risk management process; and evaluation for configuration, training, or procedure changes.

**Recommendation 1.2:** The Department should continue to implement written patch management policies and procedures to guide its staff and efforts in this area. These written policies and procedures should include the following:

**Recommendation 1.2a:** Identifying and determining the updates that are available and whether a software or system update should be applied, including testing and documenting the effectiveness and potential side effects of available patches before installation;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: This procedure is in place and will be defined in the Configuration Planning Procedure scheduled for publication in April 2017. Additionally, the agency has already put metric collection systems in place that will extract information from the two major automated patching systems to make real time metrics of patch management penetration levels and effectiveness visible to security engineers. Server patching is a formal part of the division's change management process. As such extensive testing, communication, and after-action review are conducted.

**Recommendation 1.2b:** Applying available patches in a timely manner and reviewing the updates to ensure they are effectively applied; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Configuration Planning Procedure defines a process for reviewing patches published by vendors and prioritizing them for deployment. To reduce the lag between vendor publication and patch application the Department has added 2 FTEs to this team and will maintain better system inventories, standardized configurations, and published maintenance schedules for network devices and is automating the patch process when possible. The metric collection process that is currently being implemented will provide data that will allow the agency to measure progress on efforts to reduce the average time between patch publication and patch application.

**Recommendation 1.2c:** Accepting, justifying, and documenting the risk of not updating the software or system if there are extenuating circumstances, such as older applications that may not be able to run or will not perform properly with the updates applied.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As discussed above, the agency will include un-remediated vulnerabilities in the enterprise risk management framework. This will include identification of systems that cannot be immediately remediated without affecting business operations, examining applicable threats that might exploit those vulnerabilities, quantifying the risk associated with the threat/vulnerability combination, considering compensating controls, formally accepting risk, and documenting the long-term risk treatment plan for the system.

**Recommendation 1.3:** The Department should continue its efforts to develop and implement written policies and procedures for securely configuring its IT systems. These policies and procedures should include requirements for:

**Recommendation 1.3a:** Configuring the Department's IT systems so that they do not provide more functionality than is necessary, including provisions and controls to ensure that baseline configurations, which provide an agreed-upon set of attributes that serve as a basis for information system settings, are developed and documented for each IT system, as appropriate;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The System Security Maintenance procedure, 1-38-8220, which is scheduled for publication in April 2017, has appendices that define baseline security configurations for each operating system within the agency's environment, the mainframe computer, and DES managed network devices. Those configurations are derived from recommended configurations engineered by the Center for Internet Security (CIS). These baseline configurations are designed to comply with FISMA, PCI, and

HIPAA configuration recommendations while providing all necessary functionality to users.

Recommendation 1.3b: Developing and documenting specific configuration settings;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As explained above, the agency is adopting baseline configurations for each operating system in the environment. Where the agency deviates from CIS baselines for operational reasons, the security control is evaluated in the context of other security controls in the environment, and becomes a part of the operating system specific appendix in the System Security Maintenance procedure, 1-38-8220.

**Recommendation 1.3c:** Ensuring unique or randomized settings are used for critical functionality; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency understands the Auditor General's concern with non-randomized configurations. The department will implement a solution within the next two months to address the issue. The department's long-term solution for this issue is an enterprise identity and management application, which it is pursuing during fiscal year 2018.

**Recommendation 1.3d:** Defining the frequency of reviews and of updates to configurations.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The frequency of reviews is defined in the Configuration Management Procedure scheduled for publication in April 2017.

**Recommendation 1.4:** To ensure the access-removal process is properly conducted, the Department should develop and implement written policies and procedures for:

**Recommendation 1.4a:** Reviewing and adjusting, as needed, user access and account access privileges periodically, and ensure that accounts for terminated employees are disabled or removed as soon after the employee leaves as is practical.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Account Management Procedure scheduled for publication in May 2017, defines a process for ensuring that accounts for terminated employees are deleted in a timely manner. The department is synchronizing data with ADOA HRIS and Active Directory to flag accounts for examination and has automated the suspension of inactive accounts. The department has just finished a review of the highest-level privileged accounts resulting in an 80% reduction by the end of March 2017.

**Recommendation 1.4b:** Establishing requirements and time frames for changing service account passwords, and ensure that all passwords are changed in accordance with its policies.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency has implemented a system that changes and randomizes service account passwords. This is documented in the Account Management Procedure, which will be published in May 2017.

**Recommendation 1.5:** The Department should develop and implement a continuous log-monitoring program that includes written policies and procedures for monitoring critical IT activities. The Department's policies and procedures should:

**Recommendation 1.5a:** Describe the IT systems and functions within each IT system that should be logged;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency has engaged a vendor, Dell SecureWorks for log monitoring. Security staff will continue to monitor logs as well. These new processes are defined in the Security Audit Procedure due for publication in May 2017. The procedure also defines the process for long-term log retention including retention schedules.

Recommendation 1.5b: Specify how frequently each log should be monitored;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Please refer to the response explanation for recommendation 1.5a.

**Recommendation 1.5c:** Identify who is responsible for ensuring log events are captured and reviewing log events on a regular basis;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Security Audit Procedure, scheduled for publication, in May 2017, will enumerate in an appendix all required logs, their retention period, the required review frequency, and the individuals responsible for each review.

**Recommendation 1.5d:** Develop standard response actions that should be taken for detected events, including informing designated personnel of security risks to the Department and for individual information systems; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Incident Response Procedure, due for publication in May 2017, will define the process for responding to incidents discovered while reviewing security or application logs.

**Recommendation 1.5e:** Include requirements for securely protecting the logs and time frames for how long the logs should be retained before being deleted.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Please refer to the response explanation for recommendation 1.5a.

**Recommendation 1.6:** The Department should develop and implement written policies and procedures for developing, securing, and testing web-based applications. The Department's policies and procedures should include the following:

Recommendation 1.6a: Gathering security requirements;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Systems Acquisition and Development procedure, due for publication in June 2017, defines the process for system acceptance including the manner in which security is applied to the development and testing phases of application development or acquisition.

Recommendation 1.6b: Up-to-date secure coding standards or conventions;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The Systems Acquisition and Development procedure will require the use of secure coding standards consistent with current security standards.

**Recommendation 1.6c:** Threat modeling during development;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Systems Acquisition and Development procedure defines a three-step methodology for threat modeling during the development process consistent with current security standards.

Recommendation 1.6d: Source code review; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The System Security Acquisition and Development Procedure will require that individuals who have *secure coding* training approve source code prior to a system receiving authorization as a production release.

**Recommendation 1.6e:** Security testing before releasing a web-based application to the live environment.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The System Security Acquisition and Development Procedure defines the process for security testing prior do deploying an application.

### Finding 2: Department should establish an information security program

**Recommendation 2.1:** To help ensure the Department's IT systems and data are sufficiently protected, the Department should establish a written plan for developing and implementing a department-wide information security program. The Department's plan should establish the specific tasks required to develop and implement an information security program, time frames for completion, and persons responsible for completing the specific tasks.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency has finalized its Information Security Program Policy and is drafting its Information Security Program Plan, which is due for publication in April 2017. The plan will define the information security program including roles, responsibilities, and schedules.

**Recommendation 2.2:** The Department's written plan for developing and implementing a department-wide information security program should include the following tasks:

**Recommendation 2.2a:** Developing and implementing department-wide IT risk assessment procedures that are consistent with ASET requirements and best practices, regularly perform department-wide IT risk assessments, document the results and potential impacts of the identified risks, and use the risk assessment results to prioritize its information security program efforts and address identified risks.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency has published its Risk Assessment Policy and is in the process of revising the Risk Assessment Procedure to conform to ASET standards. It is scheduled for publication in May 2017.

**Recommendation 2.2b:** Further defining information security program authority, roles, and responsibilities, including strengthening the CISO's authority to monitor and ensure compliance with the program by including this responsibility in its information security program policy, and ensuring the roles and responsibilities of any other security staff who will be

involved in implementing the information security program are clearly defined in its information security program policy.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Information Security Program Plan will fully define the role of the Chief Information Security Officer as well as other critical security staff clearly enumerating their responsibilities and the scope and authority of their positions.

**Recommendation 2.2c:** Establishing an IT security workforce development strategy consistent with best practices, such as defining the knowledge and skill levels needed to perform job duties, conducting role-based training programs, and defining standards for measuring and building individual qualifications for employees with IT security-related positions.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Both the Information Security Program Plan and the Security Awareness Training and Education Procedure will provide explicit guidance for the desired qualifications of key positions within the Information Risk Management program. The plan will describe role-based training for those positions as well as defining a strategy for maintaining currency in the information security specialty required for their position. In addition, the Department is working with vendors to obtain qualified contractors to address vacancies due to turnover.

Recommendation 2.2d: Assessing its resources, such as staffing levels and the budget needed to implement the information security program, and ensuring that resources are available as needed. For example, the Department should ensure that its current resources are being used effectively and efficiently and should develop a process to ensure it will have sufficient resources to implement and run the information security program. In addition, the Department should analyze the number and type of staffing needed to implement an information security program and ensure it has adequate staff, whether through reassigning staff, contracting for additional services, or other means.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The agency will engage the service of an independent technology research firm to evaluate the staffing of various information security functions. This review has begun and will continue into the coming fiscal year.

**Recommendation 2.2e:** Establishing a method for regularly communicating the authority, roles, and responsibilities for the information security program to department staff.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency will include this regular communication as a part of the new Security Awareness Program scheduled to begin January 2018. In the

meantime, the agency will continue its program of regular emails to systems users regarding their role in the information security process.

**Finding 3**: Department should enhance efforts to establish information security policies and procedures

**Recommendation 3.1:** The Department should ensure that it further develops and implements information security policies and procedures consistent with ASET requirements for the areas of data classification, incident response, and information security awareness education and training. Specifically, the Department should:

**Recommendation 3.1a:** Develop and implement procedures for its data classification process that are consistent with ASET requirements, such as protecting the data based on its level of risk; for example, whether the data is confidential; and developing a data classification inventory that is updated regularly;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Data Classification Procedure, scheduled for publication in April 2017, defines the process for system owners to classify the level of sensitivity in their systems. This process will be monitored by security staff for compliance and inclusion in the agency data inventory.

**Recommendation 3.1b:** Enhance its incident-response-planning policy to include an information spillage response, identify roles and responsibilities for the incident response process, and provide responding individuals with the authority to make critical decisions;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Incident Response Procedure and the Privacy Procedure, due for publication in May 2017, define the process, roles, and communications responsibilities during an information spillage incident.

**Recommendation 3.1c:** Develop and approve a comprehensive incident response plan and associated procedures related to incident response training, testing, and monitoring; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency published an Incident Response Policy in November 2016, and the Incident Response Procedure is due for publication in May 2017. The procedure is comprehensive and will define processes for training, testing, and monitoring the program.

**Recommendation 3.1d:** Improve its information security awareness training and education program and procedures to ensure they are effective and consistent with ASET requirements and best practices, such as implementing role-based training based on users' job duties and training for employees to recognize and report malicious activities internal to the Department.

This training should inform users about common methods used by attackers, such as phishing emails and practical examples of phishing attacks to foster a more security-focused culture within the Department. In addition, the Department should simulate attacks to test the training's effectiveness and provide additional training to individuals who do not appropriately respond to simulated attacks.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency will publish its Security Awareness Training procedure June 2017. This procedure will define the general awareness and role based training to be deployed to system users. It will emphasize awareness and extend the training using innovative methods to include each user in the information security effort. The agency will implement drills and simulated attacks to reinforce training.

**Recommendation 3.2:** As the Department creates its written plan for developing and implementing an information security program (see Finding 2, pages 15 through 19), it should ensure that its written plan includes a process for adequately developing and implementing all ASET-required policies and procedures. This process should include documenting time frames for completing key steps such as developing each written procedure and specifying persons responsible for completing specific tasks, such as developing the procedures, reviewing them to ensure consistency with ASET requirements and best practices, and approving the policies and procedures.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The agency has published all 17 of ASET's required security policies. Sixteen security procedures are in various stages of draft and are expected to be published between April and June 2017. The agency has a written schedule for publication of procedures including timeframes and responsible drafters, technical reviewers, and approval authorities.



# Arizona Department of Economic Security Division of Developmental Disabilities

Division should establish minimum qualification requirements for its contractors that train and monitor developmental home licensees and establish a process for overseeing these contractors



**Debra K. Davenport** Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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DEBRA K. DAVENPORT, CPA AUDITOR GENERAL

# STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

MELANIE M. CHESNEY DEPUTY AUDITOR GENERAL

September 19, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Michael Trailor, Director Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Economic Security (Department)—Division of Developmental Disabilities. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement all of the recommendations.

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

Sincerely,

Debbie Davenport Auditor General

Attachment





### REPORT HIGHLIGHTS

Performance Audit September 2017

# Arizona Department of Economic Security Division of Developmental Disabilities

CONCLUSION: The Arizona Department of Economic Security's Division of Developmental Disabilities (Division) provides diverse services to individuals with developmental disabilities, called "members," based on their eligibility and regulates service providers and community residential settings, including child and adult developmental homes that provide 24-hour care for its members. The Division primarily relies on contractors, called monitoring agencies, to help fulfill its statutory responsibilities to license developmental homes and monitor them for compliance with administrative rules. We found that although monitoring agencies complete the Division's qualified vendor process, this process may not ensure that monitoring agencies and their staff are qualified to fulfill their responsibilities. Additionally, the Division lacks a process for overseeing its monitoring agencies due to several factors, including not clearly defining monitoring agencies' responsibilities and requirements and lacking policies and procedures that direct oversight activities. Therefore, the Division should establish minimum qualification requirements for its monitoring agencies and take several steps to establish a process for overseeing them.

# Division serves individuals with developmental disabilities and regulates service providers and community residential settings

As of December 2016, the Division provided services to more than 38,000 members. To be eligible for division services, the primary requirement is that the member must have a severe, chronic disability that is attributable to a cognitive disability, cerebral palsy, epilepsy, or autism. All members receive case management services, and the Division offers various other services to members depending on whether the severity of their disability and their or their family's financial limitations make them eligible for these services, including: home- and community-based services, such as housekeeping, occupational therapy, and hospice care; medical care services; and residential services. In addition, the Division is responsible for helping to regulate community residential settings, including licensing child and adult developmental homes, which are private homes where the homeowner(s) or lessee(s) are licensed to provide 24-hour care for up to three members residing in the home.

# Division should establish minimum qualifications for contractors that train and monitor developmental home licensees

**Division uses contractors to oversee developmental home licensees**—The Division uses contractors, called monitoring agencies, to help ensure that developmental home licensees meet administrative rule requirements for licensure and annual license renewal by ensuring the applicant(s)/licensee(s) receive the required training and by conducting the required home visits. Monitoring agencies also conduct comprehensive evaluations of developmental home applicants/licensees each year, called home studies, which cover 24 diverse areas including any experience that supports working with vulnerable populations, employment, and the stability of family relationships; and make recommendations to the Division for issuing and renewing the developmental home licenses. Monitoring agency applicants must contract with the Division as a qualified vendor and meet various requirements, such as submitting to a Central Registry background check through the Arizona Department of Child Safety that looks for substantiated instances of child abuse and/or neglect and submitting internal policies for division review. As of May 2017, the Division contracted with 40 monitoring agencies that worked with more than 1,100 licensed child and adult development homes serving more than 1,400 members.

**Division lacks basic qualification requirements for monitoring agencies**—Division staff indicated that the qualified vendor process does not require monitoring agency applicants or their staff to meet any initial minimum education or experience requirements or to subsequently complete annual training requirements. By not requiring monitoring agencies' staff to meet any basic qualification requirements, some monitoring agencies may have difficulty adequately fulfilling key responsibilities. For example, one monitoring agency we reviewed submitted two incomplete initial and two incomplete renewal developmental home license applications during April through June 2017. Missing

information included available phone service in the home, documentation of the licensee completing the required training hours, and important details in home studies. Division staff indicated that, similar to our review, some other monitoring agencies have demonstrated repeated difficulty completing the annual home study. As a result, the Division may be at risk for not receiving a comprehensive and accurate assessment of the developmental home licensees' qualifications and/or the homes where its members reside.

**Division should establish minimum qualification requirements for monitoring agencies**—To better ensure that monitoring agencies are qualified to help developmental home applicants meet licensure requirements and ensure their continued compliance with these requirements, the Division should establish minimum qualification requirements for monitoring agency applicants and, as applicable, their staff. Specifically, the Division should establish and coordinate a work group to develop specific education and/or experience requirements and annual training requirements for monitoring agencies and their staff.

#### Recommendation

The Division should establish and coordinate a work group to develop minimum qualification and annual training requirements for monitoring agency applicants and their staff, and should develop and implement a policy that incorporates these requirements.

### Division lacks process for overseeing its contractors that train and monitor developmental home licensees

Division does not conduct oversight activities of monitoring agencies—The Division issues and renews developmental home licenses based largely on the information that the monitoring agencies enter into the Division's licensing database. Monitoring agencies enter information into this database, such as home visit details, home study information, and licensee training information, to help document that developmental home applicants and licensees have complied with and remain in compliance with licensing requirements. However, the Division does not verify the accuracy of this information by conducting onsite visits to observe monitoring agency activities or by reviewing supporting documentation. Additionally, the Division does not generate database reports to track and analyze whether monitoring agencies fulfill all contractual requirements adequately and in a timely manner. Further, the Division does not regularly take enforcement actions, including using corrective action plans, to address monitoring agencies' performance issues. We reviewed licensee files at three monitoring agencies and identified examples of how the Division's lack of oversight may affect its ability to ensure member welfare. For example, one monitoring agency lacked signed documentation to support that it had conducted any of the required home visits that it entered in the Division's licensing database prior to a developmental home's most recent license renewal. Another monitoring agency had not conducted an unannounced visit at a developmental home licensee as required by administrative rule before recommending that the Division renew this developmental home's license.

**Division lacks process for overseeing its monitoring agencies for several reasons**—The Division does not have a process for overseeing its monitoring agencies because of several factors. These include not clearly defining monitoring agencies' responsibilities and requirements in its qualified vendor agreement, providing limited standardized guidance to the monitoring agencies on fulfilling these requirements, and not establishing policies and procedures for overseeing monitoring agencies.

Therefore, the Division should clearly define the monitoring agencies' responsibilities in its qualified vendor agreement, develop and provide standardized forms and other guidance to assist monitoring agencies in fulfilling these responsibilities, and develop and implement policies and procedures for overseeing the monitoring agencies.

#### Recommendations

The Division should:

- Develop and implement a policy that clearly defines monitoring agency roles, responsibilities, and requirements, and incorporate the policy into its qualified vendor agreement;
- Develop and provide standardized guidance to assist monitoring agencies in performing their responsibilities; and
- Develop and implement policies and procedures to guide and direct its staff in conducting oversight activities of its contracted monitoring agencies.

Arizona Auditor General

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Arizona Auditor General

### INTRODUCTION

### Scope and objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department)—Division of Developmental Disabilities (Division), pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit is the fourth in a series of five audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. It examines the qualification requirements for the contracted monitoring agencies that the Department uses to train and monitor developmental home licensees who provide a residential setting for individuals with developmental disabilities and the Department's oversight of these contracted monitoring agencies. The first audit addressed the Department's processes for managing its Vocational Rehabilitation Services Program's rehabilitation service costs and clients' progress, while the second audit addressed the Department's child care provider monitoring and complaint-handling processes. The third audit addressed the effectiveness of department processes for safeguarding its Information Technology systems and the data contained in them. The remaining audit will provide responses to the statutory sunset factors.

### Division serves individuals with developmental disabilities

In fulfilling its mission (see textbox), as of December 2016, the Division provided services to more than 38,000 eligible individuals with developmental disabilities, referred to as "members." To be eligible for division services, the primary requirement is that the member must have a severe, chronic disability that is attributable to a cognitive disability, cerebral palsy, epilepsy, or autism (see textbox on page 2 for additional eligibility information).<sup>1</sup>

#### Division's mission

"To provide to individuals with developmental disabilities and their families necessary services and supports that are flexible, high quality, and member-driven. To afford individuals opportunities to exercise their rights and responsibilities of independent decision-making and engagement in the community."

Source: Division's 2016-2020 strategic plan.

# Division provides diverse services to individuals based on their eligibility

The Division provides case management to all members and offers various other services to members depending on whether the severity of their disability and financial limitations make them eligible for these services. All members receive assistance from a division support coordinator, which is similar to a case manager, who assesses their needs and, depending on the member's eligibility level, assists the member to obtain appropriate services. As of August 2016, the Division reported that it had a network of service providers that included approximately 500 agencies and nearly 1,800 individual contractors to deliver services to members. Services can include:

A.R.S. §36-551 defines members' developmental disabilities. Specifically, a cognitive disability is a condition that involves subaverage general intellectual functioning that exists concurrently with deficits in adaptive behavior manifested before the age of 18. Cerebral palsy is a permanently disabling condition resulting from damage to the developing brain that may occur before, after, or during birth and that results in loss or impairment of control over voluntary muscles. Epilepsy is a neurological condition characterized by abnormal electrical-chemical discharge in the brain. This discharge is manifested in various forms of physical activities called seizures. Autism is a condition characterized by severe disorders in communication and behavior resulting in limited ability to communicate, understand, learn, and participate in social relationships.

Support coordinators work with members to assess and advocate for the members' needs, authorize needed services based on state and/or federal guidelines, promote access to community resources, and help monitor members' progress toward reaching member-identified goals.

#### Primary eligibility requirement for receiving division services

To qualify for division services, an individual must have a severe, chronic disability that:

- Is attributable to a cognitive disability, cerebral palsy, epilepsy, or autism;
- Is manifested before the age of 18 and is likely to continue indefinitely;
- Results in substantial functional limitations in three or more of the following areas of major life activity: self-care, receptive and expressive language, learning, mobility, self-direction, capacity for independent living, and economic self-sufficiency; and
- Reflects the need for a combination and sequence of individually planned or coordinated special, interdisciplinary, or generic care, treatment, or other services that are of lifelong or extended duration.

A child under the age of 6 may be eligible to receive division services if there is a strongly demonstrated potential that the child has or will have a developmental disability as determined by appropriate tests.

Source: Auditor General staff analysis of A.R.S. §36-551.

- Home- and community-based services (HCBS)—The Division contracts with service providers to provide several services and long-term care support to eligible members in their homes or the community to address their developmental needs. Administrative rule identifies 16 HCBS available to members, including housekeeping, transportation, occupational therapy, and hospice care (see page 4 for information about how HCBS providers are certified). In addition, members can receive day treatment and training, which may include training and support to promote skill development in independent living, self-care, communication, and social relationships. Other services include physical therapy and speech therapy. Further, members can receive support preparing for and finding employment. Members' families can also receive respite services, where a qualified caregiver temporarily supervises the member while family members are out of the home.
- Residential services—The Division is required by statute to directly provide and contract with service providers to provide appropriate residential services in settings that provide members with regular assistance and supervision. Although approximately 88 percent of members reside at their family's or own home, the Division ensures housing is available for members who cannot live at home. For example, over 11 percent of members live in community residential settings, which are referred to as group homes and developmental homes (see pages 4 through 5 for more information about these homes and the services provided in them). In some limited cases, members require additional care and may live in other residential or institutional settings, such as nursing facilities, where more supervision, nursing, or medical care may be provided by the Division in state-operated settings or by contractors. Figure 1 on page 3 shows where members live by type of residence.
- Medical care services—The Division or the Arizona Health Care Cost Containment System (AHCCCS), which is the State's Medicaid agency, contracts with health plans to provide medical care services to eligible members.<sup>5</sup> Each member eligible for medical services selects a primary care provider (PCP) that coordinates the member's healthcare. The PCP approves the member's medical services, and only medically necessary services and equipment are provided. For example, members may receive medical equipment such as wheelchairs and ventilators, if deemed necessary.

Members are eligible to receive services depending on the severity of their disability and their or their family's financial limitations. Members are eligible for services through one of the following three categories:

 Arizona Long Term Care System (ALTCS)—Most members are eligible to receive services through ALTCS. This program is part of the State's Medicaid program, which is administered by AHCCCS and jointly

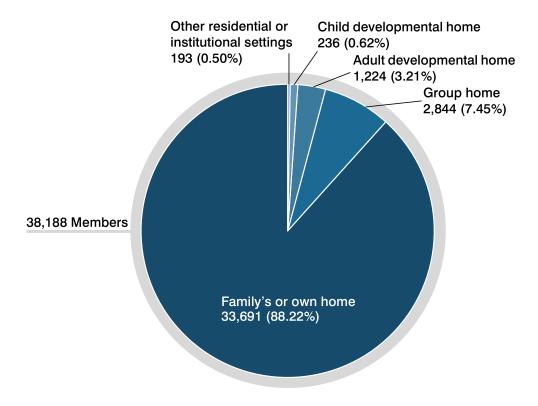
<sup>&</sup>lt;sup>3</sup> See Arizona Administrative Code (AAC) R6-6-1501 for a full list of HCBS services.

<sup>&</sup>lt;sup>4</sup> See A.R.S. §36-554(A)(1)(c).

Medical services consist of acute medical care, such as surgery, dialysis, emergency services, hospital services, immunizations, laboratory services, radiology and medical imaging, and rehabilitation therapy.

Figure 1
Number of members living in each residence type
As of December 31, 2016

(Unaudited)



Source: Auditor General staff illustration of department data.

funded by the federal and state governments. To be eligible for ALTCS, members must have certain functional limitations, be at risk for institutionalization, and meet income and asset limitation requirements. AHCCCS contracts with the Division to provide ALTCS services to eligible members. These members are eligible for the full array of division services such as HCBS, residential services, and medical care services. ALTCS members who receive residential services may be required to pay some portion of the cost for these services based on their income.

• Targeted Support Coordination (TSC)—Members who are not eligible for ALTCS because they do not meet certain functional limitations may still be eligible to receive services through TSC. To be eligible for TSC, members must meet income limitation requirements and be enrolled in an AHCCCS acute care health plan. Members who receive federal Supplemental Security Income (SSI) are automatically eligible for AHCCCS acute care benefits and the Division's TSC program. TSC members receive case management services from the Division and medical services through their AHCCCS acute care health plan, but they do not receive HCBS unless state funding is available to pay for these services. Division staff indicated that HCBS have not been provided to new TSC members since 2009 because state monies have not been appropriated for these services.

<sup>6</sup> SSI is a federal income supplement program administered by the Social Security Administration but funded by the U.S. Treasury General Fund. It is designed to help aged, blind, and disabled people who have little or no income.

TSC and state-only eligible members who are under 3 years of age and meet eligibility requirements for the Arizona Early Intervention Program (AzEIP) receive AzEIP intervention services, such as speech therapy to assist in the child's growth and development. AzEIP is funded by both state and federal monies.

• State-only funded services—Members who do not meet income, asset, and functional limitation requirements for ALTCS or income requirements for TSC, but have a qualifying chronic disability (see textbox, page 2) may receive state-only funded services. Specifically, these members will be assigned a case manager who will provide assistance, such as referrals to community providers that may help the member continue to remain self-sufficient for as long as possible. State-only members do not receive medical services through the Division or through AHCCCS. In addition, state-only members do not receive HCBS unless state funding is available to pay for these services (see footnote 7, page 3, for more information). Division staff indicated that HCBS have not been provided to new members receiving state-only funded services since 2009 because state monies have not been appropriated for these services.

According to division information, as of December 31, 2016, 78.6 percent of the Division's members were enrolled in ALTCS, 11.9 percent received TSC services, and 9.5 percent received state-only funded services.

# Division's service providers and community residential settings are regulated

Arizona law requires the Division to certify individuals and agencies that provide HCBS to members. Applicants for HCBS certification must meet specific requirements outlined in administrative rule such as clearing a fingerprint -based criminal history record check, taking CPR training, and providing letters of reference and applicable work experience and education. If HCBS providers deliver services in their own facility, such as a day treatment provider who offers training, supervision, therapeutic activities, or support, the Division and a fire department or division-approved inspectors must complete safety and fire inspections of the facility prior to the provision of services. The safety inspection focuses on areas such as the facility's general appearance and cleanliness, heating and cooling, ventilation, lighting, safety hazards, swimming pools, yard, and the storage of toxic materials and medicines. HCBS-certified providers must renew their certification with the Division annually and pass the fire inspection every 2 years after initial certification.

The Division is also responsible for helping to regulate community residential settings. A community residential setting is a private home where members live and are provided with appropriate supervision by a service provider responsible for the home's operation. There are two types of community residential settings—group homes that the Division registers and developmental homes that the Division licenses. Specifically:

• **Group homes**—Group homes are residential homes operated by 24-hour paid staff where up to six members live. As of May 2017, there were more than 1,000 group homes in Arizona. Members who live in group homes may receive personal assistance, medically necessary services, or other HCBS as needed. For example, a member may receive occupational therapy, speech therapy, or nursing care at the group home. Statute and administrative rule requires the Arizona Department of Health Services (DHS) to license group homes. Prior to a member being placed in a group home, the home must receive a license by passing a DHS inspection to ensure it meets requirements such as emergency procedures and evacuation drills, fire safety, physical plant, environmental, vehicle safety, and swimming pool requirements. Group homes must renew the DHS-issued license every 2 years, which includes a subsequent DHS inspection.

Individuals or agencies that operate group homes are HCBS certified by the Division to provide personal care and any other HCBS needed by members living in the group homes (see above for certification requirements). In addition, after DHS issues a license to a group home, the Division must register the group home location with AHCCCS pursuant to a requirement in the Division's ALTCS contract with AHCCCS. Each group home location is provided a unique AHCCCS registration number, and according to AHCCCS, this registration helps AHCCCS comply with federal requirements.

• **Developmental homes**—Child developmental homes and adult developmental homes are private homes where the homeowner(s) or lessee(s) are licensed to provide 24-hour care for up to three members. The developmental home license the Division issues is attached to both the homeowner or lessee and the home

A.R.S. §36-132(A)(21) and AAC R9-33-101 et seq.

setting in which they currently reside, and the license is not transferrable to another setting. As of May 2017, there were more than 1,100 licensed developmental homes in Arizona. Licensees provide room and board, personal care, and supervision to the member(s) living in their home. Statute requires the Division to license developmental homes, which includes conducting a safety inspection of the premises. The initial licensing process also involves ensuring that applicants meet specific requirements outlined in administrative rule, such as being fingerprinted for a criminal history record check, obtaining a physician's statement indicating whether adults residing in the home have any medical or emotional problems that would prevent them from caring for members in the home, and completing several trainings such as CPR and first aid. Developmental home licenses must be renewed annually, which involves licensees completing a minimum of 10 hours of training and receiving at least three home visits. In addition, every 3 years, the home must be inspected for safety, and the licensee and household members must have a criminal history record check and physician's statement, similar to the initial licensure requirements.

The Department primarily relies on contractors, called monitoring agencies, to help fulfill its statutory responsibilities to license developmental homes and monitor them for compliance with the Division's administrative rules. Specifically, monitoring agencies are responsible for helping to ensure that licensees meet administrative rule requirements for licensure and annual license renewal by ensuring the applicants/ licensees receive the required training and by conducting the required home visits. In addition, monitoring agencies make recommendations to the Division for issuing and renewing developmental home licenses when applicants/licensees have met requirements for licensure. Because the Division relies on the monitoring agencies to help oversee developmental home licensees, it typically does not have frequent contact with developmental homes after the license is issued. 11 Therefore, monitoring agencies serve a very important role as the primary point of contact for developmental home applicants/licensees who may have questions, concerns, or complaints. Finally, one of the monitoring agencies' key responsibilities is to conduct what the Division refers to as a home study. The home study, conducted prior to licensure and annually thereafter, is a comprehensive evaluation of the applicant(s)/licensee(s) that covers 24 diverse areas, including any experience the applicant(s)/licensee(s) have that supports their understanding of working with vulnerable populations, employment, income, and the stability of family relationships (see Appendix A, pages a-1 through a-4, for more information on the home study). As of May 2017, the Division had contractual agreements with 40 monitoring agencies to help ensure a safe and healthy living arrangement that meets the physical and emotional needs of members living in developmental homes. See Findings 1 and 2 (pages 9 through 23) for additional information regarding monitoring agencies.

### Division organization and staffing

The Division is overseen by an assistant director and as of May 2017, had 2,042 filled full-time equivalent (FTE) positions to carry out the Division's mission. The majority of staff, 1,615.5 FTE, were involved in providing support coordination or other services directly to members. The remaining 426.5 FTE performed various administrative functions, including:

- Administration (141.5 FTE)—Administration supports the Division's operation and includes management staff, district support staff, customer service center staff, and grants-management staff.
- **Business Operations (91 FTE)**—Business operations includes information technology, accounts payable and receivable, contracting, human resources, budgeting, and claims processing.

<sup>&</sup>lt;sup>9</sup> A.R.S. §36-591 et seq.

<sup>&</sup>lt;sup>10</sup> AAC R6-6-1001 and R6-6-1101.

<sup>11</sup> The Division has a role in developmental home license renewals by doing the following every 3 years after initial licensure: conducting a safety inspection of the home, running a criminal history record check for all adults in the home, and reviewing a physician's statement indicating whether the adults in the home have any medical or emotional problems that would prevent them from caring for members in the home.

- **Network Services (69 FTE)**—Network services staff assist members to find the best match of service providers for their needs, as well as complete readiness reviews of new service providers before they begin providing services (see Finding 1, page 10, for details).
- Office of Licensing, Certification, and Regulation (OLCR) (21 FTE)—OLCR issues licenses and certifications to individuals and organizations that provide HCBS (see page 2 for details) or residential services in developmental homes for members.
- Quality Assurance (80 FTE)—Quality assurance monitors day treatment facilities and investigates reported
  incidents to ensure service providers are meeting contractual requirements for quality service.
- Training (24 FTE)—Training staff provide education and development opportunities for all staff in the Division.

The Division coordinates services and resources through multiple administrative offices centrally located in Phoenix and five district offices located in various areas of the State, including a central, north, east, west, and south district office, and local offices in communities throughout Arizona. In April 2017, the Division consolidated 16 telephone numbers into one toll-free number that members state-wide can use to access any resources within the Division.

## Finance and budget

The Division is funded through state appropriations, federal Medicaid Title XIX monies from the ALTCS program, charges to individuals for services, and other revenues. As shown in Table 1 (see page 7), the Division's total estimated fiscal year 2017 revenues were approximately \$1.38 billion. Of the total, the Division estimates it received approximately \$433 million in State General Fund appropriations; approximately \$917 million from ALTCS, which provides federal funding through the Division's contract with AHCCCS; and nearly \$24 million from the State's Long-Term Care System Fund, which includes monies collected from client billings and various other revenue sources that are used to pay for services not reimbursable through AHCCCS. Most of the Division's remaining funding comes from governmental grants and contracts.

Most division monies are used to pay contracted service providers for member services. The Division reported over \$1 billion in estimated HCBS and other contracted services expenditures in fiscal year 2017. In addition, the Division estimated that in fiscal year 2017, it would spend approximately \$72 million on case management services it directly provided to members and approximately \$82 million for administrative costs.

**Table 1**Schedule of revenues and expenditures<sup>1</sup>
Fiscal years 2014 through 2017

(Unaudited)

	2014 (Actual)	2015 (Actual)	2016 (Actual)	2017 (Estimate)
Revenues				
ALTCS contract:				
Capitation <sup>2</sup>	\$ 678,852,996	\$ 767,925,002	\$ 829,806,107	\$ 910,271,397
Fees for service and reinsurance claims	3,039,620	3,452,276	5,160,182	6,399,121
State General Fund appropriations:				
Long-term care state match	348,120,614	357,066,700	398,922,400	410,616,400
Developmental disabilities	9,692,186	22,394,209	22,178,600	22,327,100
Long-Term Care System Fund <sup>3</sup>	40,536,489	20,134,802	22,397,539	23,638,200
Governmental grants and contracts	5,967,612	5,966,739	7,866,233	8,413,800
Interest	1,192,296	806,972	1,819,056	1,311,000
Other	907,272	1,268,506	1,861,949	347,822
Total revenues	1,088,309,085	1,179,015,206	1,290,012,066	1,383,324,840
Expenditures and reversions				
Administrative <sup>4</sup>	61,821,569	68,577,434	74,146,254	81,986,100
Case management	55,380,126	59,855,862	64,365,111	71,992,700
Home- and community-based services	756,064,796	810,180,896	884,638,964	1,007,592,600
Medical services (acute care)	128,517,692	145,143,698	152,199,082	165,514,500
State-funded, long-term care services <sup>5</sup>	27,250,838	28,129,365	29,063,770	29,921,300
Institutional care services	21,491,737	21,961,616	23,230,080	22,610,900
Arizona training program at Coolidge	16,253,377	15,595,558	16,697,768	15,735,100
Medicare prescription drug payments <sup>6</sup>	3,072,000	2,902,400	2,928,700	3,598,100
Total expenditures	1,069,852,135	1,152,346,829	1,247,269,729	1,398,951,300
Reversions to the State General Fund <sup>7</sup>	7,917,483	34,814,705	24,052,425	
Total expenditures and reversions	1,077,769,618	1,187,161,534	1,271,322,154	1,398,951,300
Excess (deficiency) of revenues over expenditures and reversions	\$ 10,539,467	\$ (8,146,328)	\$ 18,689,912	\$ (15,626,460)

<sup>1</sup> This schedule is presented on a budgetary basis in which expenditures are reported in the budget year incurred.

Source: Auditor General staff analysis of financial information provided by the Department through February 27, 2017, from its Financial Management Control System for fiscal years 2014 and 2015, and from the Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.

Consists of the contract payments from AHCCCS for providing healthcare services to eligible enrollees in the ALTCS program for the developmentally disabled. State matching monies are reported separately.

Consists of client billings and various other revenue sources from the Long-Term Care System Fund that are used to pay for services not reimbursable through AHCCCS.

<sup>&</sup>lt;sup>4</sup> Includes approximately \$15.4 million each year of support service costs allocated to the Division.

<sup>&</sup>lt;sup>5</sup> Consists of the State's payments for long-term care program client services that are not reimbursable through AHCCCS.

Amounts are payments for prescription drug costs for members who are eligible for Medicare. The Department is required to pay Medicare approximately 75 percent of the estimated drug costs.

Amounts represent unspent State General Fund appropriations for each fiscal year. The fiscal year 2016 amount is an estimate because the actual amount was not known at the time of the audit.

# Division should establish minimum qualifications for contractors that train and monitor developmental home licensees

The Arizona Department of Economic Security's (Department) Division of Developmental Disabilities (Division) should take steps to better ensure the qualifications of its contractors that train and monitor child developmental home and adult developmental home licensees. Developmental home licensees provide a residential placement for over 1,400 members and are responsible for these members' care and safety. The Division uses contractors, called monitoring agencies, to oversee developmental home licensees; however, the Division has not established minimum requirements for these monitoring agencies to ensure they are qualified to fulfill their responsibilities, which include training and monitoring licensees. Therefore, similar to other states, the Division should establish minimum initial qualification and annual training requirements for monitoring agency applicants and their staff to ensure they are qualified to oversee developmental home licensees.

#### Division uses contractors to oversee developmental home licensees

The Division uses contractors, called monitoring agencies, to train and monitor child and adult developmental home licensees (see textbox below). According to the Division, monitoring agencies are responsible for providing annual training to developmental home licensees and for conducting home visits to help ensure these licensees meet administrative rule requirements for initial and annual licensure (see Introduction, pages 4 through 5, for additional information on the licensure process). As of May 2017, the Division contracted with 40 monitoring agencies that worked with more than 1,100 licensed child and adult developmental homes. These monitoring agencies were responsible for overseeing a range of between 1 to 135 developmental homes that served a total of more than 1,400 members.

**Developmental home licensees**—Individuals licensed by the Division to provide a residential placement to members. These licensees are responsible for the personal care and supervision of members residing in their homes. The Division issues a developmental home license to the individual(s) in the home setting they currently reside; therefore, the developmental home license is attached to both the licensee(s) and to the residence, and the license is not transferrable to another setting.

**Monitoring agencies**—Vendors that enter into a contractual agreement with the Division to oversee developmental home licensees. Monitoring agencies' responsibilities include training and monitoring licensees to ensure a safe and healthy living arrangement that meets the physical and emotional needs of the member(s) living in their home.

Source: Auditor General staff analysis of Arizona Revised Statutes, Title 36, Chapter 5.1; Arizona Administrative Code, Title 6, Chapter 6, Articles 10 and 11; and division documentation.

<sup>&</sup>lt;sup>12</sup> As of December 2016, the Division provided services to more than 38,000 eligible individuals with developmental disabilities, referred to as "members." To be eligible for division services, members must have a severe, chronic disability as defined by statute that results in substantial functional limitations or have a strongly demonstrated potential for such a disability if under the age of 6 (see Introduction, pages 1 through 4, for information about member eligibility).

To become a monitoring agency, applicants must contract with the Division as a qualified vendor by undergoing a qualified vendor application process to provide services to the Division's members. <sup>13</sup> Qualified vendors are forprofit and nonprofit agencies and professional independent providers who provide community developmental disability services and have entered into a qualified vendor agreement with the Division to provide specified services. The qualified vendor application process requires that the applicant meet various requirements, such as submitting to a Central Registry background check that looks for substantiated instances of child abuse and/or neglect, before becoming a qualified vendor (see textbox for examples of qualified vendor applicant requirements).

#### Examples of requirements to become a qualified vendor

- Undergo Central Registry background check—Agree to submit to a Central Registry background check through the Arizona Department of Child Safety (DCS). DCS maintains the Central Registry, which includes substantiated reports of child abuse and neglect. A Central Registry background check includes information on the perpetrator(s), the child victim(s), the abuse and/or neglect that occurred, and the date the report was received.
- Submit policies for division review—Submit internal policies for the Division's review regarding areas such as those relating to the requirement for preventing and reporting neglect and abuse and the agency's complaints and grievances process. The Division will provide feedback regarding any deficiencies found in the applicant's policies. Additionally, the Division reviews each monitoring agency's training policy for developmental home licensees.
- Review services that will be provided—Review the Division's defined service description for the service the applicant elects to provide. The service description for monitoring agencies includes ensuring its professional staff are "properly trained" and able to "demonstrate successful experience in performing their duties," such as training and monitoring. In addition, it provides a broad description of the responsibilities of a monitoring agency, including recordkeeping requirements, such as "maintaining copies of all home inspections, monitoring reports, and corrective actions."
- **Sign monitoring agency agreement**—Those applying to become a monitoring agency are required to sign an agreement with the Division stating that they will provide services similar to those listed in the service description mentioned above. For example, the applicant agrees to perform training and monitoring duties for licensees and to support the licensed developmental homes to meet members' needs.

Source: Auditor General staff analysis of Arizona Revised Statutes §8-804(A) and division documentation.

After approving an application and before new qualified vendors provide services, division staff reported that they conduct a "Readiness Review" with the qualified vendor, which is a meeting to help ensure the qualified vendor is ready to provide services. In preparation for this meeting, division staff stated that they provide each qualified vendor with a copy of the Division's Readiness Review checklist and instruct them to review the portions of the checklist that pertain to the services the qualified vendor will provide. At the Readiness Review meeting, division staff use the checklist to conduct the meeting, discussing the vendor's responsibilities for providing the approved services and answering any of the vendor's questions. For monitoring agencies, division staff also review a section of the checklist that generally addresses some of the responsibilities of a monitoring agency. This section of the checklist provides links to documents on the Department's qualified vendor application website and to the developmental home licensing rules. After this review is completed, the Division authorizes the qualified vendor to deliver the services it has been contracted to provide.

Monitoring agencies represent only one type of qualified vendor. Qualified vendors also include organizations and individuals such as group home providers and speech therapists. The Division provides many of its services through a network of providers referred to as qualified vendors who enter into qualified vendor agreements. These agreements are legally binding contracts authorizing the provision of community developmental disability services.

# Division lacks basic qualification requirements for monitoring agencies

Although monitoring agencies complete the Division's qualified vendor process, the process lacks basic qualification requirements for applicants who want to fulfill this important role. Specifically, division staff indicated that the process does not require monitoring agency applicants or their staff to meet any initial minimum education or experience requirements or to subsequently complete annual training requirements. In addition, the Readiness Review conducted by division staff after the qualified vendor agreement is approved (see page 10) also does not directly address monitoring agency or staff education, experience, or other requirements to help the Division assess qualifications. As previously mentioned, division staff review a section of the Readiness Review checklist that generally addresses the services provided by a monitoring agency and provides links to various documents, but the documents listed on the checklist do not reference specific qualification requirements. For example, one item on the Readiness Review checklist, referred to as "Service Specification," provides a link to the service description document for monitoring agencies (see 3rd bullet in textbox on page 10 for additional information). However, while this document indicates the monitoring agency should ensure its staff are "properly trained" and "able to demonstrate successful experience of the performance of their duties," it does not clearly define how monitoring agency applicants would demonstrate that its staff meet these qualifications.

Without requiring monitoring agencies' staff to meet basic qualification requirements, some monitoring agencies may have difficulty adequately fulfilling key responsibilities. These responsibilities include submitting complete initial and renewal developmental home license applications to the Division, ensuring that developmental home applicants/licensees receive the required trainings and that all trainings are entered into the Division's database, and conducting adequate home studies, which are comprehensive evaluations of developmental home applicants/ licensees required by the Division for licensure (see Appendix A, pages a-1 through a-4, for more information on the home study). 14 Auditors reviewed examples of developmental home license applications submitted by one monitoring agency that demonstrated repeated difficulties in adequately fulfilling key responsibilities. For example, the monitoring agency submitted two incomplete initial developmental home license applications one in May 2017 and one in June 2017. One of these applications did not include information regarding phone service available in the home as required by rule, and the second application contained inadequate family history details in the home study for both applicants. In addition, the monitoring agency submitted two incomplete developmental home license renewal requests—one in April 2017 and one in June 2017. In the first request, the monitoring agency failed to document that the licensee had completed 3 of the 10 required training hours. The second request was submitted with an inadequate home study that did not contain important details, including how the licensee assisted the members living in their home to maintain contact with their family and to successfully manage daily hygiene tasks. As discussed in the Introduction (see page 5), the home study is conducted prior to an initial developmental home license being issued and annually thereafter. It is critical that monitoring agency staff are qualified to conduct home studies and to make assessments based on the information gathered during home studies to provide important information to the Division. The Division relies largely on the information monitoring agencies gather and enter into the division database, such as the home study, to make licensing decisions. However, division staff indicated that, similar to the monitoring agency auditors reviewed, some other monitoring agencies have demonstrated repeated difficulty completing the annual home study.

When monitoring agencies do not fulfill their key responsibilities, the Division must not only take time to request additional information to help ensure that developmental home applicants/licensees are or remain qualified, but the Division may also be at risk for not receiving a comprehensive and accurate assessment of the developmental home applicants/licensees' qualifications and/or the home environment where its members reside. The Division has a contractual arrangement with the monitoring agencies to help the developmental home applicants/licensees meet licensure requirements; therefore, the Division typically does not have regular contact with applicants/licensees. Rather, the monitoring agencies play an important role as the Division's "eyes and ears" by helping to ensure the safety of members residing in developmental homes. Therefore, it is essential for the Division to ensure that monitoring agencies are qualified to assess and support applicants/licensees in maintaining a safe

 $<sup>^{\</sup>rm 14}\,\rm Married$  or single persons may apply for a developmental home license.

and healthy living environment that meets the needs of its vulnerable members. Specifically, members have severe, chronic disabilities with significant functional limitations and may need help from licensees to perform basic daily functions and/or to make life decisions.

# Division should establish minimum qualification requirements for monitoring agencies

To better ensure that monitoring agencies are qualified to assist developmental home applicants meet licensure requirements and ensure their continued compliance with these requirements, the Division should establish minimum qualification requirements for monitoring agency applicants and, as applicable, their staff. When making the decision to contract with other entities to provide various client services, it is important that governments ensure potential contractors have the expertise needed to fulfill these responsibilities. Additionally, auditors reviewed the contract requirements of three other states that have established minimum qualification and annual training requirements for their contractors that perform functions similar to Arizona's monitoring agencies. Specifically, Nevada, Oregon, and Utah have established the following initial education, initial experience, and/or annual training qualification requirements for their contractors' staff to help ensure they are and remain qualified to perform their contractual duties:

- Initial education and/or experience requirements—Two of the three states auditors reviewed have education and/or experience requirements that contractors must meet prior to entering into a contract. Specifically, Nevada's Aging and Disability Services Division has a policy that indicates contract applicants must have at least 1 year of experience working with the intellectual disability population and 1 year of experience managing or operating a business. Oregon's administrative code mandates educational and/or experience requirements for contractors, such as a master's degree in social work or depending on the position, a specified number of years of human service related experience, such as providing assistance to individuals and groups facing challenges, including experience with economic disadvantages, abuse and neglect, or a disability.
- Annual training requirements—Nevada, Oregon, and Utah all require contractor staff to complete annual training. Specifically, Nevada contractually requires annual training that includes educating contractor staff on topics such as confidentiality, abuse, neglect, and exploitation. Oregon has established annual training requirements in rule for some contractor staff that may include department-sponsored trainings or other trainings in the area of developmental disabilities. Finally, Utah's contract requires its contractors that operate licensed facilities to provide their staff with annual behavior management training.<sup>16</sup>

Similarly, the Division should establish minimum qualifications, such as specific education and/or experience requirements and annual training requirements to help ensure monitoring agency applicants and, as applicable, their staff are and remain qualified to fulfill their responsibilities. By imposing minimum qualification requirements, the Division would strengthen its ability to evaluate whether its contracted monitoring agencies are qualified to perform their various responsibilities, including ensuring the health and safety of the vulnerable population that they serve. Specifically, the Division should establish and coordinate a work group to develop minimum qualifications and annual training requirements for monitoring agency applicants and staff. The Division should ensure that its work group:

 Includes personnel from the Division's contracting, licensing, and quality assurance units as well as representatives from various external stakeholder groups, such as representative(s) from the Division's member population, guardian/family members, monitoring agency staff, and child and adult developmental home licensees;

<sup>&</sup>lt;sup>15</sup> Yang, K. & VanLandingham, G. (2012). How hollow can we go? A case study of the Florida's efforts to outsource oversight of privatized child welfare services. *The American Review of Public Administration*, 42(5), p. 543 – 561.

<sup>&</sup>lt;sup>16</sup> Behavior management is a general description for strategies that focus on teaching caregivers skills to identify and resolve disruptive client behaviors in a manner that supports clients to achieve their goals.

- Studies and identifies effective initial minimum qualifications, such as specific education and/or experience requirements for monitoring agency applicants and staff; and
- Studies and identifies annual training requirements for monitoring agency staff.

In addition, after the work group has identified minimum qualification and annual training requirements for monitoring agency applicants and their staff, to help ensure monitoring agencies are aware of and meet these requirements, the Division should develop and implement a policy that incorporates these new requirements. Finally, the Division should revise its qualified vendor agreement documentation to reflect its policy and ensure that monitoring agency applicants and their staff meet these requirements.

#### Recommendations

- 1.1. The Division should establish minimum qualification and annual training requirements to help ensure monitoring agency applicants and, as applicable, their staff are and remain qualified to fulfill their responsibilities. Specifically, the Division should establish and coordinate a work group to develop minimum qualification and annual training requirements for monitoring agency applicants and staff. The Division's work group should:
  - a. Include personnel from the Division's contracting, licensing, and quality assurance units as well as representatives from various external stakeholder groups, such as representative(s) from the Division's member population, guardian/family members, monitoring agency staff, and child and adult developmental home licensees;
  - b. Study and identify effective minimum initial qualifications, such as specific education and/or experience requirements for monitoring agency applicants and staff; and
  - c. Study and identify annual training requirements for monitoring agency staff.
- 1.2. After the work group has identified minimum qualification and annual training requirements for monitoring agency applicants and their staff, to help ensure monitoring agencies are aware of and meet these requirements, the Division should develop and implement a policy that incorporates these new requirements.
- 1.3. The Division should revise its qualified vendor agreement documentation to reflect its policy and ensure that monitoring agency applicants and their staff meet these requirements.

# Division lacks process for overseeing its contractors that train and monitor developmental home licensees

The Arizona Department of Economic Security's Division of Developmental Disabilities (Division) has not established a process for ensuring that monitoring agencies fulfill their responsibilities, including training and monitoring child developmental home and adult developmental home licensees. The Division contracts with monitoring agencies to help ensure that developmental home applicants/licensees comply and remain in compliance with licensure requirements, which in turn helps to promote the health, safety, and welfare of the members who reside in developmental homes. Although monitoring agencies enter information about their various activities into a licensing database that the Division uses to issue and renew developmental home licenses, the Division does not formally oversee the monitoring agencies, such as conducting onsite visits or requesting and reviewing documentation to verify the accuracy of the information monitoring agencies enter into the database. To ensure monitoring agencies are effectively fulfilling their responsibilities, the Division should clearly define monitoring agencies' responsibilities within its contractual agreements, provide standardized guidance to help ensure that monitoring agencies consistently and adequately fulfill their responsibilities, and develop and implement policies and procedures for overseeing the monitoring agencies.

# Monitoring agencies responsible for helping to ensure the health, safety, and welfare of members

Monitoring agencies are division contractors that play an important role in helping to ensure the health, safety, and welfare of members. Specifically, as allowed by statute, the Division has entered into contractual agreements with monitoring agencies, for a maximum term of 6 years, to provide appropriate residential placements for members in developmental homes. In addition, monitoring agencies are responsible for ensuring that developmental home licensees meet licensure requirements and submit initial and renewal license requests to the Division on their behalf. By fulfilling their responsibilities, monitoring agencies help ensure that developmental home applicants/licensees are prepared to meet the needs of the vulnerable members residing in their homes and comply and remain in compliance with licensure requirements, which are designed to ensure member health, safety, and welfare. These members have severe, chronic disabilities and may need the licensee's help to perform basic daily functions and/or to make life decisions. As such, monitoring agencies have a responsibility to ensure licensees provide members a stable and supportive living environment in a family home setting, which is critical

<sup>&</sup>lt;sup>17</sup> The Division provides services to more than 38,000 eligible individuals with developmental disabilities, referred to as "members." To be eligible for division services, members must have a severe, chronic disability as defined by statute or have a strongly demonstrated potential for such a disability if under the age of 6 (see Introduction, pages 1 through 4, for information about member eligibility).

<sup>&</sup>lt;sup>18</sup> Child and adult developmental homes are private homes where the homeowner(s) or lessee(s) are licensed to provide 24-hour care for up to three people with developmental disabilities. The Division issues a developmental home license to the individual(s) in the home setting they currently reside; therefore, the developmental home license is attached to both the licensee and to the residence, and the license is not transferrable to another setting. See Introduction, pages 4 through 5, for additional information.

Although monitoring agencies are not specifically mentioned in statute or rule, Arizona Revised Statutes §36-554(A)(1)(c) authorizes the Division to enter into a contract with private profit or nonprofit agencies to provide residential placements that include regular assistance, supervision, and services to members living in the developmental homes.

because such an environment enables the member to create and maintain regular schedules and to develop connections in their community. The Division's administrative rules pertaining to child and adult developmental home licensees establish several requirements for licensure, including the following:<sup>20</sup>

- **Training**—Developmental home licensees must complete several trainings such as CPR and first aid prior to becoming licensed and must receive 10 hours of training annually to renew their license. <sup>21</sup> According to the Division, the monitoring agencies are responsible for ensuring licensees receive this training. Administrative rule does not mandate any training topics for annual training, but it requires licensees to maintain certifications obtained during initial licensure, such as CPR and first aid, and allows the licensee to spend up to 4 of the 10 required training hours per year for this purpose.
- **Monitoring**—To renew a developmental home license, licensees must receive a total of three home visits each year—an annual home visit as part of the license renewal process and two monitoring visits, one of which must be unannounced.<sup>22</sup> According to the Division, the monitoring agencies are responsible for conducting the home visits, which help to ensure that licensees continue to comply with licensing requirements.
- **Home study**—Developmental home licensees must participate in a home study, which monitoring agencies conduct prior to licensure and annually thereafter. The home study is a comprehensive evaluation of the applicants/licensees that covers 24 diverse areas. The areas that are reviewed include any experience the applicants/licensees have that supports their understanding of working with vulnerable populations, details regarding any criminal or civil court actions, employment, income, the stability of family relationships, car insurance, and a summary of fire drills conducted in the home (see Appendix A, pages a-1 through a-4, for additional information regarding the home study).

# Division does not conduct oversight activities of monitoring agencies

Although monitoring agencies play a crucial role in helping to ensure the health, safety, and welfare of members who live in child and adult developmental homes, the Division does not conduct oversight activities to ensure that monitoring agencies are adequately fulfilling their responsibilities. Specifically, the Division issues and renews developmental home licenses based largely on the information that the monitoring agencies enter into the division licensing database. However, the Division does not verify the accuracy of this information by conducting onsite visits to the monitoring agencies or reviewing supporting documentation. In addition, the Division does not perform other oversight activities, such as generating database reports to track and analyze whether monitoring agencies fulfill all contractual requirements adequately and in a timely manner. The Division also does not regularly require monitoring agencies to develop and implement corrective action plans to address inadequate performance. Therefore, the Division cannot ensure monitoring agencies are fulfilling their responsibilities, which helps to ensure the welfare of members residing in licensed developmental homes.

**Division issues and renews developmental home licenses based on information monitoring agencies enter into a database**—The Division relies largely on information monitoring agencies provide to issue and renew developmental home licenses. Specifically, monitoring agencies enter information into the Division's licensing database, such as their home visit details, the information from the home study, and licensee training information, to help document that developmental home applicants and licensees have complied with and remain in compliance with licensing requirements. The Division reviews this database information when a monitoring agency submits an initial or renewal developmental home license application to determine whether

<sup>&</sup>lt;sup>20</sup> Arizona Administrative Code (AAC), Title 6, Chapter 6, Articles 10 and 11, pertain to license requirements for child and adult developmental home licenses, respectively.

<sup>&</sup>lt;sup>21</sup> AAC R6-6-1005(B) and R6-6-1105(B).

<sup>&</sup>lt;sup>22</sup> AAC R6-6-1016(C)(1)(2) and R6-6-1116(C)(1)(2).

<sup>&</sup>lt;sup>23</sup> The Division indicated that it performs the following activities every 3 years as part of renewing developmental home licenses: conducts a safety inspection of the home, performs a criminal history record check for all adults in the home, and reviews a physician's statement indicating whether the adults in the home have any medical or emotional problems that would prevent them for caring for members residing in the home.

licensing requirements have been met. For example, the Division determines whether the monitoring agency entered sufficient details into the database to support that it conducted the three required home visits and that the applicant/licensee completed the required training, including entering the name of the training class(es) and the hours for each class. The Division follows up with the monitoring agency if licensing requirements have not been met or if the monitoring agency has provided incomplete information.

**Division does not verify accuracy of the information monitoring agencies enter into the database or perform other oversight activities**—Although the Division relies on information that monitoring agencies enter into the licensing database to issue and renew developmental home licenses, it does not verify the accuracy of this information or perform other activities to oversee the monitoring agencies. Specifically, the Division:

- Does not verify the accuracy of monitoring agency-provided information—As previously mentioned, monitoring agencies enter important information regarding developmental home visits and licensee training into the Division's licensing database, and this information primarily serves as the basis for the Division's decision to issue and/or renew developmental home licenses. However, according to division staff, the Division does not verify the accuracy of the information in the database. Specifically, the Division does not conduct onsite visits, which may include observing monitoring agency staff performing their duties; review hardcopy files, such as signed documentation to support that home visits occurred; or request documentation from monitoring agencies, such as training certificates or proof of car insurance, to verify this information.
- Does not use database reports to track monitoring agencies' activities and cannot reliably track unannounced visits—Although the Division's database contains detailed information the Division could use to generate reports to track and assess monitoring agencies' activities, the Division does not use this functionality. Division staff reported using the database for other purposes, such as tracking the length of time to issue and renew licenses, but they do not generate database reports to determine whether monitoring agencies are fulfilling their responsibilities, such as conducting the required home visits and providing training to the developmental home licensees. Without generating such reports to oversee monitoring agencies, division staff may not be able to adequately assess the extent to which licensees are receiving home visits from monitoring agencies at an appropriate frequency, completing training in a timely manner, or adequately fulfilling other licensure requirements.

In addition, the Division cannot reliably track monitoring agencies' unannounced visits. Specifically, to enter information for home visits, the database has a drop-down menu to indicate the type of home visit made, including an unannounced home visit, but monitoring agencies do not always use the "unannounced home visit" drop-down option because they have not been required to do so. Rather, some use another home visit option from the drop-down menu and then indicate in the comment field that the home visit was unannounced. Because monitoring agencies do not consistently use the "unannounced home visit" drop-down menu option, the Division cannot generate database reports with accurate and complete information showing whether monitoring agencies are completing unannounced visits in a timely manner. As a result, the Division may not know which licensees are at risk for not having an unannounced visit prior to the monitoring agency submitting an application for the developmental home's license renewal, which is when division staff begin the process of reviewing information the monitoring agency entered into the database to support their license renewal recommendation (see page 18 for an example of when this occurred).

• Does not regularly take enforcement actions, including the use of corrective action plans, to address monitoring agencies' performance issues—Division staff indicated that the Division has not regularly taken enforcement actions, such as requiring monitoring agencies to develop and implement corrective action plans, to address deficiencies in their performance. For example, as indicated in Finding 1, page 11, some monitoring agencies have demonstrated repeated difficulty completing the annual home study. In addition, division staff indicated that some monitoring agencies have requested that the Division renew a developmental home license even though the required unannounced home visit was not conducted. Although the Division has requested that monitoring agencies address specific instances of inadequate performance when they are identified, such as providing missing information for a home study or conducting an unannounced home visit, the Division has not taken any actions to systematically address these performance issues and prevent their reoccurrence. These actions might include the development and implementation of

a corrective action plan or a probationary period with increased division supervision to address instances where monitoring agencies did not adequately fulfill their responsibilities. Division staff indicated that since at least May 2015, the Division required only one monitoring agency to implement corrective actions for failing to comply with contractual requirements. In this instance, the monitoring agency submitted late developmental home license renewal applications and incomplete initial and renewal home studies, and failed to adequately monitor developmental homes for license compliance.

In addition, according to the qualified vendor agreement, the Division can cancel an agreement with a monitoring agency that does not comply with any one of the agreement's provisions or continually fails to adequately fulfill their required responsibilities after other available remedies were not successful. However, division staff indicated that the Division has not historically canceled qualified vendor agreements with monitoring agencies despite deficiencies in some monitoring agencies' performance discovered during the licensing process.

**Division does not know the extent to which monitoring agencies are adequately fulfilling responsibilities, which impacts member welfare in developmental homes**—Because of its lack of oversight, the Division does not know the extent to which monitoring agencies are adequately fulfilling their responsibilities, which helps to ensure the welfare of members residing in licensed developmental homes. Auditors visited three monitoring agencies and reviewed one to two randomly selected developmental home licensee files from each monitoring agency.<sup>24</sup> Based on a review of these files, auditors identified examples of how the Division's lack of oversight may affect its ability to fully assure member welfare. Specifically:

- One monitoring agency lacked signed documentation to support that it had conducted any of the required home visits at a developmental home prior to the home's most recent license renewal and did not have documentation required by rule demonstrating that the licensees' auto liability insurance was current for the cars used to transport members. Although the monitoring agency had entered information into the Division's database indicating that it had conducted the three required home visits and that the licensees' car insurance was current, without supporting documentation, the Division cannot ensure that the visits took place or that these visits helped ensure member welfare, nor can it ensure that the licensees' auto liability insurance is current. However, because the monitoring agency had entered the information necessary for license renewal into the database, the Division renewed this developmental home's license.
- Based on the review of a licensee file at another monitoring agency, auditors determined that the monitoring agency conducted at least three home visits for a developmental home licensee during the license year, but it did not conduct the required unannounced visit before it submitted the application recommending the Division renew the developmental home's license. Division staff confirmed that in this instance, they received the license renewal request from the monitoring agency approximately 2 months prior to the current license expiration date. When they reviewed the renewal request information and discovered that an unannounced visit had not been conducted, division staff indicated they requested that the monitoring agency conduct an unannounced visit as required by rule. However, division staff indicated that they did not follow up with the monitoring agency to ensure the required unannounced visit was conducted but renewed the license because the monitoring agency indicated that it completed at least three home visits. When an unannounced visit has not been conducted, division staff indicated that they will typically ask the monitoring agencies to conduct the unannounced visit, but that they do not follow up to ensure the unannounced visit was completed. As a result, the Division cannot ensure that it has renewed developmental home licenses in accordance with administrative rule. In addition, unannounced visits are important because they provide an opportunity to obtain a better perspective into the quality of care provided in the home as compared to announced visits.

<sup>&</sup>lt;sup>24</sup> Auditors visited 3 of the Division's 38 monitoring agencies with active developmental home licensees as of March 2017 (two of the Division's monitoring agencies did not have active developmental home licensees at this time). See Appendix B, page b-1, for additional details regarding the auditors' method to select the monitoring agencies.

<sup>&</sup>lt;sup>25</sup> Klerks, M.C.J.L., Ketelaars, C.A.J., & Robben, P.B.M. (2013). Unannounced, compared with announced inspections: A systematic review and exploratory study in nursing homes. *Health Policy*, 111, 311-319.

By not conducting formal oversight activities, the Division also cannot ensure that monitoring agencies will correct deficiencies in fulfilling their responsibilities. As mentioned previously, the Division does not regularly take enforcement actions to address deficient monitoring agency performance discovered during the licensing process (see pages 17 through 18). Instead, the Division has focused its efforts on submitting requests for additional information to the monitoring agencies to obtain the information needed to make developmental home licensing decisions. As a result, monitoring agencies that may not be adequately performing their responsibilities are allowed to continue monitoring licensed developmental homes without addressing potential systemic performance concerns. A formal oversight process would help ensure monitoring agencies make improvements if they are having difficulties in fulfilling their responsibilities. In addition, such a process would help ensure that only monitoring agencies that adequately perform their responsibilities would be allowed to continue to serve in the important role of helping oversee the developmental homes where the Division's members live.

### Division lacks process for overseeing its monitoring agencies for several reasons

The Division does not have a process for overseeing its monitoring agencies due to several factors. Specifically, the Division:

Has not clearly defined monitoring agencies' responsibilities and requirements in its qualified vendor agreement—A study from Rutgers University indicated that clearly defining contractor expectations is crucial to ensuring quality services from contractors. 26 The Division, however, has not clearly defined monitoring agencies' responsibilities and requirements in the qualified vendor agreement. For example, a key document signed by monitoring agencies when they complete the qualified vendor agreement, called Section 9F, contains vague monitoring agency requirements, such as implementing strategies for "training, home studies, and recommendation for licensing ... and re-licensing ... of [developmental] homes." In addition, Section 9F provides general statements, such as the monitoring agency will "monitor developmental homes for compliance with all applicable requirements," without clearly defining those requirements or citing applicable administrative rules. Although the Division provides the applicable administrative rules to monitoring agencies, these rules do not contain detailed requirements pertaining to the role and responsibilities of monitoring agencies. Specifically, administrative rule directs developmental home licensees to receive three home visits, described as an "annual home visit" and "two monitoring visits," one of which is unannounced, each year to renew their license, but rule does not mention the monitoring agency's role in fulfilling this requirement. Therefore, neither the qualified vendor agreement nor administrative rule clarifies the role of monitoring agencies with respect to developmental homes, including the responsibility for conducting the three home visits. Further, neither the qualified vendor agreement nor rule defines what specifically needs to take place during these home visits so that monitoring agencies fully understand what they are responsible for reviewing when conducting the annual home and monitoring visits. Division staff stated that, in practice, as long as someone from the monitoring agency enters the home, they consider this to be one of the three required home visits, regardless of the purpose of the visit. However, without specifying requirements for the home visits, the Division has not established the expectations for what monitoring agencies should review and assess during these visits to help ensure members are safe and their needs are being met.

In addition to not clearly defining the specifics of monitoring agency requirements in its qualified vendor agreement, two of the documents that make up the agreement are not entirely consistent with each other and may not consistently reflect actual practice. For example, Section 9F indicates that the monitoring agency and the licensee will develop an Individual Support Plan (ISP) for the member. However, this requirement differs from the requirement specified in the Services Specifications document, called Section 7. Section 7 states that the monitoring agency will participate as one of several team members to help develop the ISP. In practice, the monitoring agencies do not develop the ISP with the licensees as indicated in Section 9F.

<sup>&</sup>lt;sup>26</sup> Fine, J., Mareschal, P., Hersh, D., & Leach, K. (2014) Overlooking oversight: A lack of oversight in the Garden State is placing New Jersey residents and assets at risk. New Brunswick, NJ: Rutgers University.

<sup>&</sup>lt;sup>27</sup> The ISP is a written statement of services the member is authorized to receive and includes the member's related goals and objectives.

Rather, they are part of the member's team and help develop the ISP, which is more accurately reflected in the Section 7 document.

Provided minimal standardized guidance to monitoring agencies—In addition to not clearly delineating all monitoring agency requirements in the qualified vendor agreement, the Division has provided limited guidance to the monitoring agencies on fulfilling these requirements. For example, the Division has developed two forms that the monitoring agencies can use when conducting home visits at the developmental homes. Together, these forms include a statement regarding the Division's statutory right to inspect the home, the licensees' inspection rights during the visit, a checkbox to indicate the purpose for the visit, and a place to note deficiencies. However, the forms do not include a checklist of specific items that should be reviewed during home visits to help facilitate a standard and consistent home visit approach designed to help ensure member health, safety, and welfare. In addition, the Division has provided prompts in the licensing database to help monitoring agencies know what information to provide for the home study; however, division staff indicated some monitoring agencies continue to have difficulties providing adequate information even with the prompts.

Further, the Division has provided little guidance or resources to monitoring agencies to help them fulfill their responsibility of ensuring developmental home licensees receive appropriate training. According to administrative rule, child and adult developmental home licensees are required to receive a minimum of 10 hours of annual training and additional training based on the specific needs of the member(s) residing in the home. The Division provides two train-the-trainer courses that are designed to prepare monitoring agency staff to provide training classes to developmental home licensees. In addition, the Division provides monitoring agencies with a list of topics, such as reporting serious incidents and teaching and changing behaviors, that they can choose to incorporate into the annual trainings they provide for their licensees. However, the Division lacks other guidance related to licensee training. For example, the Division has not developed and provided guidance to the monitoring agencies to supplement its list of training topics, such as suggested course curricula or outlines of course content, which could include applicable laws/regulations and best practices. Additionally, the Division has not referred monitoring agencies to other resources to assist them in developing and delivering effective and appropriate trainings. This would include referrals to recognized adult learning experts, such as the National Adult Education Professional Development Consortium or the International Association for Continuing Education and Training.

• Does not have policies and procedures for overseeing monitoring agencies—The Division lacks policies and procedures directing the oversight activities that its staff should perform, such as verifying information monitoring agencies enter into the division database to document their activities, generating and using database reports to track the extent to which monitoring agencies fulfill their responsibilities, and regularly taking action when monitoring agencies do not adequately fulfill their responsibilities. Although division staff can identify deficiencies with monitoring agencies' performance when they review monitoring agencies' applications to issue or renew licenses, the Division does not have policies and/or procedures to track, assess, and address these deficiencies.

# Division should take several steps to establish oversight process for its monitoring agencies

The Division should take several steps to establish a process for overseeing its contracted monitoring agencies. A study from Rutgers University emphasized the importance of providing contractors with clear and explicit guidance on expectations and maintaining a system of monitoring and auditing to ensure contract requirements

<sup>&</sup>lt;sup>28</sup> AAC R6-6-1005(B)(C) and R6-6-1105(B)(C).

Division staff indicated that the two train-the-trainer courses are provided to monitoring agencies to certify instructors to provide these trainings to developmental home licensees. The Article 9 course covers topics such as member's rights, abuse and neglect, training pertaining to behavior plans, and emergency measures. The second course is Prevention & Support, which provides proactive and preventative strategies to support people who display behavioral challenges and emergency physical intervention techniques when these strategies are unsuccessful.

are met.<sup>30</sup> In addition, auditors interviewed staff in other states that use contracted third-party entities to provide services similar to the services provided by Arizona's monitoring agencies to learn how they define responsibilities and/or what guidance they provide to their contractors. For example, Nevada's Aging and Disabilities Services Division specifies in policy that contractors must conduct home visits each month, which includes assessing the physical environment, reviewing required training, and ensuring that residents' rights are maintained; and that contractors retain specific documentation for these visits. Oregon's Office of Developmental Disabilities Services has created a standardized checklist for their contractors to use to perform licensing inspections. The checklist includes items such as documenting whether specific recordkeeping requirements are met, ensuring that medications are stored in their original containers, confirming that doorways and hallways are accessible, and ensuring that the home meets fire safety standards. Similar to these other states and in accordance with recommended practices, the Division should clearly define the monitoring agencies' responsibilities in its qualified vendor agreement, develop and provide standardized forms and other guidance to assist them in fulfilling these responsibilities, and develop and implement policies and procedures for overseeing the monitoring agencies. Specifically, the Division should:

- Clearly define monitoring agency responsibilities—The Division should develop and implement a policy that clearly defines monitoring agency roles, responsibilities, and requirements, including the requirements for conducting the "annual home visit" and the "monitoring visits." In addition, the Division should specify in its policy the type of records monitoring agencies must maintain to document their activities. Further, the Division should ensure that the responsibilities and requirements established in its policy are incorporated in its qualified vendor agreement. Finally, the Division should ensure that the responsibilities and requirements specified in the various qualified vendor agreement documents are internally consistent and reflect actual practice where appropriate.
- **Provide guidance to monitoring agencies**—To assist monitoring agencies in performing their responsibilities, the Division should develop and provide standardized guidance, including a checklist that would help facilitate a standard and consistent approach for the required home visits. In addition, the Division should develop and/or provide additional guidance for monitoring agencies to help ensure they submit more complete information for the home study in an effort to reduce division requests for additional information. For example, the Division could improve its database prompts that describe the type of information that monitoring agencies should enter into the Division's database for each area in the home study. The Division could also require all new monitoring agencies and/or those that repeatedly have deficient home studies to attend the technical assistance presentation that the Division developed and offers periodically regarding how to properly complete the home study.

In addition, the Division should enhance the guidance and/or resources it provides to monitoring agencies to help ensure they provide appropriate training to licensees. Specifically, the Division should develop and provide guidance, such as suggested course curricula or outlines of course content, which could include applicable laws/regulations and best practices, for its list of training topics. Additionally, the Division should develop guidance regarding fundamental content that must be covered in specific training topics for licensees and/or provide training materials to assist monitoring agencies to deliver trainings or make referrals to other resources, such as recognized adult learning experts, that could help monitoring agencies develop and deliver effective and appropriate trainings to licensees.

- **Develop oversight policies and procedures**—Finally, the Division should develop and implement policies and procedures to guide and direct its staff in conducting oversight of its contracted monitoring agencies. These policies and procedures should:
  - Identify the various oversight activities division staff should perform and how these activities should be performed. Oversight activities should include conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting supporting documentation, which may include electronic signatures/ acknowledgments, to verify information monitoring agencies enter into the Division's database. The

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<sup>&</sup>lt;sup>30</sup> Fine et al., 2014.

Division should also review monitoring agency supporting documentation for home visits to help ensure these visits were completed in accordance with rule and qualified vendor agreement requirements. For example, once the Division clearly defines the requirements of the "annual home visit" and the "monitoring visits" in the qualified vendor agreement, it should ensure that monitoring agencies meet these requirements by either conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting and reviewing supporting documentation. In addition, the Division should review a sample of monitoring agency documentation for trainings provided to licensees to help ensure the training is appropriate given the needs of the licensees and the members;

- Direct how information in the division database should be reported and used, including the development of management reports. Specifically, the Division should require its monitoring agencies to enter information into the database fields in such a way as to facilitate the Division's ability to generate timely, accurate, and useful reports of monitoring agencies' activities. The Division should then develop and generate management reports that provide information on monitoring agency activities, such as whether monitoring agencies are timely in completing unannounced home visits, whether home visits are conducted with an appropriate frequency during the license renewal year, and whether licensee training is completed in a timely manner. Finally, the Division should ensure that its policies and procedures include the requirement and process for generating and reviewing these reports; and
- Require the use of corrective action plans or other appropriate enforcement actions when the Division identifies deficiencies in monitoring agencies' activities. For example, when the Division discovers instances of poor performance among its contracted monitoring agencies, it should require that monitoring agencies develop and implement corrective action plans that would identify how the monitoring agency plans to correct deficiencies, timelines for correction, and any potential training needs. In addition, the Division's policies and procedures should ensure that monitoring agencies respond in a timely manner to a division request for corrective action. For example, the policies and procedures should direct division staff to conduct onsite visits to verify corrective action, or require monitoring agencies to provide progress reports by established time frames. In addition to using corrective action plans, the Division should require the use of other appropriate enforcement actions. These might include implementing a probationary period with increased division supervision or canceling qualified vendor agreements with monitoring agencies that continually fail to adequately complete their required responsibilities after other available remedies were not successful.

#### Recommendations

- 2.1. The Division should take several steps to establish a process for overseeing its contracted monitoring agencies. Specifically, the Division should:
  - Develop and implement a policy that clearly defines monitoring agency roles, responsibilities, and requirements, including the requirements for conducting the "annual home visit" and the "monitoring visits";
  - b. Specify in its policy the type of records monitoring agencies must maintain to document their activities;
  - c. Ensure that the responsibilities and requirements established in its policy are incorporated in its qualified vendor agreement; and
  - d. Ensure that the responsibilities and requirements specified in the various qualified vendor agreement documents are internally consistent and reflect actual practice where appropriate.
- 2.2. To assist monitoring agencies in performing their responsibilities, the Division should:
  - a. Develop and provide standardized guidance, including a checklist that would help facilitate a standard and consistent approach for the required home visits; and

- b. Develop and/or provide additional guidance for monitoring agencies to help ensure they submit more complete information for the home study in an effort to reduce division requests for additional information.
- 2.3. The Division should enhance the guidance and/or resources it provides to monitoring agencies to help ensure they provide appropriate training to licensees. Specifically, the Division should develop and provide guidance, such as suggested course curricula or outlines of course content, which could include applicable laws/regulations and best practices, for its list of training topics. Additionally, the Division should develop guidance regarding fundamental content that must be covered in specific training topics for licensees and/or provide training materials to assist monitoring agencies to deliver trainings or make referrals to other resources, such as recognized adult learning experts, that could help monitoring agencies develop and deliver effective and appropriate trainings to licensees.
- 2.4. The Division should develop and implement policies and procedures to guide and direct its staff in conducting oversight activities of its contracted monitoring agencies. These policies and procedures should:
  - a. Identify the various oversight activities division staff should perform and how these activities should be performed. Oversight activities should include conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting supporting documentation, which may include electronic signatures/ acknowledgments, to verify information monitoring agencies enter into the Division's database. The Division should also review monitoring agency supporting documentation for home visits to help ensure these visits were completed in accordance with rule and qualified vendor agreement requirements. For example, once the Division clearly defines the requirements of the "annual home visit" and the "monitoring visits" in the qualified vendor agreement, it should ensure that monitoring agencies meet these requirements by either conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting and reviewing supporting documentation. In addition, the Division should review a sample of monitoring agency documentation for trainings provided to licensees to help ensure the training is appropriate given the needs of the licensees and the members;
  - b. Direct how information in the division database should be reported and used, including the development of management reports. Specifically, the Division should require its monitoring agencies to enter information into the database fields in such a way as to facilitate the Division's ability to generate timely, accurate, and useful reports of monitoring agencies' activities. The Division should then develop and generate management reports that provide information on monitoring agency activities, such as whether monitoring agencies are timely in completing unannounced home visits, whether home visits are conducted with an appropriate frequency during the license renewal year, and whether licensee training is completed in a timely manner. Finally, the Division should ensure that its policies and procedures include the requirement and process for generating and reviewing these reports; and
  - c. Require the use of corrective action plans or other appropriate enforcement actions when the Division identifies deficiencies in monitoring agencies' activities. For example, when the Division discovers instances of poor performance among its contracted monitoring agencies, it should require that monitoring agencies develop and implement corrective action plans that would identify how the monitoring agency plans to correct deficiencies, timelines for correction, and any potential training needs. In addition, the Division's policies and procedures should ensure that monitoring agencies respond in a timely manner to a division request for corrective action. For example, the policies and procedures should direct division staff to conduct onsite visits to verify corrective action, or require monitoring agencies to provide progress reports by established time frames. In addition to using corrective action plans, the Division should require the use of other appropriate enforcement actions. These might include implementing a probationary period with increased division supervision or canceling qualified vendor agreements with monitoring agencies that continually fail to adequately complete their required responsibilities after other available remedies were not successful.

#### APPENDIX A

#### Home study topic areas

The Division of Developmental Disabilities' (Division) home study is a comprehensive evaluation of a child developmental home or adult developmental home applicant(s) or licensee(s) conducted prior to initial licensure and annually thereafter. As shown in Table 2, the home study covers 24 diverse topic areas and requires the review and documentation of information about family members residing in or outside the home and any nonfamily members residing in the home, such as renters or roommates. The Division relies on contractors called monitoring agencies to conduct the home studies, which help form the basis for the monitoring agencies' recommendations to the Division for issuing and renewing developmental home licenses. Monitoring agencies are required to enter the results of the home study into the Division's licensing database. Division staff do not typically have frequent contact with developmental home applicants and licensees and rely largely on the information gathered by monitoring agency staff to make licensing decisions. See the Introduction, page 5, and Findings 1 and 2, pages 9 through 23, for additional information regarding monitoring agencies.

**Table 2**Topic areas covered for Division's home study of a developmental home applicant/licensee<sup>1</sup>

Topic area	Description of information monitoring agencies should collect and enter into the Division's licensing database		
Topic areas covered once pr	ior to initial licensure		
Experience	Explanation of the applicant's experience parenting his/her own children and any experience with vulnerable adults or children with developmental delays, emotional disturbances, delinquency, developmental or physical impairments, or other special needs. Information about the applicant's personal and/or work experience with behavior challenges/problems as well as experience working with people of other races, beliefs, or cultures. (Individuals with developmental disabilities receiving division services are referred to as "members.") Monitoring agency staff assessment of how the applicant's experiences will assist them to support members living in their home.		
Motivation	Description of why the applicant wants to share his/her home with members who have developmental disabilities and assessment as to whether the applicant is realistic about expectations of having a child or an adult living in his/her home. (This information is critical because the entire family needs to agree with the decision to invite members into their home and to create a supportive home environment.)		
Marriage/relationship with significant other	Details about the applicant's current marriage/relationship and assessment of its stability, including information about any stresses or crises the applicant has faced as a couple, and the biggest compromises that have been made in the applicant's marriage/relationship.		

<sup>&</sup>lt;sup>31</sup> Married or single persons may apply for a developmental home license.

#### **Table 2 continued**

Topic area	Description of information monitoring agencies should collect and enter into the Division's licensing database	
Previous marriages/ relationships with significant others	Details about previous committed relationships/marriages and, if children are involved, information on the applicant's current relationship with them. If an applicant has not been in a committed relationship or has never been married details about the most important relationship.	
Children	Information about each child currently residing in the applicant's home, including name and age, physical description, personality, interests, academic progress, peer and sibling relationships, and any special needs, including an explanation about how the children feel about having member children placed in their home and how they would handle difficult behaviors. If the applicant has minor or adult children not residing in the home, information about relationships and contact with them.	
Applicant background	General information regarding the applicant's background, including family and childhood, education, work histories, physical description, personality and temperament, friendships and activities enjoyed outside of the home, stress and anger management, and experiences with loss, along with an explanation about any issues or concerns that could impact the applicant's ability to provide appropriate member care. Family background information includes parents, stepparents, guardians, and siblings; their occupations; early memories and experiences with the family; and relationship with the family.	
Religion and spirituality	Details about the role of religion/spirituality in the applicant's home and attendance at religious services. Details concerning any beliefs, rituals, or practices that might impact the care of a member, such as food or observance of holidays. Indication the applicant understands not to force beliefs on members, and how the applicant plans to support the members' cultural, ethnic, and religious choices.	
Team member participation	Information regarding the applicant's cooperation in completing the initial licensing process, attendance at required training, and understanding of his/her role as part of the members' treatment team, which includes division staff and other involved individuals. Includes the applicant's willingness to attend meetings that pertain to the members' progress and court hearings, as necessary.	
Topic areas covered both price	or to initial licensure and annually at license renewal	
Demographics	Name, address, telephone number, and other information about the applicant. Monitoring agency name, address, telephone number, and the monitoring agency staff designated to receive emails from the Division pertaining to the license request/renewal.	
Licensing history	Any current/previous licenses, including home- and community-based service certification (see Introduction, page 4, for details about this certification) and if previously licensed, should include research about the history and status the license.	
Child or adult preference	Indication on whether the applicant prefers to have a child or an adult in his/her home and the level of special needs they will accept. (Child and adult members are not housed in the same developmental home.) Indication that the applicant understands the legal rights of the members who will be in his/her care. Monitoring agency staff person's professional opinion about the type of member who would fit well in the home and why.	

#### **Table 2 continued**

Topic area	Description of information monitoring agencies should collect and enter into the Division's licensing database
Client care	Descriptions of the applicant's abilities and skills to meet members' needs. Monitoring agency staff assessment about how these abilities and skills match with the applicant's preferred members to be placed in his/her home, including a determination and explanation about whether the applicant has a realistic understanding of expectations about caring for members. If the home study is being completed as part of a renewal application, information about the members placed in the home over the last year, such as schedules, goals, and activities with the family.
Finances and employment	Information on whether the applicant has financial resources to meet his/her family's needs, including details describing verification of income and expenses, information about any bankruptcies in the last 10 years, description of the applicant's days/hours of work, and if the applicant's schedule allows time to manage client care emergencies. Monitoring agency staff assessment of the applicant's ability to meet the care and supervision requirements of members placed in his/her home.
Alternative supervision	Information about plans for arranging alternative supervision if the applicant is working outside the home, how many hours the members will be supervised by someone else, and the supervision plan in case of an emergency.
Relationship with member's family	Explanation of the applicant's understanding of and willingness to support "shared parenting" with the biological family, including the applicant's attitude toward the biological family's involvement with the member living in the applicant's home, and details of the applicant's plan to share parenting duties with the biological family.
Training and skill building development	Explanation of how the monitoring agency has provided the required training for the applicant, the total number of training hours received, titles of training classes taken, and, if necessary, class descriptions.
Discipline/behavior	Information about how the applicant disciplines his/her own children, including a description of the behavior management/discipline techniques the applicant will use with members. If the application is a renewal, examples of discipline/behavior management techniques the applicant used over the last year.
Health	Information about the past and present health of the family and everyone residing in the household, including mental and behavioral health, special needs or disabilities, substance abuse history, immunizations, and any regularly prescribed medications for all household members. Monitoring agency staff summary of pertinent information from medical reports and medical self-disclosure forms, description of how medical conditions are being managed, and assessment of how this information may impact the applicant's ability to care for members residing in the home. Date of the last physician's statement (see Introduction, page 5, for details about this statement).
Family and household relationships	Details about the applicant's family, such as relationships with significant others and/or relatives not on the license but living in the home, and with extended family. Information about any nonfamily members residing in the home, including roommates, boarders, or renters, such as name and relationship to applicant, employment, brief social history, financial contribution to the household, and potential interactions with members. Description of family rituals, routines, and values.

#### **Table 2 continued**

Topic area	Description of information monitoring agencies should collect and enter into the Division's licensing database
Home	Information about the size of the home, including the number of rooms and bedrooms, along with a description of sleeping arrangements indicating bedrooms to be used by the prospective child or adult members. If a child member is going to share a bedroom with an applicant's child, an indication of whether the child has given approval for sharing the bedroom. In addition, descriptions of housekeeping standards, repairs and upkeep of the home, and yard area, including areas for recreation and play, and details about pets and vaccinations. Indication of whether the home is accessible for persons with disabilities and, if not, what adaptations are available or would need to be made. Information on the date of the most recent division safety inspection (see Introduction, page 5, for details about this inspection), a description of any deficiencies found during the inspection, and an explanation of when and how any deficiencies were corrected. For renewal applications, a summary of fire drills conducted in the home, including how long it took the family and members to evacuate.
Transportation	Information about any vehicles the applicant will use to transport members, including current vehicle liability insurance.
Court history	Research by monitoring agency staff of publicly available court records. Indication of whether applicant has been involved in a court action. (The Division has also requested that monitoring agency staff ensure the applicant understands that he/she must disclose traffic tickets, and that if members are present in a vehicle when a driver receives a traffic ticket, a report needs to be completed and filed with the Division.)
Licensing inquiries/unusual incidents	Information about any investigations into the home during the past licensing year, including the investigation's outcome and any followup that has been completed. This topic area is not applicable if applicants have not previously been licensed or certified.
Agreements	Indication that monitoring agency staff and the applicant discussed applicable agreements and that the applicant signed the agreements, such as the agreement acknowledging the applicant's understanding of his/her role as developmental home licensee and the agreement indicating the applicant's understanding of the complete application process, including a criminal record check, and granting the Division permission to investigate him/her for licensing purposes.

The home study is completed for new developmental home license applicants and current licensees prior to licensure and annually thereafter. While the table refers to "applicant," married or single persons may apply for a developmental home license.

Source: Auditor General staff analysis of a home study for an initial license, a home study for a license renewal, and the Division's technical assistance presentation developed to help monitoring agency staff properly complete the home study.

#### **APPENDIX B**

#### Methodology

Auditors used various methods to address the objectives in this performance audit of the Arizona Department of Economic Security (Department)—Division of Developmental Disabilities (Division). These methods included interviewing division staff and reviewing the Division's statutes, administrative rules, policies, procedures, and website. In addition, auditors used the following specific methods to address the audit objectives:

- To evaluate the Division's oversight of monitoring agencies and assess the Division's processes for ensuring
  monitoring agencies have the necessary expertise to fulfill their responsibilities for training and monitoring
  developmental home applicants and licensees, auditors:
  - Reviewed the Division's qualified vendor application forms and readiness review checklists, and observed portions of related processes;
  - Researched recommended practices in literature as cited throughout the report;
  - Interviewed staff from three other states' developmental disability service offices and reviewed related documentation;<sup>32</sup>
  - Reviewed the Division's licensing database, including information entered by monitoring agencies for initial and annual home studies;
  - Reviewed the contractual agreement that includes monitoring agencies' requirements for training and monitoring developmental home licensees; and
  - Conducted site visits to three developmental home monitoring agencies to inspect files, interview monitoring agency staff, and review documentation.<sup>33</sup>
- To obtain information for the Introduction, auditors analyzed department-prepared financial information through February 27, 2017, from its Financial Management Control System for fiscal years 2014 and 2015, and from the Arizona Financial Information System and other financial information for fiscal years 2016 and 2017. Auditors also reviewed division staffing reports, organizational charts, annual reports, and strategic plans.
- Auditors' work on internal controls included reviewing and assessing the Division's processes for entering
  contractual agreements with monitoring agencies and whether the Division requires them to meet minimum
  qualifications. Auditors' conclusion on these internal controls are reported in Finding 1 of the report. In addition,
  auditors performed work in Finding 2 to determine whether the Division had controls to oversee monitoring
  agencies, such as verifying the accuracy of monitoring agency-provided information, tracking monitoring

<sup>&</sup>lt;sup>32</sup> The three states auditors contacted were Nevada, Oregon, and Utah. Auditors selected these states because similar to Arizona, they use third-party contractors to manage entities that provide services similar to the Division's child and adult developmental homes.

As of March 2017, the Division had 38 monitoring agencies with active developmental home licensees (two of the Division's monitoring agencies did not have active developmental home licensees at this time). Auditors judgmentally selected and visited 1 monitoring agency with adult developmental homes. Auditors then selected 2 additional monitoring agencies to visit by conducting a stratified random sample of monitoring agencies with child developmental homes located in Maricopa and Pinal Counties based on the number of developmental homes overseen by the monitoring agency. Auditors randomly selected one monitoring agency having 15 or fewer homes and another monitoring agency having more than 15 homes. Auditors reviewed the first one to two licensee files from four randomly selected files for each monitoring agency based on whether individual(s) with disabilities eligible for division services were currently residing with the licensees.

agencies' activities, and regularly taking enforcement actions to address deficiencies in monitoring agencies' performance.

Auditors conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express their appreciation to the Department's director, management, and staff for their cooperation and assistance throughout the audit.

# Arizona Department of Economic Security Child Care Services

Department should improve its child care provider monitoring and complaint-handling processes and examine consolidating child care regulation under one agency



**Debra K. Davenport** Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

#### The Joint Legislative Audit Committee

Senator Bob Worsley, Chair

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Senator Judy Burges

Senator Lupe Contreras

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Representative J.D. Mesnard (ex officio)

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DEBRA K. DAVENPORT, CPA AUDITOR GENERAL

# STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

MELANIE M. CHESNEY DEPUTY AUDITOR GENERAL

February 15, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Henry Darwin, Interim Director Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Economic Security—Child Care Services. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement or implement in a different manner all of the recommendations.

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

Sincerely,

Debbie Davenport Auditor General

Attachment





#### REPORT HIGHLIGHTS

Performance Audit February 2017

# Arizona Department of Economic Security Child Care Services

CONCLUSION: The Arizona Department of Economic Security (Department) is responsible for establishing and administering child care services, including providing a child care subsidy for eligible families, certifying and monitoring child care home providers who are not regulated by the Arizona Department of Health Services (DHS), and developing and implementing services to increase child care affordability, availability, and quality. We found that the Department did not always conduct two required comprehensive on-site inspections annually of each child care home provider (provider) in calendar years 2012 through 2014. Department inspectors also did not consistently assess provider compliance with child care requirements during inspections. Additionally, we found that although the Department is required to investigate and resolve complaints and provide information on valid complaints to the public, it has not established procedures to effectively receive, investigate, and monitor complaints. Finally, the Department and DHS share responsibility for child care regulation in Arizona, and consolidating this responsibility under one agency could potentially improve the economy and efficiency of child care regulation in the State.

#### Child care eligibility and settings

The Department provides a child care subsidy for eligible families that helps pay for child care costs and enables parents to participate in employment and specific education and training activities related to employment. Eligible families include those enrolled in the Temporary Assistance for Needy Families (TANF) cash assistance program; transitioning off TANF; or caring for children under the supervision of the Arizona Department of Child Safety or developmentally disabled

children under department supervision; and, when funding is available, qualified low-income families with incomes below 165 percent of the federal poverty level, which was \$33,264 for a family of three in 2016. During September 2016, the Department provided subsidized child care for approximately 30,000 children but also had a waiting list of approximately 3,500 families. Eligible families must use one of four types of child care providers that the Department or DHS regulates (see textbox).

- Child care home providers care for up to four children for compensation in the provider's home.
- Child care in-home providers care for up to four children for compensation in the children's own home.
- Child care centers care for more than four children for compensation in a nonresidential facility.
- Child care group home providers care for five to ten children for compensation in the provider's home.

#### Department should strengthen its child care monitoring

**Department monitors providers to ensure compliance with health and safety requirements—**The Department must certify and monitor child care home providers who care for children of eligible families. Once a provider is certified, the Department conducts a variety of on-site inspections, and in fiscal year 2015, the Department conducted 1,569 inspections. Inspectors use a checklist of more than 130 items to assess compliance with various state health and safety requirements, such as whether toxic chemicals are appropriately stored and toys are appropriate. When noncompliance is identified, the Department may take progressive enforcement actions against the provider.

**Department should develop and implement a differential monitoring approach**—The Department is required to conduct two inspections annually for each provider—an announced annual and an unannounced monitoring inspection—regardless of the provider's compliance history. However, we analyzed the Department's inspection data for 600 providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014 and found that between 15 and 18 percent of those providers did not receive at least one of the annually required inspections. Although the Department did not comply with its two-inspection-per-year requirement, this requirement exceeds the federal requirement of one on-site inspection per year.

According to a 2015 federal report on innovations in monitoring, a blanket monitoring system that treats all providers equally can be inefficient, and a better approach bases monitoring and oversight of providers on their past performance

or on an assessment of risk for noncompliance with standards. The report notes that such differential monitoring approaches are consistent with recommended best practices and are being used by other states.

**Department should ensure inspections are consistently performed**—It is important that inspectors assess provider compliance in a consistent manner to ensure equitable treatment of providers and the health and safety of children. However, we observed five inspections conducted by three different inspectors during March and April 2016 and identified various inconsistencies with how inspectors ensured providers' compliance with requirements, such as the providers having a working fire extinguisher that they know how to operate. Neither department rule nor policy specifies how to assess compliance with this requirement. We also reviewed one inspection checklist for 12 randomly selected providers to assess inspectors' completion of the checklist and identified problems with 7 of the 12 checklists, such as items being marked as both compliant and noncompliant. Limitations with the Department's training for new inspectors and limited guidance in its rules and policies manual have contributed to the inconsistently performed inspections.

#### Recommendations

The Department should:

- Implement a differential monitoring approach to more effectively and efficiently monitor its providers;
- Develop and implement a structured training program for new inspectors; and
- Enhance its rules and policies manual to help ensure inspectors perform inspections consistently.

# Department should improve its child care provider complaint-handling process

The Department is required to receive, investigate, and resolve complaints against child care home providers, but it has not developed and implemented adequate procedures to guide all the steps in its complaint-handling process. For example, the Department lacks an adequate intake process, which should include providing information to the public about how to file a complaint. The Department also does not have a centralized electronic log for recording key complaint information such as the date, time, and place of an incident and the complainant's contact information. Without such a log, the Department is at risk for some complaints not being documented, investigated, and/or resolved, and it cannot easily track complaints or analyze complaint trends. Additionally, although the Department's complaint-handling policy indicates that inspectors should conduct on-site investigations for specific complaints and may interview pertinent individuals, the policy does not specify what investigative activities are required, such as what type of documentation should be obtained and reviewed. The policy also does not include adequate guidance regarding what disciplinary actions should be taken based on the violations found or how to follow up with providers and complainants.

#### Recommendations

The Department should:

- Include information about how to file a complaint and the complaint-handling process on its website;
- Modify its data system to capture complaint information; and
- Develop and implement policies and procedures for complaint investigations, enforcement processes, and follow-up activities.

# Department should examine costs and benefits of consolidating child care regulation under one agency

The Department and DHS share responsibility for regulating child care providers, although each regulates different types of child care providers. Specifically, the Department regulates providers caring for four children or less in the provider's or children's home, and DHS regulates nonresidential child care centers and group homes. However, they perform many of the same regulatory responsibilities, such as establishing standards and requirements to ensure child health and safety and conducting inspections. In contrast, at least 31 states and the District of Columbia have a single agency that regulates child care centers, group homes, and family homes.

#### Recommendation

The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating their child care regulatory functions.

Arizona Auditor General

Arizona Department of Economic Security—Child Care Services | February 2017 | Report 17-103

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#### INTRODUCTION

#### Scope and objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department)—Child Care Services, pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit is the second in a series of five audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit presents findings and recommendations in the following areas:

- Monitoring of certified child care home providers (Finding 1);
- Child care services complaint-handling process (Finding 2);
- The costs and benefits of consolidating child care regulation under one agency (Finding 3); and
- Child care services process for managing the child care waiting list (Finding 4).

The first audit addressed the Department's processes for managing its Vocational Rehabilitation Services Program service costs and clients' progress, while the remaining department audits will focus on information technology security, licensing and oversight of homes for the developmentally disabled, and the statutory sunset factors.

# Department administers child care services, including Arizona's child care subsidy program

According to A.R.S. §46-802, the Department is responsible for establishing and administering child care services. These services include:

- Assisting eligible families with child care costs—The Department provides a child care subsidy for eligible families that helps pay for child care costs and enables parents to participate in employment and specific education and training activities related to employment or in certain other circumstances when parents are unable to provide care, such as when a child is in foster care. According to a department report, in fiscal year 2016, the Department subsidized child care costs for an average of 30,000 children each month. The average monthly subsidy payment was \$359, which the Department pays directly to the child care provider (see following bullet for more information on providers). The State's child care reimbursement rates vary by factors, including child age, provider type, number of care hours, and geographic areas. Table 1, page 2, shows the range of maximum reimbursement rates for full-day care, i.e., 6 hours or more, by provider type and child age group.<sup>1</sup>
- Regulating child care home providers—The Department and the Arizona Department of Health Services
  (DHS) share regulation of child care providers based on the provider type (see Finding 3, pages 29 through
  34, for more information). The Department certifies child care home providers not required to be licensed by
  DHS and monitors them for compliance with health and safety guidelines to ensure an adequate supply of
  available child care provider options for eligible families. According to department records, as of September

The Department has established tiered reimbursement rates to increase payment rates for targeted needs, such as for child care providers that serve children with special care needs. Additionally, the Department provides an enhanced rate to providers that are nationally accredited to encourage more providers to become accredited and to make higher quality child care available to children receiving the subsidy.

**Table 1**Lowest and highest maximum daily full-day child care reimbursement rates across Arizona by provider type and child age group<sup>1</sup>
Fiscal year 2016

Provider type and child age group<sup>2</sup>

Low and high maximum daily full-day reimbursement rates across the State<sup>3,4</sup>

Child care centers	Low	High
Less than 1 year	\$21.00	\$32.00
1 year to less than 3 years	19.00	28.00
3 years to less than 6 years	18.00	23.80
6 years to less than 13 years	17.00	23.40
Child care group homes	Low	High
Less than 1 year	19.00	24.00
1 year to less than 3 years	18.00	22.00
3 years to less than 6 years	18.00	22.00
6 years to less than 13 years	17.00	20.00
Child care homes and in-home providers	Low	High
Less than 1 year	18.00	20.00
1 year to less than 3 years	17.00	20.00
3 years to less than 6 years	16.00	18.00
6 years to less than 13 years	16.00	18.00

Rates vary across the State by geographic area. The Department defines six local areas based on geographic proximity and characteristics as "districts." The districts consist of the following counties: District 1—Maricopa; District 2—Pima; District 3—Apache, Coconino, Navajo, and Yavapai; District 4—La Paz, Mohave, and Yuma; District 5—Gila and Pinal; and District 6—Cochise, Graham, Greenlee, and Santa Cruz. Each district has maximum reimbursement rates for each provider type and child age group.

Source: Auditor General staff analysis of the department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July* 1, 2015–June 30, 2016.

2016, the Department certified 490 child care home and in-home providers (see pages 4 through 5 for more information on the different child care provider types).

• Supporting child care in Arizona—The Department develops and implements services to increase child care affordability, availability, and quality offered in Arizona. For example, using federal Child Care and Development Fund (CCDF) monies, the Department contracted for a self-study project designed to improve the child care quality in centers, family care homes, and after-school programs by providing participants with on-site professional development training and technical assistance at no cost (see Appendix A, pages a-1 through a-2, for a description of these monies and their allowable use). The Department also contracts for child care resource and referral services to provide assistance to families, providers, and the community at no charge through a toll-free phone number and the internet. These resource and referral services include free child care referrals, guidelines on finding quality child care, and a quarterly newsletter including information on upcoming trainings that meet annual training requirements for child care providers.

<sup>&</sup>lt;sup>2</sup> Full-day payment rates for noncertified relative providers is \$10.50, minus any department-designated copayment. This rate is applicable statewide for care provided to children of all ages.

The maximum reimbursement rate is the highest reimbursement rate that each district may pay or allow for each provider type and child age group.

<sup>&</sup>lt;sup>4</sup> The actual reimbursement amount is equal to the reimbursement rate minus any department-designated copayment (see page 4 for a discussion of the copayment). However, in no event shall the amount reimbursed exceed the lesser of the provider's actual charges or the maximum reimbursement rate minus any department-designated copayment.

# Several child care options available to families qualified for child care subsidy

Families are able to choose the child care setting for their children after the Department has determined the family to be eligible. To qualify for the child care subsidy, families must meet certain eligibility criteria. Once determined eligible for the subsidy, families may select from several types of child care providers to care for their children.

Families must meet various requirements to qualify for the child care subsidy—The child care subsidy is available to families with children who meet the requirements of one of four categories. See Table 2 for a description of the categories and fiscal year 2016 participant numbers. Specifically, assistance in paying for child care costs is available to those families (1) enrolled in Temporary Assistance for Needy Families (TANF); (2) transitioning off TANF; or (3) caring for children under the supervision of the Arizona Department of Child Safety (DCS) or developmentally disabled children under the supervision of the Department; and, (4) when funding is available, qualified low-income families with incomes below 165 percent of the federal poverty level, which in 2016 for a family of three was \$33,264.<sup>2,3</sup> The Department has not received enough funding to serve all families that fall into this fourth category, so as statutorily required, it has established a waiting list. According to the Department, as of September 2016, approximately 3,500 families were on its waiting list (see Finding 4, pages 35 through 38, for more information on the waiting list).

**Table 2**Department child care subsidy eligibility categories and average monthly participants Fiscal year 2016

Eligibility category	Description	Average monthly number of families	Average monthly number of children
TANF	TANF clients engaged in employment activities. There is no copayment required.	1,138	2,126
Transitional	TANF clients who are working but make less than 165 percent of the federal poverty level. Assistance may be provided for up to 24 months. A copayment is required for only the first three children.	2,484	4,918
Protective services	Foster families and relatives caring for children under the DCS' supervision and foster parents of developmentally disabled children under the supervision of the Department. There is no copayment required.	5,855	9,903
Low-income <sup>1</sup>	Teen parents in school, parents in homeless shelters, and working low-income families. These families, which are limited to six eligible children at any given time, have a 60-month lifetime limit for each eligible child. A copayment is required for each eligible child.	6,837	13,053
Total		16,314	30,000

Laws 2016, Ch. 117, §35, indicates that it is the Legislature's intent that the combined number of children authorized for the low-income working population be maintained throughout the year at a minimum of 8,500 children.

Source: Auditor General staff analysis of A.R.S. §46-803(A)-(F) and the department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July 1, 2015–June 30, 2016.* 

<sup>&</sup>lt;sup>2</sup> Arizona's TANF cash assistance program provides temporary cash benefits and supportive services. Eligibility is based on citizenship or qualified noncitizen resident status, Arizona residency, and limits on resources and monthly income. Unless exempt, adults receiving Arizona TANF cash assistance must participate in the State's mandatory employment and training program, which engages individuals in various work-related activities to improve their employability skills. In Arizona, a TANF recipient and his/her spouse may receive no more than 12 months of cash benefits for themselves or on behalf of a child, except in cases of hardship.

The income amount reported for a family of three was calculated using the 2016 federal poverty guidelines updated periodically in the federal register by the U.S. Department of Health and Human Services under the authority of 42 United States Code 9902(2).

In addition to belonging to one of the categories in Table 2 (see page 3), there are several other general eligibility requirements that families must meet (see textbox). For example, the subsidy's applicant or recipient and children for whom the subsidy is being sought must reside in Arizona, and the children must be younger than 13. The Department's child care eligibility staff redetermine families' ongoing eligibility for the child care subsidy annually.

#### General eligibility criteria for subsidy applicants or recipients

- Must cooperate with the Department
- Must reside with the children and be a parent, relative caretaker, or court-appointed legal guardian
- Must reside in Arizona, and eligible children must be younger than 13
- Must be a United States citizen or a legal resident of the United States
- Must be engaged in employment, self-employment, education/training, or unable to provide care
- Must be unavailable to care for children for a portion of the day
- Must select a child care provider registered with the Department to care for eligible children

Source: Auditor General staff analysis of Arizona Administrative Code R6-5-4911 and R6-5-4912.

Finally, federal law and state statutes require that families contribute to the cost of child care on a sliding fee scale basis. Federal law requires that the sliding fee scale be based on family size and income, although states may add other factors such as the number of children in care. States also may exempt families below the federal poverty level from paying a copayment. In Arizona, the copayment is applicable to families in the low-income and transitional eligibility categories and ranges between 50 cents and \$5 per child per day. Families, regardless of eligibility category, are also responsible for paying the full difference in the cost between the provider's actual charges and the subsidy amount that the Department pays. Families pay these copayments and costs directly to the providers. According to a department report, approximately \$7.6 million in copayments were paid to child care providers in fiscal year 2016.

**Various types of child care providers available to families qualified for the subsidy**—Families that qualify for the child care subsidy provided through the Department must use a provider the Department or DHS regulates or approves.<sup>5,6</sup> These regulated providers must be registered, i.e., contracted, with the Department to receive the subsidy. Between the two agencies, the following types of child care providers are available:

- DHS-regulated child care providers:
  - Child care centers—These are nonresidential facilities that provide care for more than four children for compensation. DHS must license all child care centers, except those on military bases and on Indian reservations; those that provide only recreational or instructional activity to school age children who may come to and go from that facility on their own; and those where parents are on the premises. Although child care centers must be licensed by DHS to operate, they do not need to contract with the Department unless they wish to receive the child care subsidy for qualified children in their care. DHS conducts on-site monitoring of licensed child care centers to ensure they meet health and safety standards and other licensing requirements. According to department records, as of September 2016, there were 1,193 licensed child care centers that cared for children subsidized by the Department.
  - Child care group homes—These providers may care for five to ten children for compensation in the provider's home. These providers must at all times have one staff person for every five children. Group homes must be certified by DHS to operate, but they do not need to contract with the Department unless they wish to receive the child care subsidy for qualified children in their care. DHS conducts on-site monitoring of child care group homes to ensure they meet health and safety standards and other

<sup>&</sup>lt;sup>4</sup> Child Care and Development Block Grant Act of 2014, Sec. 658E(c)(5) and A.R.S. §46-805.

Unregulated child care providers may care for no more than four children for compensation. These providers are not regulated or monitored by any state agency.

A provider meeting regulatory requirements established by military installations or federally recognized Indian Tribes is eligible to receive the Department's child care subsidy.

certification requirements. According to department records, as of September 2016, there were 183 certified child care group homes that cared for children the Department subsidized.

- Department-regulated child care providers:
  - Child care homes—These providers may care for four or fewer children for compensation in the provider's home. Although these providers are not required to be licensed or certified to operate, they must be certified and receive on-site monitoring by the Department to receive the child care subsidy for qualified children in their care. According to department records, as of September 2016, there were 441 certified child care homes.
  - Child care in-home providers—These providers may care for up to four children for compensation in the children's own homes. Similar to child care home providers, these providers must be certified by the Department to receive the child care subsidy. According to department records, as of September 2016, there were 49 certified child care in-home providers.
- Nonregulated child care providers:
  - Noncertified relative providers—These providers care for relative children and, similar to the other providers the Department certifies, these providers must obtain a valid fingerprint clearance card and pass a DCS background check to be approved by the Department to receive the subsidy for relative children in their care. However, the Department does not license, certify, or conduct on-site monitoring of these providers. According to department records, as of September 2016, there were 916 noncertified relative child care providers.

Most children whose child care the Department subsidizes receive care in child care centers. Specifically, according to the Department, approximately 87 percent of the 30,138 children for whom the Department provided subsidized child care during September 2016 received care in child care centers. See Figure 1, page 6, for the distribution of the children by provider type.

### Organization and staffing

The Department's child care services are overseen by an administrator and are located within the Division of Employment and Rehabilitation Services. Department information shows that child care services had 144 filled and 42 vacant full-time equivalent (FTE) staff as of December 21, 2016. These staff provide the following services through one or more of 36 department offices located throughout the State.

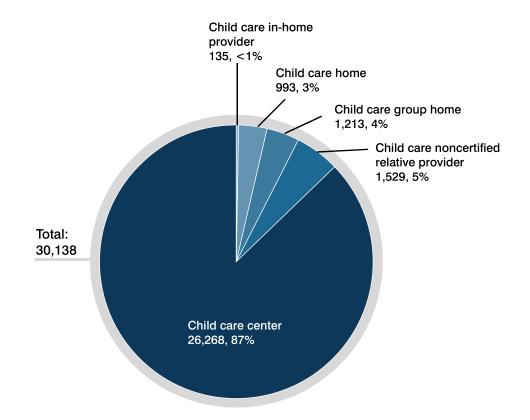
- Administration/support (19 filled FTE)—Administration staff oversee the day-to-day operations of child
  care services, while support staff develop policies and procedures, manage and monitor contracts, provide
  training, and support the Department's automated child care system, AzCCATS, which is used to record
  client and provider personal and eligibility information; track inspections and compliance of providers with
  health and safety standards; and assist with processing provider billing.
- **Eligibility (92 filled FTE)**—Eligibility staff determine client (i.e., families with children) eligibility for participation in the Department's child care subsidy program based on state regulations and child care services policies on income, family size, and work or training status. As part of the eligibility process, staff also determine how much the family is eligible to receive in subsidy monies. Staff also follow up with clients to facilitate obtaining or maintaining eligibility status and enter client information in AzCCATS.

According to the Department, approximately 1 percent of the children were counted twice because they received care from two different provider types during the month.

During the audit, the Department began piloting a new division—the Division of Child and Family Engagement—that combines the Department's child care services with the Arizona Early Intervention Program. According to the Department, these two programs support families in accessing formal and informal resources to meet their parenting needs.

Figure 1
Number of children whose child care the Department subsidized by provider type<sup>1</sup>
September 2016

(Unaudited)



According to the Department, approximately 1 percent of the children were counted twice because they received care from two different provider types during the month.

Source: Auditor General staff analysis of department-provided data.

- Certification (24 filled FTE)—Certification staff process applications for child care home and in-home provider certification and approve noncertified relative providers. Certification staff also monitor child care home and in-home providers to ensure their continued compliance with state health and safety standards by conducting on-site inspections as well as following up on provider violations to ensure they are resolved, and if not, taking enforcement action (see Finding 1, page 11, for a list of the enforcement actions available to the Department).
- Payment processing and review and reconciliation (9 filled FTE)—These staff process invoices for subsidy payments from all provider types, audit samples of provider billings to ensure their accuracy, conduct quality assurance such as reading eligibility case files to ensure proper eligibility authorization, and provide help desk support for policy and technical issues regarding eligibility determination. These staff also assist with making eligibility determinations if an eligibility backlog develops.

### Finance and budget

Funding for the child care subsidy and department child care services is provided through various state and federal revenue sources. The primary source is the federal CCDF, which includes specific federal grant resources dedicated to child care services. The CCDF provides states with federal monies to improve the affordability, availability, and quality of child care. To receive CCDF monies, states are required to contribute nonfederal monies toward the federally required purposes to meet the federal state matching and maintenance-of-effort

requirements.<sup>9</sup> Since fiscal year 2011, certain expenditures by the Arizona Early Childhood Development and Health Board, also known as First Things First, have been used to largely fulfill these requirements (see Appendix A, pages a-1 through a-2, for more information on the requirements).<sup>10</sup> As shown in Table 3, page 8, the Department received or is estimated to receive between approximately \$82.5 and \$110.2 million annually in CCDF monies, and between approximately \$2.9 and \$14.2 million annually in other federal monies for fiscal years 2014 through 2017. The Department also received more than \$1.7 million in fiscal year 2015 and nearly \$2.3 million in fiscal year 2016 in State General Funds, but did not receive a State General Fund appropriation in fiscal year 2017. Finally, the Department received more than \$43.3 million in fiscal year 2015 and received or is estimated to receive more than \$47.8 million in fiscal years 2016 and 2017 from the DCS to cover the child care subsidy payments to day care providers for children under the DCS' supervision (see Table 3, page 8, for more information on intergovernmental revenues).

The Department's actual and estimated total child care expenditures were between approximately \$119.6 and \$154.2 million annually for fiscal years 2014 through 2017. Most of the expenditures were for the child care subsidy. However, the Department's actual and estimated expenditures for payroll and related benefits were between approximately \$10.0 and \$10.8 million annually for fiscal years 2014 through 2017.

The maintenance-of-effort requirement means that a state will spend a specified minimum amount of nonfederal monies to help eligible clients in ways that are consistent with the program involved, which in this case is applicable child care programs.

<sup>&</sup>lt;sup>10</sup> First Things First (FTF) was established by voter initiative in 2006 to ensure the quality and accessibility of early childhood development and health programs at the community level. To help support early childhood development and health programs, the voter initiative established a new tax on tobacco products that provides dedicated funding for FTF.

**Table 3**Schedule of revenues and expenditures
Fiscal years 2014 through 2017

(Unaudited)

	2014 (Actual)	2015 (Actual)	2016 (Actual)	2017 (Estimate)
Revenues				
Federal				
Child Care and Development Fund	\$110,199,596	\$ 82,504,543	\$ 87,996,544	\$103,485,974
Other <sup>1</sup>	9,541,377	14,211,474	6,622,621	2,871,900
State General Fund appropriations		1,735,320	2,269,083	
Intergovernmental <sup>2</sup>		43,327,131	47,840,374	47,840,374
Total revenues	119,740,973	141,778,468	144,728,622	154,198,248
Expenditures				
Client subsidy payments to providers <sup>3</sup>	106,849,789	128,445,249	129,784,489	141,506,843
Payroll and related benefits	10,516,872	10,839,025	9,985,859	9,950,769
Professional and outside services	188,316	184,526	702,297	1,463,067
Travel	145,600	145,478	55,373	67,427
Other operating <sup>4</sup>	1,786,459	1,912,285	4,337,448	915,829
Furniture, equipment, and software	106,513	393,964	388,202	294,313
Total expenditures	119,593,549	141,920,527	145,253,668	154,198,248
Revenues over (under) expenditures	\$ 147,424	\$ (142,059)	\$ (525,046)	\$ 0

According to the Department, other federal revenues include TANF and Social Services Block Grant monies.

Source: Auditor General staff analysis of financial information the Department provided from its Financial Management Control System for fiscal years 2014 and 2015 and the State's Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.

Amounts are monies received by the DCS for child care subsidies for children under the DCS' supervision. The Department pays for the child care subsidies on behalf of the DCS with the DCS receiving these revenues directly from mostly federal resources. The DCS was originally part of the Department; however, in fiscal year 2015, it was created as a separate agency. For fiscal year 2014, the child care subsidies for children in foster care were paid using the Department's federal monies.

<sup>3</sup> Amounts include payments made by the Department on behalf of the DCS for the child care subsidies of children in foster care.

According to the Department, amounts were paid for various operating expenditures such as rent, utilities, and other costs related to office space for department employees. In addition, the fiscal year 2016 amount includes approximately \$2.2 million for a payment to the U.S. Department of Health and Human Services, Administration for Children and Families Division (Administration), the agency that administers the CCDF, to pay for expenditures the Administration disallowed during an audit.

### Department should strengthen child care monitoring

The Arizona Department of Economic Security (Department) needs to strengthen its monitoring of certified child care providers (providers) to better ensure the health and safety of children in the providers' care. The Department conducts on-site inspections of providers to assess their compliance with required health and safety requirements and has several options available to address noncompliance. However, the Department did not comply with its requirement to conduct two comprehensive inspections annually of each provider, which exceeds the federal requirement; therefore, the Department should develop and implement a differential monitoring approach that considers provider compliance and other factors when determining the frequency and/or depth of inspections. Department inspectors also do not assess provider compliance with child care requirements during inspections consistently, and management and staff lack reliable inspection data for use in monitoring providers. The Department should take steps to address its inconsistent inspections and unreliable inspection data by establishing a structured training program, enhancing its rules and policies manual, and strengthening department oversight of the monitoring process.

# Department monitors providers to ensure compliance with health and safety requirements

The Department conducts several types of on-site inspections of providers. These inspections are conducted to assess providers' compliance with required health and safety requirements. When noncompliance is identified, the Department has various options available to address the noncompliance.

**Department conducts on-site inspections to assess provider compliance with health and safety requirements**—As discussed in the Introduction (see pages 1 through 8), the Department certifies and monitors providers for compliance with health and safety requirements to ensure an adequate supply of available child care provider options for eligible families. Before certifying a child care provider, the Department must conduct a precertification inspection at the provider's home, typically referred to as an initial inspection, to ensure the provider is compliant with state health and safety requirements. Once a provider is certified, the Department will conduct a variety of on-site inspections of the provider. Some of these inspections are routine, such as monitoring inspections, and some occur under certain circumstances, such as when the provider relocates. As shown in Table 4 (see page 10), in fiscal year 2015, the Department conducted 1,569 inspections.

When inspectors inspect a provider's home, they use a checklist composed of more than 130 items addressing 18 categories of certification requirements established in administrative rule. The inspections are conducted through observations, discussions, and documentation reviews. For example, inspectors will assess through observation whether sharp objects, such as knives, and toxic chemicals, such as bleach, are stored so that children cannot access them. Inspectors will also discuss developmentally appropriate disciplinary practices with the provider and review the files the providers must keep on each child in their care to ensure they include updated emergency contact information in addition to other information. See the textbox on page 10 for additional examples of items inspected. Inspectors must document on the checklist each violation identified during the inspection, even if it was corrected while the inspector was still in the home, and the date by which each violation needs to be corrected. Inspectors will discuss the violations with the provider and provide him/her with a copy of the *Article 52 Home Visit Compliance Review–Results* page of the checklist. Depending on the nature of the violations, the Department may allow providers to send proof that they have corrected the violations, such as a copy of their

**Table 4**Department child care inspection types and number conducted Fiscal year 2015

Inspection type	Description	Number conducted
Precertification/ Initial	An announced inspection conducted prior to the Department issuing a certificate to the child care provider applicant. The Department inspects the applicant's home to determine whether the home meets the certification requirements.	128
Monitoring	An unannounced inspection conducted at least annually that assesses the provider's compliance with certification requirements. Areas assessed include the home facility, daily program of activities and equipment, safety and supervision, sanitation, discipline, meals and nutrition, medications, record keeping, and provider/child ratios.	893
Annual	An announced inspection conducted annually that assesses the same areas as a monitoring inspection and verifies that the provider is meeting document requirements, including having immunization records, liability insurance, and training certificates. Additionally, the inspector will review the transportation policy with the provider, which covers various vehicle maintenance and safety requirements and the need for each vehicle to have working seat belts and size- and age-appropriate car seats.	329
Recertification	An announced inspection that occurs in conjunction with certification renewal just prior to the end of the provider's 3-year certification period. It is intended to demonstrate the provider's continuing ability to provide child care that is safe, developmentally appropriate, and in compliance with certification requirements. These inspections are similar to, and conducted in lieu of, the annual inspection during the third year of the certification period.	196
Relocation	An inspection conducted after a provider gives written notice to the Department of a relocation or home repair that significantly affects the provision of child care services. Providers must give this notice at least 15 days before the effective date of any scheduled change, or within 24 hours after an unscheduled change. The inspection is intended to ensure that the home is compliant with certification requirements.	23
Total		1,569

Source: Auditor General staff analysis of fiscal year 2015 child care inspection data maintained in AzCCATS, the Department's automated child care system, administrative regulations, and department documents.

child care liability insurance policy, or the inspector will conduct a follow-up visit to the provider's home or facility to visually confirm the violations have been resolved.

Department has several options available to address provider noncompliance with health and safety requirements—When noncompliance is identified during an inspection or follow-up inspection, the Department has various enforcement options available to ensure providers return to compliance (see textbox, page 11). For instance, if the violations identified do not jeopardize the health and safety of the children in care, inspectors will generally require the provider to resolve the violations through

### Examples of items assessed during inspections

- Areas of the home that are accessible to the children are safe and clean.
- Provider offers adequate and appropriate toys, equipment, and activities.
- Daily accident log and accident/illness/injury report are dated and kept current.
- Provider is directly supervising each child who is awake and has no more than the approved number of children.

Source: Auditor General staff analysis of the Department's *Article 52 Home Visit Compliance Review* checklist.

### Department's enforcement options

- **Corrective action**—Inspectors will generally give the provider 10 business days to correct violations that do not endanger children in care.
- **Probation**—The Department may place a provider on probation for violations that are not addressed by the end of the corrective action period. Probation must be initiated within 30 days of the home inspection, is limited to 30 days, and is not appealable.
- **Suspension**—The Department may suspend a provider's certificate if violations are not addressed by the end of probation. Certain violations such as using an unapproved person to provide care in the provider's absence may result in immediate suspension. Providers are suspended for 90 days or until they return to compliance. Providers may appeal the suspension unless the enforcement action is based on child abuse or neglect or a fingerprint clearance finding.<sup>1,2</sup>
- **Revocation**—The Department may revoke a provider's certificate if violations are not addressed by the end of the suspension period. If there is a serious health and/or safety risk, such as substantiated child abuse or neglect, the certificate can be immediately revoked. Providers have the right to appeal the revocation unless the enforcement action is based on child abuse or neglect or a fingerprint clearance finding.
- A fingerprint clearance finding is the failure of the provider or a household member to obtain a fingerprint clearance card.
- <sup>2</sup> Arizona Administrative Code (AAC) R6-5-5228 outlines the appeal process for suspension and revocation enforcement actions.

Source: Auditor General staff analysis of the Department's child care services policy and guidance documents.

corrective action, i.e., eliminate the causes of the violation, within 10 business days of the inspection. If the violations are not corrected within the 10-day time frame or the violations are serious, the Department may take progressive enforcement actions against the provider. For example, a provider may be placed on probation during which no additional children will be authorized for care, although children already in the provider's care may remain. An inspector will inspect the provider's home prior to ending probation to ensure the provider has addressed the violations if the condition that resulted in probation was related to the home. If the Department determines that a provider's certification should be suspended or revoked, it will send the provider a written notice of the impending adverse action and its effective date, and will stop payment authorization for all subsidized children in the provider's care on the effective date of the adverse action. In the provider to care for their children.

## Department should revise monitoring approach to more effectively and efficiently monitor providers

To more effectively and efficiently monitor its providers, the Department should revise its monitoring approach. Specifically, for some providers who were active and had at least one annual inspection period that began in calendar years 2012, 2013, and/or 2014, the Department did not comply with its requirement to conduct two inspections annually of each provider. However, the Department's requirement to conduct two annual inspections exceeds the federal requirement. As a result, the Department should develop and implement a differential monitoring approach that considers provider compliance and other factors when determining the frequency and/or depth of inspections.

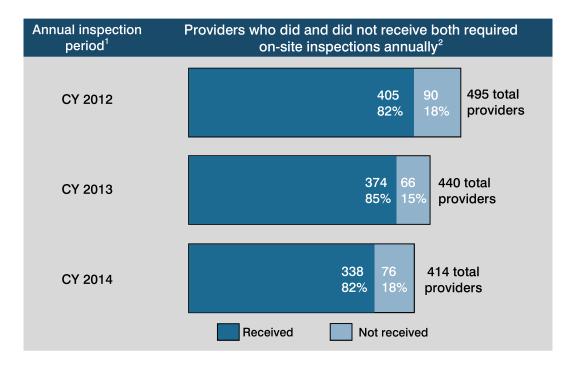
**Department has not met established inspection requirements, but requirements may be excessive**—The Department did not conduct all required inspections, but its monitoring approach is greater than needed and does not effectively use its inspection resources. Specifically, the Department's administrative

<sup>11</sup> A subsidized child is one whose child care costs are covered through the Department's child care subsidy (see the Introduction, pages 1 through 8, for more information on the subsidy).

<sup>&</sup>lt;sup>12</sup> The Department will not authorize any additional children for care by a provider whose certificate is suspended until the provider's certificate is reinstated.

rules require that it conduct at least two on-site inspections annually of its providers.<sup>13</sup> According to rule and policy, one inspection must be an unannounced monitoring inspection and the other must be an announced annual inspection (see Table 4, page 10, for a description of the various inspection types).<sup>14</sup> To determine if the Department was meeting its inspection requirement, auditors analyzed the Department's inspection data for certified child care providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014.<sup>15</sup> As shown in Figure 2, although most of the providers received their required inspections annually, between 15 to 18 percent of providers annually did not receive at least one of the required inspections.

Figure 2
Number and percent of certified child care home providers who did and did not receive both required on-site inspections annually
Calendar years (CY) 2012, 2013, and 2014



Auditors' analysis included providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014, based on the provider's certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period.

Some providers who did not receive both of their required inspections—annual and monitoring—still received two or more on-site inspections annually but did not receive one of each type. Although annual and monitoring inspections cover many of the same areas, annual inspections also assess additional areas that are not covered by the monitoring inspection. These areas include determining whether providers and household members are

<sup>&</sup>lt;sup>2</sup> The number of providers analyzed for each year varies because not all providers had annual inspection periods during all 3 years. Source: Auditor General staff analysis of the Department's automated inspection data maintained in AzCCATS.

<sup>&</sup>lt;sup>13</sup> AAC R6-5-5207(H).

<sup>&</sup>lt;sup>14</sup> Both annual and recertification inspection types meet Arizona's requirement for an annual inspection.

<sup>&</sup>lt;sup>15</sup> An annual inspection period is 12 consecutive months from the provider's certification anniversary date. For example, if the provider is certified March 3, the annual inspection period would be between March 3 and the following March 2. Auditors' analysis included providers who had at least one annual inspection period based on the provider's certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period.

current on their tuberculosis vaccinations, that providers have current child care liability insurance and have attended 6 hours of training in subjects designed to improve the provider's ability to provide child care, that pets have been licensed and vaccinated for illnesses such as rabies, and that providers who transport children do so in a safe manner.

Finally, although the Department has not complied with its inspection requirements, these requirements exceed federal law, which requires one on-site inspection annually. According to the U.S. Department of Health and Human Services, this requirement was added to establish a minimum inspection requirement across states. In addition, the Department's monitoring approach is not risk-based and thus results in inspectors conducting at least two inspections annually for all providers, regardless of their history of compliance. Specifically, even if a provider has not had any violations, the inspectors must still conduct at least two on-site inspections annually.

Department should develop and implement a differential monitoring approach—To more effectively and efficiently monitor its certified child care providers, the Department should develop and implement a differential monitoring approach. Federal regulation indicates that states may consider implementing differential monitoring, or a risk-based monitoring approach, as long as the full complement of health and safety standards is represented in the inspection and the inspections are performed at least annually. 18 According to the federal Office of Child Care, differential monitoring is designed in such a way that although not every licensing standard is specifically checked for compliance, the items that are checked during the monitoring visit indicate that the provider is in compliance with the full range of the regulatory requirements. 19 A 2014 National Center on Child Care Quality Improvement (NCCCQI) report on monitoring strategies explains that differential monitoring often involves programs using a subset of requirements to determine compliance.<sup>20</sup> The report indicates that states have used two methods to identify the subset of requirements: the key indicators approach that focuses on identifying and monitoring those requirements that statistically predict compliance with all the requirements and the risk-assessment approach that focuses on identifying and monitoring those requirements that place children at greater risk of mortality or morbidity if violations occur. The report further clarifies that the goal of differential monitoring is to create efficiencies and greater effectiveness in monitoring and enforcement in order to permit more time for monitoring, especially of those providers with lower compliance that need more technical assistance and program consultation.

According to a 2015 federal report on innovations in monitoring, a blanket monitoring system that treats all providers equally can be inefficient, and a better approach bases monitoring and oversight of providers on their past performance or on an assessment of risk for noncompliance with standards.<sup>21</sup> The report notes that such differential monitoring approaches are consistent with the National Association for Regulatory Administration (NARA) recommended best practices and are being used by other states.<sup>22</sup> For example, the federal Office of Child Care indicated that 72 percent of the jurisdictions, or 38 of 53, reported on the 2014 NARA survey of licensing programs and policies that they used differential monitoring to determine the number of inspections needed for a particular child care provider and the content of inspections.<sup>23,24</sup> The report also noted, however, that

<sup>&</sup>lt;sup>16</sup> 42 United States Code §9858c(c)(2)(K)(i)(IV).

<sup>&</sup>lt;sup>17</sup> U.S. Department of Health and Human Services final rule 81 FR 67547, VI, Regulatory Process Matters.

<sup>&</sup>lt;sup>18</sup> Title 45 Code of Federal Regulations §98.42(b)(2)(iv)(A).

<sup>19</sup> Office of Child Care webpage retrieved on November 22, 2016 from http://www.acf.hhs.gov/occ/faq/can-states-use-a-differential-monitoring-strategy.

National Center on Child Care Quality Improvement. (2014). Contemporary issues in licensing—Monitoring strategies for determining compliance: Differential monitoring, risk assessment, and key indicators. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.

<sup>&</sup>lt;sup>21</sup> Trivedi, P. A. (2015). *Innovation in monitoring in early care and education: Options for states.* Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

<sup>&</sup>lt;sup>22</sup> NARA is an international nonprofit professional association that represents all human care licensing, including child care licensing.

<sup>&</sup>lt;sup>23</sup> The 53 jurisdictions included all 50 states, the District of Columbia, Guam, and the U.S. Virgin Islands.

<sup>&</sup>lt;sup>24</sup> Administration for Children and Families. (2015). *Trends in child care licensing: 2015 NARA licensing seminar.* [PowerPoint slides]. Retrieved on May 2, 2016 from http://www.naralicensing.org/2015-program-handouts.

differential monitoring should not replace routine inspections of all regulated providers. <sup>25</sup> For example, according to the report, a study of Vermont's use of differential monitoring demonstrated that although it can be effective to inspect child care centers with a poorer compliance record more frequently, centers with a good compliance record also need routine inspections or they could be at risk for deteriorating compliance.

The Department should implement a differential monitoring approach that includes:

- Exploring the various approaches to differential monitoring and selecting the best approach for Arizona certified child care providers. This process could involve activities such as examining federal recommendations on implementing differential monitoring, reviewing research on the effectiveness of the various approaches, and contacting other states to learn about their experiences.
- Determining the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration due to the differential monitoring approach, for example, conducting full inspections for a random sample of compliant/low-risk providers annually. Once it determines the necessary procedures, it should modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund (CCDF) state plan, to reflect the differential monitoring approach.<sup>26</sup>
- Ensuring all inspectors are trained on the differential monitoring approach and guidance documents.
- Establishing a process for assessing its differential monitoring approach and making adjustments as needed. This process should determine the frequency for reviewing its differential monitoring approach and identify specific areas to assess, such as whether they are meeting their inspection requirements and whether there has been any change in overall provider compliance. In addition, the process should include a procedure for how to make adjustments to the differential monitoring approach, for example, modifying how providers or requirements are selected for review.

### Two areas of concern further impact provider monitoring

In addition to the Department's monitoring approach, auditors identified concerns in two important areas that further impact the Department's ability to effectively monitor providers. Specifically, the Department:

- Inconsistently assessed provider compliance during inspections—The Department's inspection process serves as a key method for ensuring that providers operate safe and healthy environments for the children in their care. It is important that inspectors assess compliance with certification requirements in a consistent manner to ensure equitable treatment of providers and the health and safety of children.<sup>27</sup> However, auditors observed five inspections conducted by three different inspectors during March and April 2016 and identified various inconsistencies. For example:
  - Both rule and policy state that providers must have a "charged, readily accessible, operable, multipurpose (ABC class) fire extinguisher that the provider knows how to operate." However, neither rule nor policy specifies how to assess compliance with this requirement. To assess compliance with this requirement, one inspector asked if a provider had a fire extinguisher, the second inspector asked if the provider knew how to operate the fire extinguisher, and the third inspector asked the provider to explain how to use the fire extinguisher.

<sup>&</sup>lt;sup>25</sup> Trivedi, 2015.

<sup>&</sup>lt;sup>26</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. The CCDF plan offers a snapshot into current and planned efforts, initiatives, and implementation plans for each state or territory over the next 2 years, but these plans are not a catalog of all activities the state or territory undertakes.

<sup>&</sup>lt;sup>27</sup> National Center on Child Care Quality Improvement. (2014). Contemporary issues in licensing—Inspection policies. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.

Providers who offer nighttime care or care for children who take naps must have a safe and sturdy crib for each infant, and a safe and sturdy bed or cot with mattress for each child. Crib bars or slats should be no more than 2 3/8 inches apart. Although rule and policy list the criteria that the crib must meet, neither specifies how inspectors are to assess compliance with the requirement. When assessing compliance with this requirement, one inspector did not ask to see the crib or playpen, the second inspector asked the provider if she had a crib for each infant in care but did not actually inspect it, and the third inspector asked the provider if she had a crib for each infant, then physically measured the distance between the crib slats to ensure it complied with the requirement.

In addition, auditors randomly selected 12 providers and reviewed one inspection checklist from the hard-copy case files of each of these providers to assess how inspectors were completing the checklist. This included reviewing how inspectors recorded noncompliant areas on the checklist and listed the violations on the *Article 52 Home Visit Compliance Review–Results* page of the checklist. <sup>28,29</sup> For 4 of the 12 checklists reviewed, auditors did not identify problems with how the checklists were completed. However, auditors identified problems with 7 of the 12 checklists, such as inspectors marking items that were resolved at the visit as both compliant and noncompliant. The remaining checklist was not provided by the Department because it was unable to locate the checklist in the provider's hard-copy file.

- Has not maintained reliable inspection data—Complete, accurate, and accessible provider data—including inspection, violation, and enforcement data—is important for several reasons, such as providing the necessary information to inspectors to initiate progressive enforcement action when there are repeat or unresolved violations. However, auditors' review of provider case files and data recorded in the Department's automated child care system, AzCCATS, found that the violation and enforcement data is not sufficiently reliable to help the Department determine when to initiate progressive enforcement actions or identify trends. Specifically:
  - Auditors reviewed the hard-copy files for 20 randomly selected providers and found that 7 of these providers had received some type of enforcement action between calendar years 2012 and 2015, but these actions were not reflected in AzCCATS. Specifically, 1 provider had a suspension action, 1 provider had both suspension and probation actions, and the remaining 5 providers had probation actions that were not reflected in AzCCATS. According to department management, probation enforcement actions have been removed from AzCCATS after the probation period ends because of a system design requirement. However, the Department expects to complete modifications to AzCCATS in March 2017 that will allow it to retain probation enforcement action data. If inspectors have access to a provider's entire enforcement history through AzCCATS, they would be able to easily review a provider's history and take actions as needed, such as providing targeted technical assistance or imposing/escalating enforcement actions as appropriate, which could help ensure a safe and healthy environment for children in care. Same provider is actions as a safe and healthy environment for children in care.

<sup>&</sup>lt;sup>28</sup> The providers were selected from the department-certified child care home providers auditors identified as being active and having at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. For more information on auditors' selection and analysis of provider data, see Appendix B, pages b-1 through b-2.

<sup>&</sup>lt;sup>29</sup> The *Article 52 Home Visit Compliance Review–Results* page is given to providers at the end of an inspection so they have the information regarding all violations noted and the due dates for correcting the violations. See pages 9 through 10 for more information.

<sup>30</sup> National Association for Regulatory Administration & National Center on Child Care Quality Improvement. (2015). Best practices for human care regulation. Lexington. KY.

<sup>&</sup>lt;sup>31</sup> The providers were selected from the department-certified child care home providers auditors identified as being active and having at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. For more information on auditors' selection and analysis of provider data, see Appendix B, pages b-1 through b-2.

<sup>&</sup>lt;sup>32</sup> Once a provider's probation period ended, the inspector would clear the data entry in AzCCATS indicating the provider was on probation. This action was necessary to allow the Department's child care eligibility workers to authorize the provider to care for additional children or to receive new authorizations. See the Introduction, page 5, for a description of the eligibility unit.

National Center on Child Care Quality Improvement. (2014). Contemporary issues in licensing—Enforcement strategies with licensed child care providers. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.

• Auditors reviewed the AzCCATS violation data and associated inspection checklists and, except for instances where no violations were found, there were enough errors in the violation data that auditors could not rely on or use the violation data for audit purposes. For example, there were several cases where inspection violations were recorded in AzCCATS, but not all of the violations recorded in the system were found on the inspection checklist and vice versa.

# Department should ensure inspections are performed consistently and strengthen inspection data

The Department should take steps to ensure that it performs inspections in a consistent manner and that inspection data is reliable. Specifically, the Department should develop and implement a structured training program for new inspectors that ensures the inspectors receive both similar and sufficient instruction to perform their job responsibilities consistently. Additionally, the Department should enhance its policies to provide sufficient direction to assist inspectors in assessing provider compliance consistently. Finally, the Department should enhance its oversight in three areas that impact the effectiveness of its monitoring—supervisory review of inspection documentation and data, developing and using management reports, and assessing and addressing any variations that occur when conducting inspections and taking enforcement action.

#### Department should develop and implement a structured training program for new inspectors—

Limitations with the Department's training for new inspectors have contributed to inconsistent inspections and unreliable enforcement and violation data. Specifically, the Department has not established formal, structured training for new staff. Rather, according to department management, because new inspectors are typically hired to fill vacancies as they occur, new inspector training is generally conducted by the inspector's supervisor primarily through one-on-one training, job shadowing, and mentoring. However, individualized training without adequate structure to guide it and oversight of the content could affect the quality and consistency of the received training and result in some topics not being covered adequately or at all, or in variation in how inspectors are trained. For example, during a meeting in April 2016 with department management and staff from three of the four department regional certification offices, variations in the understanding and implementation of certification activities between offices were identified. Variations included how inspectors tracked when inspections were due or when violations needed to be resolved; how inspectors confirmed that providers had corrected identified violations; and how inspectors handled unannounced inspections when no one answered the door.

Best practices and national health and safety standards recommend that an initial staff training program should be formal and educate staff about regulatory policies, procedures, program standards, and the children's developmental needs. Further, training should include courses that competently and appropriately use the full range of delivery methods, including instructor-led learning, online courses, directed studies, self-paced learning, and peer and supervisory mentoring and coaching. Assessments should also be used throughout training to measure learning and at the end of the training, to confirm competency of the intended training goals. Assessments may include instructional quizzes, discussions, observations, or learning activities to gauge knowledge. Finally, a designated individual should oversee the training. The Oklahoma Department of Human Services has a training program for its new inspectors that incorporates many of the features recommended by best practices. For example, its new licensing specialist training curriculum includes content on administrative and program policies, procedures, and standards. Additionally, training content is provided through classroom instruction, independent study, shadowing experienced inspectors, and mentoring. Oklahoma has also developed a written training plan

<sup>&</sup>lt;sup>34</sup> As indicated in the Introduction, pages 1 through 8, department child care services are offered through 36 offices throughout the State. Four of these offices function as regional certification offices, with a certification supervisor overseeing each.

<sup>&</sup>lt;sup>35</sup> NARA & NCCCQI, 2015.

<sup>&</sup>lt;sup>36</sup> American Academy of Pediatrics, American Public Health Association, & National Resource Center for Health and Safety in Child Care and Early Education. (2011). Caring for our children: National health and safety performance standards guidelines for early care and education programs. 3rd Edition. Elk Grove Village, IL.

<sup>&</sup>lt;sup>37</sup> Oklahoma Department of Human Services (2009). *New Licensing Specialist training checklist*. Retrieved on September 15, 2016, from <a href="http://www.naralicensing.org/models-shared-resources">http://www.naralicensing.org/models-shared-resources</a>.

that lists the content, time frames, and tasks/exercises to be completed by the new inspector, such as shadowing an experienced inspector on a child care inspection and writing up the inspection. Throughout the training, the new inspector's competency is assessed by a supervisor or an experienced inspector's review and observation of required tasks/exercises completed by the new inspector. The supervisor or an experienced inspector must sign and date the training plan as the instruction and tasks/exercises are completed.

Similar to Oklahoma, the Department should develop and implement a structured training program for new inspectors that includes:

- A structured training curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring.
- Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed by new inspectors, and time frames for completing the training content.
- A requirement that competency is assessed by a supervisor or an experienced inspector's review
  and observation of required training tasks/exercises completed by the new inspector. The supervisor or
  experienced inspector should sign and date the training plan as the inspector completes training content
  and tasks/exercises.
- A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.

**Department should enhance its rules and policies manual**—Although the Department has a rules and policies manual, in some instances, the manual provides limited guidance to help inspectors assess compliance with certification regulations. For example, as mentioned earlier, the policy guidance for the certification requirement that the provider's home has a "charged, readily accessible, operable, multi-purpose (ABC class) fire extinguisher that the provider knows how to operate" lists only the requirement and does not provide specific direction on how inspectors should assess compliance with this requirement, such as reviewing the expiration date and model type or class listed on the extinguisher and having the provider demonstrate a working knowledge of how to operate the extinguisher. In addition, several policies addressing child care certification and monitoring have not been updated for several years. Specifically, 20 of the 30 policies listed in the manual's index have not been updated since June 2008 and may not reflect current standards and practices.

According to a report by NARA and NCCCQI, a consistent interpretation of child care regulations and implementation of policies is important, and one approach to achieving this is through a practical guide on how an agency will apply, measure, and enforce a rule.<sup>38</sup> Additionally, the practical guides should be updated regularly so they are kept current and consistent with rules and standards.

Therefore, the Department should enhance its rules and policies manual by:

- Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they
  reflect current regulations and practices;
- Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce rules consistently, such as the rule related to having an operating fire extinguisher; and
- Ensuring that all inspectors are aware of any revisions made to its rules and policies manual.

**Department should enhance its oversight of the inspection process in two additional areas—** Auditors identified two additional areas where the Department should enhance its oversight practices:

• First, department policy has not required supervisors to conduct reviews, i.e., case reads, for all types of inspections. Case reads assess whether all items on the inspection checklist were completed and that

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<sup>&</sup>lt;sup>38</sup> NARA & NCCCQI, 2015.

required documents were obtained and placed in the case file. Specifically, policy requires supervisors to conduct case reads on only annual and recertification inspections and does not require supervisors to review monitoring inspections or other types of inspections (see Table 4, page 10, for descriptions of the various inspection types). However, a department supervisor indicated that supervisors check that inspection data is entered into AzCCATS accurately and completely and that progress notes are clear and support that inspectors have followed up on violations to ensure they are corrected.

Appropriately supervising inspectors' work and data quality is important for evaluating performance and ensuring that an agency has reliable data to make informed decisions. Therefore, the Department should conduct case reads on a sample of inspections performed by each inspector that includes all inspection types, not just annual and recertification inspections. When selecting the samples, the Department should consider the experience of the inspectors. For example, supervisors may want to perform more case reads for a less experienced inspector than an experienced inspector. In addition, in line with best practice, the Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.

Another method of evaluating consistency between inspectors is inter-rater reliability testing, which examines how much similarity there is between staff implementing standards, such as the violations identified by inspectors and consistency in the enforcement actions taken to address violations. For example, supervisors or experienced inspectors could conduct joint inspections with inspectors or they may conduct a solo inspection soon after a routine inspection is completed to compare the consistency of results. However, although not an inter-rater reliability method, according to the Department, supervisors' performance evaluation requires that they annually conduct two on-site observations with inspectors. The Department has developed a form to assist in the process, and while this does not allow for direct comparison of inspectors' actions and decisions, according to one department supervisor, this information can be used to help improve the effectiveness and efficiency of inspections. The Department should also develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.

Second, the Department lacks some important management reports for monitoring providers' performance. Although the Department has some management reports that supervisors can use to monitor some aspects of the inspection process, such as the dates of a providers' last two inspections and upcoming annual inspections and another report that shows the number of providers each month, it has not developed management reports to monitor providers' performance and identify areas for improvements. For example, reports on variations in the number and types of violations cited or the type and reason for enforcement actions taken to address violations could signal potential inconsistent performance that the Department should review and address.

A report by NARA and NCCCQI recommends that agencies have an array of recurring and ad hoc management reports to strengthen program management and improvement efforts and promote consistency and quality

<sup>&</sup>lt;sup>39</sup> U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC.

<sup>&</sup>lt;sup>40</sup> Friese, S., Tout, K., & Kirby, G. (2014). Best practices in ensuring data quality in quality rating and improvement systems (QRIS). Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

<sup>&</sup>lt;sup>41</sup> NARA & NCCCQI, 2015.

<sup>&</sup>lt;sup>42</sup> During joint visits, both the inspector and supervisor independently complete an inspection report. Following the visit, similar and different observations and findings are discussed. The report the inspector completes is the provider's official visit report. When the supervisor or experienced investigator conduct a follow-up visit after the inspection, the visit is not an official inspection. This visit determines if inspectors are consistently evaluating compliance with child care regulations. While the entire facility is observed, the supervisor looks specifically at items that are not likely to have changed in the short time between the inspection and follow-up visit.

controls. 43 Therefore, the Department should identify and develop management reports needed to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's child care processes.

### Recommendations

- The Department should implement a differential monitoring approach to more effectively and efficiently monitor its providers. This will require that the Department:
  - a. Explore the various approaches to differential monitoring and select the best approach for Arizona certified child care providers;
  - Determine the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration as a result of the differential monitoring approach;
  - Modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund state plan to reflect the differential monitoring approach;
  - Train all inspectors on the differential monitoring approach and guidance documents; and d.
  - Establish a process for assessing its differential monitoring approach and making adjustments as needed, including, at a minimum, assessment frequency, areas to assess, and how to make adjustments.
- 1.2. The Department should develop and implement a structured training program to help ensure new inspectors receive adequate and consistent training that includes:
  - A structured curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring;
  - b. Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed, and time frames for completing the training content;
  - A requirement that a supervisor or an experienced inspector assess and verify the new inspector's competency through observing the new inspector's completion of required training tasks/exercises and signing and dating the training plan confirming they have been completed; and
  - A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.
- The Department should enhance its rules and policies manual to help ensure inspectors perform inspections consistently by:
  - Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they reflect current regulations and practices;
  - Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce b. rules consistently, such as the rule related to having an operating fire extinguisher; and
  - Ensuring that all inspectors are aware of any revisions made to its rules and policies manual. C.

<sup>&</sup>lt;sup>43</sup> NARA & NCCCQI, 2015.

- 1.4. The Department should revise its inspection case-read process to help improve its oversight of inspector performance by reviewing a sample of inspections for each inspector that includes all inspection types and considers the inspector's experience.
- 1.5. The Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.
- 1.6. The Department should develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.
- 1.7. The Department should identify and develop management reports to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's child care processes.

# Department should improve child care provider complaint-handling process

The Arizona Department of Economic Security (Department) needs to take several steps to improve its certified child care provider complaint-handling process. Although the Department is required to receive, investigate, and resolve complaints against certified child care home providers, including providing information on valid complaints to parents and the general public, it has not established effective complaint intake, investigation, and monitoring processes. As a result, the public may not know how to submit a complaint, and the Department is at risk for not appropriately documenting, investigating, and/or resolving some complaints. Therefore, the Department should more effectively handle complaints against certified child care providers by including information about its complaint-handling process on its website, establishing complaint investigation policies and procedures, enhancing complaint monitoring, and developing and providing complaint-handling training.

### Department's complaint-handling process lacks key elements

The Department lacks several steps in its complaint-handling process, which hinders the process' effectiveness. Although the Department has a complaint-handling policy, the Department has not developed and implemented adequate procedures to guide all steps of the process, including steps for complaint intake and logging; performing adequate complaint investigations; appropriately and consistently resolving complaints; and following up with providers and complainants, such as providing timely feedback to complainants about the complaint's outcome. The Department also does not provide complaint-handling training to its staff, nor has it established specific processes for monitoring complaint-processing timeliness; supervisory oversight of the complaint-handling process; or reviewing complaint outcomes and trends.

**Department lacks adequate complaint intake and logging process**—Although the Department has established a complaint-handling policy, its complaint intake and logging processes are incomplete. Specifically, the Department:

• Lacks an adequate intake process—The Department has not provided information to the public on how to file a complaint with the Department about its certified child care providers, nor has it provided general information about the complaint-handling process. Although two department supervisors stated that complaints are typically reported to them through email, phone, or the Department's eligibility unit, the Department lacks readily available information about how to file a complaint against certified child care providers such as an online submission form or a specific phone number to call to report a complaint. According to best practices, information about the complaint-handling process, including how and where to make complaints, should be readily available to the public. For example, the Arizona Department of Health Services (DHS) has a website with an online submission form, a specific phone number for calling

<sup>&</sup>lt;sup>44</sup> The Department's eligibility unit is responsible for determining if families with children are eligible for participation in the child care subsidy program.

<sup>&</sup>lt;sup>45</sup> National Association for Regulatory Administration & National Center on Child Care Quality Improvement. (2015). Best practices for human care regulation. Lexington, KY; Commonwealth Ombudsman. (2009). Better practice guide to complaint handling. Canberra, Australia; National State Auditors Association. (2004). Carrying out a state regulatory program—A National State Auditors Association best practices document. Lexington, KY; New South Wales Ombudsman. (2015). Complaint management framework. Sydney, Australia; Queensland Ombudsman. (2006). Guide to developing effective complaints management policies and procedures. Brisbane, Australia.

in complaints, general information about the complaint process, and a designated staff person to receive complaints against the child care providers it regulates (see the Introduction, pages 4 through 5, for more information about DHS-regulated providers).

Lacks adequate process for logging complaint information—According to auditors' review of various best practices, agencies should maintain complaint records, including electronic records, to help ensure any substantiated complaints are readily available to the public and to allow the agency to track complaints and analyze trends. 46 Although department policy requires inspectors to maintain confidential and public information related to the complaint, this information is contained in only a provider's hard-copy file and is not logged into AzCCATS, the Department's automated child care system. In addition, the Department does not maintain a centralized electronic log for recording key information on all complaints received, such as the location, date, and time of the incident, and complainant's contact information. Without a centralized complaint log, the Department is at risk for some complaints not being documented, investigated, and/ or resolved, and the Department cannot easily track complaints through the complaint-handling process, observe investigation outcomes, or analyze complaint trends. In addition, federal law requires that by November 19, 2017, information on all regulated providers' substantiated complaints be available to the public using electronic means, such as a website, in a consumer-friendly and easily accessible format.<sup>47</sup> Department management indicated that they are in the process of modifying AzCCATS to include new fields to capture information related to complaints, including the nature of the complaint and whether complaints are substantiated. According to the Department, it completed these changes in January 2017 and expects to use the information on substantiated complaints within AzCCATS to meet the federal requirement to provide such information to the public using electronic means.

**Department lacks key steps in complaint investigation process**—Based on auditors' review of various best practices, agencies should have a written complaint investigation plan, with time frames, defining what is to be investigated and the steps involved. Although department policy requires complaints to be investigated, this policy and its associated procedures do not adequately direct how these investigations should be performed. For example, although the complaint-handling policy indicates that inspectors should conduct on-site investigations for specific complaints, may interview individuals with information related to the complaint, and should record investigation information on a department-developed form, the policy does not specify what investigative activities are required, such as what type of documentation should be obtained and reviewed. In contrast, DHS' policy and training guidance direct staff to develop a complaint investigation plan for each investigation that outlines specific steps that inspectors should follow during investigations, such as determining what areas and/or items need to be inspected and in what order, who will be interviewed and in what order, and what records will be reviewed. Inadequate policy and procedures related to investigation steps may result in an incomplete investigation and, depending on the nature of the complaint, could potentially affect the health and safety of children in care.

**Department lacks sufficient guidance on complaint resolution and follow up—**The Department's complaint-handling policy lacks adequate guidance regarding the disciplinary action(s) it should take based on the number and nature of substantiated violations and how to follow up with providers and complainants, including informing complainants in a timely manner of the complaint investigation outcome. Specifically, the Department's complaint-handling policy:

• **Does not specify what type of disciplinary action(s) to take**—According to auditors' review of various best practices, in order to ensure appropriate and consistent enforcement, agencies should develop a systematic, fair, and progressively stringent enforcement process that is defined in policy. <sup>49</sup> Although the Department's complaint-handling policy directs inspectors to discuss complaint investigation findings and any action that may be taken with their manager and indicates that revocation may be appropriate for substantiated

<sup>&</sup>lt;sup>46</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>&</sup>lt;sup>47</sup> Child Care and Development Block Grant Act of 2014, Sec. 658E(c)(2)(D).

<sup>&</sup>lt;sup>48</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>&</sup>lt;sup>49</sup> NSAA, 2004; NARA & NCCCQI, 2015; and Queensland Ombudsman, 2006.

complaints, the policy does not provide sufficient guidance on other disciplinary actions to take, such as suspension, to address substantiated complaints. Without specific policies and procedures for determining what type of disciplinary action may be warranted based on the number and nature of substantiated violations, providers may not be treated fairly if inspectors are inconsistent in assessing disciplinary action.

• Lacks sufficient guidance and time frames for followup—According to auditors' review of various best practices, agencies should follow up as needed to ensure problems have been corrected and that complainants are advised of the complaint investigation outcomes in a timely manner. The Department's complaint-handling form indicates that inspectors should determine the need for follow-up actions regardless of whether the complaint allegations were substantiated or unsubstantiated. However, neither the form nor the Department's policy contain information on what follow-up actions inspectors should take or the time frames for doing so. Additionally, the policy does not require inspectors to notify appropriate persons, such as complainants, regarding the complaint investigation's outcome in a timely manner. Without clear procedures for performing specific follow-up actions, including notifying providers and complainants of complaint investigation outcomes, neither providers nor complainants may be aware that the complaint has been investigated and resolved.

**Department lacks complaint-handling training and monitoring processes**—Based on auditors' review of various best practices, well-trained staff are essential for effective complaint handling and for interacting with complainants in a professional manner. However, department management indicated that they have not developed and provided complaint-handling training to inspectors. In contrast, DHS' initial staff training curriculum for new inspectors contains training related to complaint handling, including developing a written complaint investigation plan that outlines the steps of a complaint investigation, such as deciding who to interview and what documents to review.

Best practices identify three additional key areas for complaint handling: (1) monitoring complaint-handling timeliness and complaint investigations, (2) supervisory review of the complaint-handling process, and (3) reviewing complaint outcomes and trends.<sup>52</sup> However, the Department has not established specific processes for these activities. Specifically:

- Department policy does not provide any guidance on tracking complaints to ensure that they are adequately addressed and resolved within a timely manner. Although supervisors indicated that they do track complaints for their regions, they do so in different ways. For example, one supervisor stated that she tracks complaints by setting reminders in Outlook, flagging the email that describes the complaint, and using sticky notes, while another supervisor indicated she primarily relies on notes in the hard-copy file. Although the supervisors indicated that they believed these methods work, a policy requiring supervisors to monitor complaints and a standardized process for doing so would help ensure that all supervisors are effectively monitoring complaints.
- Although the Department's complaint-handling policy indicates that inspectors will discuss investigation
  findings and actions with their manager, it is not clear whether supervisors or managers are required to
  be involved in other facets of the complaint-handling process. In contrast, DHS' complaint-handling policy
  clearly indicates management and supervisory responsibilities for its complaint-handling process, such as
  reviewing complaint intake, complaint initiation, and statement of deficiency forms; confirming investigation
  findings; and updating the supervisory complaint tracking document.
- Finally, department management indicated that they do not prepare or receive any management reports related to complaints, such as reports on the number and outcome of complaints by provider. Management reports are helpful for identifying such things as weaknesses in existing policies, training needs, or specific areas

<sup>&</sup>lt;sup>50</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>&</sup>lt;sup>51</sup> Commonwealth Ombudsman, 2009; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>&</sup>lt;sup>52</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

where some providers are deficient. For example, a report identifying the number and type of substantiated complaints could identify additional provider training that may be needed.

### Department should enhance complaint-handling process

The Department should take several steps to improve its complaint-handling process for certified child care providers as follows:

- Enhance its complaint intake process—To help ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints, the Department should include information about its complaint-handling process on its website, such as an overall description of the process. In addition, it should ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call. Finally, the Department should assign specific staff to receive and process complaints.
- Continue its efforts to develop an electronic method for logging complaint information—The Department should continue its efforts to modify AzCCATS to capture information related to complaints. To help ensure inspectors understand how to record complaint information in AzCCATS, the Department should develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the complaint-handling process, and how it should be entered into AzCCATS, by whom, and within what time frames. The Department should also ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website. Similarly, the Department should ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will need to capture dates for specific steps in the process, such as when complaints are received. Further, to monitor trends, AzCCATS will need to capture information such as the nature of complaints and whether complaints are substantiated or not.
- Develop and implement complaint investigation policies and procedures—To help ensure that inspectors appropriately and consistently conduct complaint investigations, the Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation; outlining the investigative steps that inspectors should perform, such as what documents to review; what items or areas to observe; and whom to interview.
- **Develop and implement additional guidance on complaint resolution**—To help ensure that certified child care providers are treated in a fair and consistent manner and that inspectors are appropriately following up with complainants and providers, the Department should develop and implement additional policies and/or quidance regarding its enforcement options and follow-up activities. Specifically, the Department should:
  - Develop and implement within its complaint-handling policy a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and
  - Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.

- Strengthen its monitoring process—To help ensure that complaints are adequately tracked and monitored,
  the Department should establish time frames for completing key steps of the complaint-handling process
  and monitor compliance with these time frames, enhance its supervisory review of the complaint-handling
  process, and review complaint outcomes to identify trends and take action to address these trends as
  appropriate. Specifically, the Department should:
  - Establish time frames for completing key steps of the complaint-handling process, such as complaint receipt and assignment for investigation, completion of the investigation, and when enforcement action should be taken and/or the complaint closed. Once established, the Department should also develop and implement policies and procedures for monitoring compliance with the established complaint-handling time frames.
  - Develop and implement policies and procedures directing the supervisory review of complaint-handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action.
  - Develop and implement policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.
- **Develop and implement complaint-handling training**—The Department should develop and implement training on the complaint-handling process. This training should cover the entire complaint-handling process from intake to resolution and should incorporate the changes identified in this audit. This training should be provided to all staff who handle complaints directly so that they understand how to appropriately receive and resolve complaints. In addition, the Department should provide some general training for all child care services staff, such as general information about the overall complaint-handling process, including how complaints can be filed and an overview of the Department's policies and procedures for handling complaints.

#### Recommendations

- 2.1. The Department should enhance its complaint intake process to ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints. Specifically, the Department should:
  - a. Include information about its complaint-handling process on its website, such as an overall description of the process;
  - b. Ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call; and
  - c. Assign specific staff to receive and process complaints.
- 2.2. The Department should continue its efforts to modify AzCCATS to capture information related to complaints on certified child care providers. Specifically, the Department should:
  - a. Develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the process, and how it should be entered into AzCCATS, by whom, and within what time frames;
  - b. Ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website; and

- c. Ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed, as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will also need to capture dates for specific steps in the process, such as when complaints are received, and to monitor trends, AzCCATS will also need to capture information such as the nature of complaints and whether complaints are substantiated or not.
- 2.3. The Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation that outlines the specific steps that inspectors should perform, such as what documents to review, what items or areas to observe, and whom to interview.
- 2.4. The Department should develop and implement additional complaint resolution policies and/or guidance in its complaint-handling policy regarding its enforcement options and follow-up activities. Specifically, the Department should:
  - a. Develop and implement, within its complaint-handling policy, a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and
  - b. Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.
- 2.5. The Department should strengthen its monitoring of the complaint-handling process by:
  - Establishing time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, the Department should also develop and implement policies and procedures for monitoring compliance with the established complaint-handling time frames;
  - b. Developing and implementing policies and procedures directing the supervisory review of complaint handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action; and
  - c. Developing and implementing policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.
- 2.6. The Department should develop and implement training on the complaint-handling process. Specifically, the Department should:
  - Develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit;
  - b. Provide this complaint-handling training to all staff who handle complaints directly; and

C.	Provide general including how for handling of	v complaints can l	the overall complain be filed and an over	nt-handling proces view of the Depar	ss to all child care s tment's policies an	services staff, d procedures
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# Department should examine costs and benefits of consolidating child care regulation under one agency

The Arizona Department of Economic Security (Department) should analyze the costs and benefits of consolidating child care regulation under one agency. Although many other states centralize their child care regulatory responsibilities under one agency, the Department and the Arizona Department of Health Services (DHS) share responsibility for child care regulation in Arizona. Consolidating this responsibility under one agency could potentially improve the economy and efficiency of child care regulation by eliminating duplication, overlap, and fragmentation and leveraging the two agencies' resources and authorities, although the costs of consolidating should be considered. Therefore, the Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions to determine if it would be in the State's best interests and then take action as appropriate. For example, if the benefits outweigh the costs, the Department should seek the necessary approval to proceed with consolidation and work with stakeholders and the Legislature to develop and execute an implementation plan.

# Arizona's child care licensing and certification responsibility is shared between two state agencies

State responsibility for regulating Arizona's child care providers is shared between two state agencies—the Department and DHS. Although the two agencies regulate different types of child care providers, there are several similarities in the two agencies' regulatory responsibilities (see textbox for a description of provider types each agency regulates). Additionally, many other states centralize their child care regulatory responsibilities under one agency.

### Department and DHS share responsibility for regulating child care providers in Arizona—

Although the Department and DHS regulate different types of child care providers, they perform many of the same regulatory responsibilities. For example, each agency must regularly monitor providers' compliance

### **Department of Economic Security**

- Child care home providers care for up to four children for compensation in the provider's home.
- Child care in-home providers care for up to four children for compensation in the children's own home.

#### Department of Health Services

- **Child care centers** care for more than four children for compensation in a nonresidential facility.
- Child care group home providers care for five to ten children for compensation in the provider's home.

Source: Auditor General staff review of Arizona statutes, rules, and the Child Care and Development Fund state plan for federal fiscal years 2016-2018.

with laws and regulations. As of September 2016, the Department's 18 child care inspectors were responsible for conducting on-site monitoring of approximately 440 child care homes, while DHS' 26 child care inspectors were responsible for monitoring approximately 1,200 child care centers and 200 child care group homes. 53

<sup>&</sup>lt;sup>53</sup> The number of DHS centers and group homes are those that had agreements, i.e., contracts, with the Department to care for children authorized for the subsidy, which is financial assistance that the Department pays to a child care provider on behalf of an eligible child to assist the child's family with its child care costs. According to the Department and DHS, the number of DHS-licensed child care centers and certified group homes, regardless of whether they contracted with the Department, was 2,501 as of October 2016. DHS is responsible for monitoring all of these providers.

Other areas where the two agencies share similar responsibilities include:

- Licensing and/or certifying child care providers—Both agencies are statutorily required to license and/or certify child care centers and home providers.<sup>54</sup> The agencies' licensing and certification processes include several similar steps such as reviewing the application to ensure that it is complete; determining the applicant's citizenship status; and verifying that the applicant and other relevant individuals have signed a criminal history affidavit, have a valid fingerprint clearance card, and have passed a child abuse registry check. Additionally, just prior to issuing a license or certificate, the agencies conduct an on-site visit to ensure the center or home meets health and safety requirements.<sup>55</sup>
- Establishing standards and requirements for ensuring child health and safety—Both agencies are statutorily required to establish standards to protect children's health and safety when in the care of regulated child care providers. <sup>56</sup> Although there are some differences in the way the two agencies describe their child care standards, they generally cover the same areas. For example, both agencies' standards address safety, supervision, sanitation, discipline, evening and nighttime care, meals and nutrition, medications, immunizations, and transportation, among other areas. These health and safety standards are primarily prescribed in the agencies' statutes and/or administrative rules. In addition, federal law requires states to establish requirements designed to protect the health and safety of children in care. <sup>57</sup> These requirements must address ten areas, although states may include additional requirements to promote child development or to protect children's health and safety (see textbox for the minimum requirements).
- Conducting routine inspections to monitor providers' compliance with laws and regulations and taking enforcement action as appropriate—Both agencies routinely monitor providers' compliance with applicable laws and regulations. For example, DHS is statutorily required to conduct at least one unannounced visit annually to each licensed center and certified group home to assure continued compliance with laws and regulations.<sup>58</sup> Further, DHS is required to monitor the operation of group homes at least two times each year to ensure that the group home is meeting DHS' standards of care. 59 Department regulations require that it make at least two on-site visits each year to each home facility and in-home provider, with at least one visit being unannounced (see Finding 1, pages 11 through 12, for additional information on this requirement).60 Both agencies' inspections are guided by a checklist based on their respective

### Minimum federal health and safety child care provider requirements

- 1. Infectious disease prevention and control;
- 2. Sudden infant death syndrome prevention and safe sleeping practices;
- 3. Medication administration;
- 4. Food and allergic reaction emergency response;
- 5. Building and physical premises safety;
- 6. Shaken baby syndrome and abusive head trauma prevention;
- 7. Emergency preparedness and response;
- 8. Hazardous materials handling, storage, and disposal;
- 9. Child transportation precautions; and
- 10. First aid and cardiopulmonary resuscitation certification.

Source: Auditor General staff review of the CCDBG Act of 2014, Sec. 658E(c)(2)(I)(i).

health and safety requirements established in law and administrative rule. Inspections are conducted through observations, interviews, and documentation reviews. If the agencies identify noncompliance during their

<sup>&</sup>lt;sup>54</sup> Arizona Revised Statutes (A.R.S.) §§46-803(A), 46-807(A), 36-882(A), and 36-897.01(A).

<sup>&</sup>lt;sup>55</sup> Arizona Administrative Code (AAC) R6-5-5204(A)(4) excludes in-home provider applicants from the precertification on-site home visit requirement.

<sup>&</sup>lt;sup>56</sup> A.R.S. §§36-883(A), 36-897.02(A), and 46-807(A).

<sup>&</sup>lt;sup>57</sup> Child Care and Development Block Grant (CCDBG) Act of 2014, Sec. 658E(c)(2)(I)(i).

<sup>&</sup>lt;sup>58</sup> A.R.S. §§36-885(B) and 36-897.05(B).

<sup>&</sup>lt;sup>59</sup> A.R.S. §36-897.02(F).

<sup>&</sup>lt;sup>60</sup> AAC R6-5-5207(H).

inspections, they require the providers/facility personnel to correct the violations within a specified time frame, generally 10 business days. Depending on the nature of the violations, the agencies may allow the providers/facility personnel to send proof that they have corrected the violations, such as a copy of their child care liability insurance policy, or the inspector will conduct a follow-up visit to the provider's home or facility to visually confirm the violations have been resolved. If the violations are not resolved within the specified time frames, the agencies have progressively more serious enforcement actions they may take, including suspending or revoking the provider/facility's certificate or license.

- **Investigating complaints**—In addition to regularly monitoring providers' compliance with applicable laws and regulations, both agencies investigate complaints against the child care providers that they monitor. Both agencies accept verbal and written complaints against the child care providers. For further information on the Department's complaint-handling process and some examples of DHS' process, see Finding 2, pages 21 through 27.
- Ensuring public availability of monitoring and substantiated complaint investigation information—Both agencies make information on their respective child care providers' licensing and certification inspections and substantiated complaint investigations available to the public. Each agency maintains a public file for viewing in the child care office to which the provider is assigned. The files contain records of inspections, substantiated complaints, and other publicly available documents, and are available for viewing Monday through Friday. Federal law requires that by November 19, 2017, regulated providers' monitoring and inspection results and substantiated complaints be available to the public using electronic means, such as a website, in a consumer-friendly and easily accessible format. He public using electronic means, and substantiated complaint information on licensed centers and certified group home providers available electronically through AZCareCheck.gov. The Department reported that it plans to be in compliance with this requirement by November 19, 2017 (see Finding 2, page 22, for additional information on the Department's efforts to implement this requirement).
- Adopting rules—Both agencies are statutorily required to adopt administrative rules related to their regulation
  of child care providers.<sup>62</sup> For example, the Department must adopt rules that are reasonable or necessary
  to implement child care services and to further the objectives of these services. Likewise, DHS is required to
  establish reasonable rules regarding the health, safety, and well-being of the children cared for in child care
  centers, and adopt rules necessary for the proper administration and enforcement of its regulation of certified
  group homes.

Unlike Arizona, many states centralize their child care regulation under one agency—Although states have flexibility in how they structure their child care regulation, as of 2014, at least 31 states and the District of Columbia centralize regulation of their child care centers, group homes, and family homes under one agency. Auditors contacted four states—Alabama, Alaska, Arkansas, and Montana—and interviewed relevant child care management about their states' regulatory structures. All four of these states centralize their child care provider regulation under one agency, although Alaska's child care regulatory agency grants authority to the Municipality of Anchorage (MOA) to regulate child care providers in the municipality. Child care management from three of the states provided information on recent efforts that their states have undertaken to consolidate or coordinate child care regulation. For example, in September 2015, Alabama's child care regulatory agency began monitoring family and group home providers that were previously monitored by county departments of human resources. In January 2016, Montana consolidated child care monitoring previously conducted by two separate programs

<sup>&</sup>lt;sup>61</sup> CCDBG Act of 2014, Sec. 658E(c)(2)(D).

<sup>&</sup>lt;sup>62</sup> A.R.S. §§46-809, 36-882, 36-883, and 36-897.01.

Auditors were unable to find a centralized source of information that indicates how each state structures its regulation of its child care centers, group homes, and family homes. Therefore, to report some information on states' child care regulatory structures, auditors compiled data from the 2014 National Association for Regulatory Administration Licensing Programs and Policies Survey (latest available), Early Childhood Training and Technical Assistance System, federal Office of Child Care, and publicly available documents on states' child care programs.

These states were selected based on the various time frames each state uses to review families on waiting lists for continuing eligibility for the child care subsidy (see footnote 71, page 37, for more information). Auditors also contacted these states to obtain information about their child care provider regulation structure. See Appendix B, page b-2, for more information on how these states were selected.

within the Montana Department of Public Health and Human Services. In August 2016, Alaska's MOA decided to adopt the state's child care regulations and started to align its child care policies, forms, and notices with those of the state child care agency. The child care managers from these states reported that the consolidation/ coordination efforts are expected to result in greater consistency in monitoring and enforcement, and improved provider practice.

### Consolidation could potentially improve economy and efficiency of Arizona's child care regulation

National and international organizations have noted that consolidation, or reorganization, can improve the economy and efficiency of regulation through the elimination of duplication, overlap, and fragmentation (see textbox for definition of economy and efficiency). For example, the Organisation for Economic Cooperation and Development reported that one of the most important institutional changes to improve the efficiency of inspections and decrease the costs and

Economy and efficiency is defined as maintaining services or outcomes using fewer resources (such as time, money, and staff) or improving or increasing the quality or quantity of services or outcomes while maintaining (or reducing) resources expended.

Source: U.S. Government Accountability Office. (2015). Fragmentation, overlap, and duplication: An evaluation and management guide.

burden they represent is to restructure regulatory enforcement agencies so that functions are consolidated, thus removing duplications and overlaps. 65 In 2010, the U.S. Government Accountability Office (GAO) outlined a number of management approaches that may improve efficiency, including restructuring outmoded government organizations and operations. 66 In addition, in a 2012 document, the U.S. GAO reported that agencies can often realize a range of benefits, such as improved customer service, decreased administrative burdens, and cost savings from reducing or eliminating duplication, overlap, and fragmentation (see textbox for explanation of terms).67

There are several potential benefits for the State of consolidating the Department's and DHS' child care regulatory responsibilities. These benefits include:

- Administrative efficiencies through consolidating the agencies' staff, space, equipment, forms, etc., and reducing or eliminating duplicate services and/or responsibilities such as establishing standards and rules;
- Regulatory consistency across child care and practices; and
- provider types through aligning rules, policies,

Fragmentation refers to those circumstances in which more than one agency (or organization within an agency) is involved in the same broad area and opportunities exist to improve service delivery.

**Overlap** occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries.

**Duplication** occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.

Source: Auditor General staff analysis of U.S. GAO, 2015.

Improved public access to information on all regulated child care types through a single point of contact. This would eliminate the public's need to first determine which agency would be the appropriate one to contact.

In addition to the above benefits, other potential benefits may be possible through leveraging certain agency resources. For example, both agencies have electronic case management systems that are used to maintain and track provider information, including licensing/certification, inspection, complaint, and enforcement action information. However, one system may provide greater functionality, such as the ability for the public to electronically

<sup>65</sup> Organisation for Economic Co-operation and Development. (2014). OECD best practice principles for regulatory policy, regulatory enforcement, and inspections. Paris, France.

<sup>&</sup>lt;sup>66</sup> U.S. Government Accountability Office. (2010). Streamlining government: Opportunities exist to strengthen OMB's approach to improving efficiency. Washington, DC.

<sup>&</sup>lt;sup>67</sup> U.S. Government Accountability Office. (2012). 2012 Annual Report: Opportunities to reduce duplication, overlap and fragmentation, achieve savings, and enhance revenue. Washington, DC.

file complaints or search the one system for provider inspection and substantiated complaint histories, regardless of provider type. Another area where the agencies could possibly leverage existing resources is training. Although both agencies use on-the-job training, including having new staff shadow experienced inspectors or supervisors, the agencies may also have additional guides and in-house training classes that would further help ensure regulatory staff are trained in a consistent and thorough manner.

# Department should analyze costs and benefits of consolidating state child care regulation

The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions to determine if it would be in the State's best interests and then take action as appropriate. In addition to the potential benefits previously discussed, an analysis of consolidating child care regulation within one state agency should also consider the costs of consolidation. For example, costs may be incurred in transitioning staff and equipment from one agency to the other; modifying automated systems and merging information; aligning or developing new regulations, policies, tools, and forms; training staff; and notifying providers of the changes resulting from consolidation.

In conducting the analysis, the Department should consider a process used by the federal government—examining the two regulatory programs for fragmentation, overlap, and duplication. The U.S. GAO found that opportunities may exist to take action where programs are inefficient or ineffective because they are fragmented, overlapping, or duplicative, and it issued guidance to assist in detecting, evaluating, and reducing fragmentation, overlap, and duplication. <sup>68</sup> The guidance identifies four steps and provides detailed direction on what information to consider and what steps to take for conducting a fragmentation, overlap, and duplication review (see Figure 3 for a list of the steps).

Figure 3
Steps in assessing program fragmentation, overlap, and duplication

#### Step 1

Identify fragmentation, overlap, and duplication among a selected set of programs and understand how the selected programs are related. This step is important for identifying opportunities to improve efficiency and effectiveness.

### Step 2

Identify the potential positive and negative effects of any fragmentation, overlap, or duplication found in Step 1. This step is important to help determine whether actions are warranted that would improve efficiency and reduce or better manage fragmentation, overlap, or duplication.

### Step 3

Validate the effects identified in Step 2 and assess and compare the fragmented, overlapping, or duplicative programs to determine their relative performance/cost-effectiveness. This step is important to help determine which programs are more efficient and effective and identify options to reduce or better manage fragmentation, overlap, or duplication.

### Step 4

Identify options to reduce or better manage the negative effects of fragmentation, overlap, and duplication. This step is important to help alleviate fiscal pressures and improve program effectiveness.

Source: Auditor General staff analysis of U.S. GAO, 2015.

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<sup>&</sup>lt;sup>68</sup> U.S. GAO, 2015.

Therefore, the Department should work with DHS and stakeholders to examine the costs and benefits of consolidating their child care regulatory functions. The Department should ensure that it documents the process and results of its analysis to support its conclusions. Even if the Department's analysis indicates that consolidation is not worth pursuing, it should share any options to increase efficiency and/or reduce or better manage fragmentation, overlap, and duplication with relevant entities, including policymakers, as appropriate, and document these communications. If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps, including seeking the necessary approval to proceed and working with stakeholders and the Legislature to develop and execute an implementation plan.

#### Recommendations

- 3.1. The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions.
- 3.2. The Department should document the process and results of its analysis to support its conclusions.
- 3.3. The Department should share any options to increase the efficiency and/or reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities, including policymakers, as appropriate, regardless of its conclusions regarding consolidation, and document these communications.
- 3.4. If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps to move toward consolidation, including:
  - a. Seeking the necessary approval to proceed with consolidation; and
  - b. Working with stakeholders and the Legislature to develop and execute an implementation plan.

# Department uses child care waiting list when funding is insufficient to meet needs of all eligible families

The Arizona Department of Economic Security (Department) is statutorily required to use a child care waiting list whenever it determines that available child care subsidy funding is not sufficient to meet the needs of all eligible families. Literature indicates that child care subsidies can positively impact low-income families' ability to obtain and maintain economic self-sufficiency. When subsidy funding becomes available, the Department releases families from the waiting list in a prioritized order based on household income (see textbox for definitions).

The Department reported taking several actions to monitor the use of subsidy funding to ensure the child care subsidy program serves as many families as possible while still remaining within budget, but should document these steps in its policies and procedures. The Department reported that it has taken a conservative approach to its subsidy spending because of uncertainty regarding the financial impact of new regulations that may increase the subsidy amounts the Department is required to provide per child.

**Subsidy** is financial assistance paid to a child care provider on behalf of an eligible child to assist the child's family with its child care costs.

**Release** means that a family on the waiting list will be offered the child care subsidy if the family still wants and is eligible to receive it.

Source: Auditor General staff analysis of department documentation.

### Department has established child care waiting list

Arizona Revised Statutes \$46-803(I) requires the Department to establish a child care waiting list in order to manage child care subsidies within appropriated and available monies. Specifically, when available subsidy monies are not sufficient to meet the needs of all eligible families, the Department places some families on a waiting list. The Department most recently established a waiting list in 2009, and according to the Department, as of September 30, 2016, there were approximately 3,500 families with about 6,000 eligible children on the waiting list. The Department also reported that the number of children on the waiting list has fluctuated from a high of approximately 10,300 at the start of fiscal year 2011 to a low of 235 at the start of fiscal year 2016. Low-income families are automatically placed on the waiting list when they apply for and are determined to be eligible for the subsidy if sufficient subsidy monies are not available. Temporary Assistance for Needy Families (TANF), transitional, and protective services families are exempt from being placed on a waiting list and are authorized to receive subsidized child care (see the Introduction, page 3, for further description of these families).

### Child care subsidy is important support for low-income families

Child care subsidies can positively impact low-income families' ability to obtain and maintain economic self-sufficiency. According to a 2013 child care subsidy literature review, there is considerable evidence to suggest that families who receive subsidies are more likely to have positive employment outcomes, including a shorter time transitioning from welfare to work, a higher probability of employment, and a lower likelihood of experiencing

a child-care-related work disruption when compared to subsidy-eligible families who do not receive subsidies. Additionally, the research encompassed within the 2013 literature review suggests that child care subsidies may assist families financially by either decreasing the cost of care or allowing families to purchase formal care arrangements. In 2014, the Department surveyed families on its waiting list to determine how they coped with the lack of subsidized care. Seventy-one percent of the respondents reported that waiting for the subsidy negatively affected their employment and/or their ability to accept or maintain employment.

### Department releases children from waiting list as monies become available

Families are prioritized for release from the waiting list when monies become available based on their gross monthly household income and the date they applied for the child care subsidy. Priority 1 on the waiting list represents those families with gross monthly household incomes at or below 100 percent of the federal poverty level (FPL) with each successive priority level reflecting a 10 percent increase in income above the FPL up to the maximum allowable household income of 165 percent of the FPL. For example, priority 2 families are those with incomes at or below 110 percent of the FPL. When all priority 1 families have been released from the waiting list, priorities 2 through 8 will be released based on priority order. According to department reports and a press release, since fiscal year 2009, the Department has released children from the child care waiting list in fiscal years 2011, 2015, and 2017 as follows:

- In fiscal year 2011, the Department released almost 7,000 children.
- In fiscal year 2015, the Department conducted six releases, totaling approximately 15,600 children.
- In August 2016 (fiscal year 2017), the Department released nearly 4,400 children from the priority 1 category of the waiting list.

Although department management reported that it does not routinely track the length of time that families remain on the waiting list, it reported that the approximately 3,500 families on the waiting list as of September 30, 2016, had been on the list for an average of 4.2 months.

# Department reported taking several actions to determine when to release children from waiting list

Although the Department has not formalized its process for determining when and how many children to release from the waiting list in its policies and procedures, it reported taking several actions to monitor the use of subsidy funding to ensure the Department serves as many children as possible while still remaining within budget. Specifically, the Department:

- Monitors available funding—The Department reported continually monitoring its available appropriated subsidy funding. In addition, it is required to track its use of some federal allocations. This is important because some allocations may be spent over multiple years and result in a balance that may be available for use. One example of this is the Child Care and Development Fund (CCDF), which is the primary source of funding for the Department's child care services, including the child care subsidy (see Appendix A, pages a-1 through a-2, for a discussion of the CCDF). For example, according to the State's Fiscal Year 2009 Appropriations Report, "over the past several years," the CCDF appropriation was larger than the actual revenue received in order to spend a balance that had accumulated in the fund.
- **Monitors service utilization and expenditure data**—Department management reported that it uses its automated child care system, AzCCATS, to monitor service utilization and expenditure data to help forecast if, when, and to what extent children can be released from the waiting list and be authorized for services.

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<sup>&</sup>lt;sup>69</sup> Forry, N. D., Daneri, P., & Howarth, G. (2013). *Child care subsidy literature review*. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

According to department management, the trends that are most closely tracked to make this determination are the total number of authorized children who are using care and the average monthly payment the Department is making for these children.<sup>70</sup>

In addition, department management reported that it solicited information from families receiving the subsidy to help understand a trend it was seeing. Specifically, during fiscal year 2016, it appeared that some families were not using their full authorized subsidy amount. The Department estimated that authorized families were using only 82 percent of their authorized subsidy amount, meaning that a family authorized for 5 days of subsidized care per week was using only 4.1 days. Department management surmised that the cost of care the families must cover, i.e., copayments and provider charges above the department reimbursement rate, had become a burden, so families were also using other less costly options for child care such as friends and relatives when available. As part of the Department's 2016 child care client survey, it asked families whether they were fully using their authorized subsidy amount, and if not, why and what other arrangements they were using. Department management reported that 5,000 surveys were sent out in August 2016, and 378 responses were received. The Department was in the process of reviewing the information and anticipates completing its analysis in February 2017.

• Estimates cost to release—The Department also estimates the cost of releasing children from the waiting list. First, it assumes based on past utilization that 50 percent of the families with children on the waiting list will report continued interest in receiving the subsidy, and of those, 85 percent will still qualify for and go on to receive the subsidy. Factoring in these assumptions, the Department then calculates its cost to release children by multiplying the average monthly subsidy amount by the number of children on the waiting list multiplied by 12 (the number of months).

The practices the Department reported appear similar to the practices reported by two other states that auditors contacted—Alabama and Arkansas—which both had waiting lists as of August 2016. Department management indicated that it plans to standardize the process it uses to determine when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct the process. Once this is completed, the Department should include the process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

## Department has taken conservative approach to spending in anticipation of increased costs due to new federal regulations

Department management reported that it has taken a conservative approach in its spending because of anticipated increased costs for the Department's child care services as a result of new regulations for implementing the Child Care and Development Block Grant Act of 2014. This federal law requires that states certify that their provider rates afford families receiving CCDF-funded child care services equal access to comparable child care services provided to families not receiving subsidies. The law requires states to take the cost of quality into account when setting rates and to set rates based on the results of a valid market rate survey or alternative method, which must

Department management explained that there is not a direct correlation between the number of children who are released from the waiting list at any point in time and the total number of children who can be authorized for the subsidy. Rather, the number of children on the waiting list who can be released and authorized for the subsidy is a function of the total projected expenditures for the entire child care caseload and the Department's management of this caseload within available appropriated monies.

Auditors contacted four states' child care subsidy agencies—Alabama, Alaska, Arkansas, and Montana—to determine how they manage their waiting lists. All four states indicated having authority to use waiting lists if child care subsidy funding is insufficient to serve all eligible children. Alaska and Montana reported that they have not had to establish a waiting list for many years. Alabama and Arkansas had waiting lists in place as of August 2016. The states were selected to obtain a variety of time frames for reviewing families' continued interest in remaining on their child care waiting lists. The time frames represented by the selected states were 10 days, 30 days, 6 months, and unspecified.

According to information from a federal Office of Child Care webpage, the law makes changes to help protect the health and safety of children in care, promote continuity of access to subsidies for low-income families, and better inform parents about the child care choices available to them.

be conducted at least once every 3 years.<sup>73</sup> The market rate survey examines variations in rates among types of child care, ages of children, and regions of the state.

The final federal rule that outlines states' requirements for implementing the Child Care and Development Block Grant Act of 2014 does not require states to pay providers at the 75th percentile of the most current market rate survey, which is 2014 for Arizona. However, information within the final rule indicates that the U.S. Department of Health and Human Services (DHHS) strongly discourages states from paying providers less than the 75th percentile and intends to enhance its monitoring of state rates through the CCDF plan approval process. This is seen in the conditional approval letter of Arizona's 2016-2018 CCDF plan dated June 13, 2016, from the U.S. DHHS that states "...We continue to be concerned that your rates may not allow for equal access. OCC (Office of Child Care) plans to make review of payment rates a priority for our upcoming implementation monitoring visits. Thus, the conditional approval of your Plan does not constitute a final determination that your payment rates are sufficient to provide access to child care services for eligible families that are comparable to those provided to families that do not receive subsidies, as required by law." According to a department report, Arizona's maximum child care reimbursement rates for fiscal year 2016 reflected the 75th percentile of its 2000 market rate survey. The report indicates that to comply with the recommended federal benchmark, the Department would, on average, need to increase rates by 44 percent.

### Recommendations

- 4.1. The Department should complete its plans to standardize its process for determining when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct this process.
- 4.2. The Department should include its standardized process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

<sup>&</sup>lt;sup>73</sup> Federal law allows a state to use an alternative methodology, such as a cost estimation model, in place of a market rate survey. The methodology must be approved in advance by the federal Administration for Children and Families.

<sup>&</sup>lt;sup>74</sup> U.S. DHHS final rule (81 FR 67438) went into effect November 29, 2016.

<sup>&</sup>lt;sup>75</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.

<sup>&</sup>lt;sup>76</sup> The department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July 1*, 2015–June 30, 2016.

### **APPENDIX A**

### Federal Child Care and Development Fund

Monies received through the federal Child Care and Development Fund (CCDF) are the primary source of revenues the Arizona Department of Economic Security (Department) uses to provide the child care subsidy and to help improve child care affordability, availability, and quality. CCDF consists of two federal grants. A portion of one of these grants is available to states only if specific conditions are met including that a state provide matching money and meet the maintenance-of-effort (MOE) requirement. The MOE requirement means that a state will spend a specified minimum amount of nonfederal monies to help eligible clients in ways that are consistent with the child care program. States may meet the federal requirements in various ways using nonfederal monies. In Arizona, since fiscal year 2011, certain expenditures by the Arizona Early Childhood Development and Health Board, also known as First Things First (FTF), have been used to largely fulfill the state match and MOE requirements. The example, a 2015 memorandum of agreement between FTF and the Department indicated that up to \$30 million of FTF expenditures in federal fiscal year 2016 would be used to meet these requirements. These expenditures included Quality First Scholarships, which are similar but not identical to child care vouchers, and a variety of quality-driven initiatives such as technical assistance for child care providers and training for child care staff. According to a 2016 Arizona Office of the Auditor General report (Report No. 16-108), FTF's contributions have helped the State receive more than \$220 million in CCDF federal grant monies in fiscal years 2011 through 2016.

### Federal CCDF expenditure categories

CCDF monies must be expended in accordance with federal requirements and the approved CCDF state plan. <sup>79,80</sup> Table 5, page a-2, provides information on how Arizona spent its 2014 federal CCDF award. This is the latest fiscal year for which all expenditures are reported for the grant's entire time frame, which includes fiscal years 2015 and 2016.

FTF was established by voter initiative in 2006 to ensure the quality and accessibility of early childhood development and health programs at the community level. To help support early childhood development and health programs, the voter initiative established a new tax on tobacco products that provides dedicated funding for FTF.

 $<sup>^{78}</sup>$  In the child care field, voucher refers to a form of payment for subsidized child care.

<sup>&</sup>lt;sup>79</sup> Generally, CCDF funds may not be spent for construction, tuition, or sectarian purposes.

<sup>&</sup>lt;sup>80</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.

**Table 5**Federal CCDF and state matching expenditures 2014 award<sup>1</sup>
October 1, 2014 through September 30, 2016

Expenditure type	Description	Expenditures
Administrative	Includes accounting and audit services, program planning, coordinating with other child care programs, and monitoring program activities for compliance. No more than 5 percent of the total expenditures may be for administrative costs.	\$ 2,743,208
Quality activities	Includes activities for improving the quality and availability of child care, such as making grants or providing loans to child care providers to meet applicable child care standards, providing training and technical assistance to providers, and improving salaries and other compensation for provider staff. At least 4 percent of the total expenditures must be for quality activities. Beginning in federal fiscal year 2016, states are required to increase their spending in this area to 9 percent, phased in over 5 years.	27,895,012
Direct services	Solely for child care subsidies to eligible children. At least 70 percent of the total expenditures must be for child care subsidies for Temporary Assistance for Needy Families (TANF) families, families transitioning off TANF, or families at risk of becoming TANF recipients. <sup>2</sup>	98,942,387
Targeted	Includes activities focused on three areas: infant and toddler, quality expansion, and school-age/resource and referral. Beginning in federal fiscal year 2017, at least 3 percent of expenditures must be spent on activities to improve the quality of infant and toddler care.	7,906,863
Non-direct	Includes establishing and maintaining child care information systems, determining eligibility, conducting error-rate reviews, recruiting child care placements, setting rates, training providers on billing and claims processes, and providing resource and referral services.	5,792,178
Total		\$143,279,648

Although the Department received most of the federal CCDF award for its child care services, the Arizona Governor's Office and FTF received a small amount for child care quality initiatives. Additionally, the Arizona Department of Child Safety was appropriated monies to pay for the day care subsidy of the children under its supervision.

Source: Auditor General staff analysis of the Child Care and Development Block Grant Act of 2014; Title 45 Code of Federal Regulations Part 98; Office of Child Care. (2016). CCDF program instruction: CCDF-ACF-PI-2013-05. Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families; and the Department's Child Care and Development Fund ACF-696 Financial Report for the quarter ended June 30, 2016.

<sup>&</sup>lt;sup>2</sup> These direct services expenditures are from one of the two grants comprising the CCDF.

#### **APPENDIX B**

### Methodology

Auditors used various methods to address the audit's objectives. These methods included interviewing Arizona Department of Economic Security (Department) child care management and staff and reviewing applicable state and federal laws and rules, policies and procedures, the State's 2016-2018 Child Care and Development Fund (CCDF) plan, and the Department's website. 81 Auditors also used the following methods to address the audit's objectives:

- To assess the effectiveness and efficiency of the Department's monitoring of its certified child care home providers, auditors analyzed department inspection data for a total of 600 unique providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014 to determine if they received their required two inspections annually. Auditors also randomly selected 20 of the 600 providers who were a part of auditors' data analysis to assess additional areas. Specifically, auditors reviewed hard-copy files for these 20 providers to determine if any enforcement actions taken during calendar years 2012 through 2015 were in both the provider's hard-copy file and the Department's automated child care system; and randomly selected and examined one inspection checklist for 12 of these providers that was completed between January 1, 2012 and December 31, 2015, to assess the consistency with which inspectors conduct and document inspections in accordance with department guidance. To further assess inspection consistency, auditors also observed five on-site home inspections conducted between March and April 2016. In addition, auditors compared department and federal monitoring requirements to examine the Department's monitoring approach efficiency. Finally, auditors reviewed literature and best practices to identify steps the Department should take to strengthen its child care monitoring.
- To assess the adequacy of the Department's process for handling complaints against certified child care
  providers, auditors reviewed the Department's child care complaint-handling policy, obtained and reviewed
  literature on complaint-handling best practices and the Arizona Department of Health Services' (DHS)
  complaint-handling policy and procedures, and interviewed department management and staff on their
  complaint-handling practice.<sup>84</sup>
- To assess the potential for consolidating the Department's and DHS' child care regulatory responsibilities under one agency, auditors reviewed the similarities and differences in each agencies' regulatory responsibilities; reviewed agency documents on each agencies' regulatory resources, including automated systems and training; examined states' regulatory structures using information from the National Center for Child Care Quality Improvement analysis of the 2014 National Association for Regulatory Administration Licensing

<sup>&</sup>lt;sup>81</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.

An annual inspection period is 12 consecutive months from the provider's certification anniversary date. For example, if the provider is certified March 3, the annual inspection period would be between March 3 and the following March 2. Auditors' analysis included providers who had at least one annual inspection period based on the provider's certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period. Although auditors identified a total of 600 unique providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014, the number of providers analyzed for each year is less than 600 and varies each year because not all providers had annual inspection periods during all 3 years.

 $<sup>^{83}</sup>$  See Finding 1, pages 9 through 20, for specific literature sources reviewed and cited.

<sup>&</sup>lt;sup>84</sup> See Finding 2, pages 21 through 27, for specific literature sources reviewed and cited.

*Programs and Policies Survey* (unpublished, latest available), and documents on states' child care agency websites; and interviewed child care program management in four states about their child care regulatory structures. <sup>85</sup> Auditors also reviewed literature and best practices on regulatory structures and how to assess their benefits and costs. <sup>86</sup>

- To examine the Department's use and management of its child care waiting list, auditors reviewed statutory and regulatory requirements on when the waiting list may be used and who is eligible to be placed on it, obtained information on the number of children and families on the waiting list between fiscal years 2009 and 2016, reviewed the results of a 2014 department survey of families on the waiting list, and reviewed literature on the impact of insufficient subsidy funding on low-income families in need of child care.<sup>87</sup> Auditors also interviewed department program management on its process for determining when to release families from the waiting list and contacted child care program management in four states to ask about their use and management of their child care waiting lists.<sup>88</sup>
- To obtain information for the Introduction, auditors reviewed and compiled information from the Department's and DHS' statutes, rules, websites, and reports, including the department-prepared annual child care reports to the Joint Legislative Budget Committee. Auditors also reviewed one department contract for child-care-quality initiatives. In addition, auditors compiled and analyzed unaudited financial information the Department provided through October 9, 2016, from its Financial Management Control System for fiscal years 2014 and 2015, and the State's Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.
- Auditors' work on assessing internal controls included reviewing the Department's applicable policies and
  procedures and interviewing department management and staff on the implementation and oversight of
  inspections and complaint-handling, and the process for determining when to release families from the child
  care waiting list. Auditors' conclusions on internal controls are reported in Findings 1, 2, and 4.
- To assess the reliability of department child care data, auditors conducted interviews with department staff regarding controls around the Department's automated child care system and conducted electronic validity tests of various data elements. Auditors also randomly selected 20 providers to compare the Department's automated data to providers' hard-copy files. <sup>89</sup> Specifically, for 11 of these providers, auditors compared the automated inspection data; for 7 of these providers, auditors compared the automated violation data; and for all 20 providers, auditors compared automated enforcement data to documentation in the hard-copy files. Based on the work performed, auditors concluded that the automated inspection data was sufficiently reliable to use for audit purposes, but that the violation data, with the exception of those inspections where no violations were identified, and enforcement data was not sufficiently reliable to use.

Auditors conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Department's interim director, management, and staff for their cooperation and assistance throughout the audit.

<sup>&</sup>lt;sup>85</sup> The four states are Alabama, Alaska, Arkansas, and Montana. These states were selected based on the various time frames each state uses to review families on waiting lists for continuing eligibility for the child care subsidy (see footnote 71, page 37, for more information). Auditors then obtained information from these states about their use of differential monitoring, regulatory structures to monitor child care providers, and practices for managing their waiting lists.

 $<sup>^{86}</sup>$  See Finding 3, pages 29 through 34, for specific literature sources reviewed and cited.

<sup>&</sup>lt;sup>87</sup> See Finding 4, pages 35 through 38, for specific literature sources reviewed and cited.

<sup>&</sup>lt;sup>88</sup> The four states are Alabama, Alaska, Arkansas, and Montana. See footnote 85 for additional information on how the states were selected.

<sup>&</sup>lt;sup>89</sup> The providers were selected from the 600 certified child care home providers who auditors determined were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. See footnote 82, page b-1, for additional information.

# Arizona Department of Economic Security Vocational Rehabilitation Services Program

Department should enhance its processes for managing rehabilitation service costs and clients' progress



**Debra K. Davenport** Auditor General





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# STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

MELANIE M. CHESNEY DEPUTY AUDITOR GENERAL

January 24, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Henry Darwin, Interim Director Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Department of Economic Security—Vocational Rehabilitation Services Program*. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement or implement in a different manner all of the recommendations.

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

Sincerely,

Debbie Davenport Auditor General

Attachment





## REPORT HIGHLIGHTS

Performance Audit January 2017

# Arizona Department of Economic Security Vocational Rehabilitation Services Program

CONCLUSION: The Arizona Department of Economic Security (Department) operates the State's Vocational Rehabilitation Services Program (Program), which is primarily funded by federal grant monies. The Program is responsible for assisting clients with a significant physical or mental impairment to prepare for and find work on a full- or part-time basis. However, the Department had a higher average rehabilitation cost and a lower rehabilitation rate than comparable agencies in other states. This high cost limits the number of eligible clients that the Department can serve. In addition, because the Program's goal is to help eligible clients obtain or retain competitive employment, it is also important for the Department to work toward increasing its rehabilitation rate. Therefore, the Department should enhance its program oversight, staff guidance, and supervisory and staff training to effectively manage program costs and clients' progress.

### Program's goal is to assist clients find employment

The Program's goal is to help clients with disabilities obtain competitive integrated employment where they receive the same wages, benefits, and opportunities for advancement, and have the same interaction with customers as employees who are not disabled. Federal grant monies generally cover 78.7 percent of the costs of vocational rehabilitation programs, and the states cover the remaining costs. The Department's fiscal year 2017 program expenditures are estimated to total nearly \$137.9 million with administrative expenditures accounting for more than \$39.6 million of this amount. The Department's program counselors help each eligible client develop their own employment plan, which includes the types of rehabilitative services the client needs to achieve the employment goal. Services include educational, medical, and work assessments; job search and placement assistance; vocational and other training; and technological equipment or services, such as captioned videos or vehicle modifications. The Department can consider a client's ability to help pay for the cost of some services and must also determine the availability of "comparable benefits," which are services that can be paid for by other federal, state, or local public agencies; by health insurance; or by employee benefits.

# Department should enhance processes for managing rehabilitation service costs and clients' progress

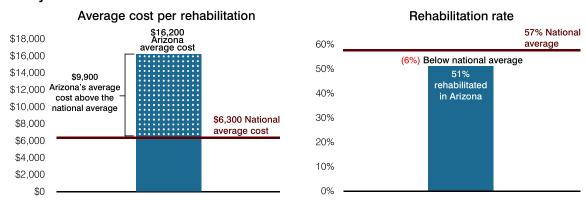
**Arizona had higher rehabilitation cost and lower rehabilitation rate**—In federal fiscal year 2015, of the 32 comparable agencies (agencies in other states and territories), Arizona's average cost per rehabilitation of approximately \$16,200 was more than 2.5 times the comparable agencies' average of approximately \$6,300. Guam had the next highest average cost per rehabilitation of approximately \$13,100.

Although not reported by the federal government, we also found that the Department had some higher-than-average costs for clients who exited the Program without an employment outcome. Specifically, our analysis of the 10,526 cases that the Department closed during federal fiscal years 2014 and 2015 found that 7,963 of these cases, or approximately 76 percent, left the Program without an employment outcome, including 197 clients who had program expenditures in excess of \$16,200.

Arizona's rehabilitation rate of 51 percent was also lower than the 32 comparable agencies' average of 57 percent in federal fiscal year 2015. Rehabilitation rates ranged from approximately 29 percent for the District of Columbia to 100 percent for American Samoa.

**High program costs affect number of clients served**—Because there are more eligible clients than the Department can serve, it prioritizes them on a waiting list—as required by the federal government—with the most significantly disabled served first. As of December 1, 2016, nearly 2,800 eligible clients were on the Program's waiting list. However, if Arizona's average cost per rehabilitation was the same as the national average for comparable agencies—approximately \$6,300—it could have paid for approximately 2,090 additional successfully rehabilitated cases in federal fiscal year 2015.

# Comparison of Arizona's average cost per rehabilitation and rehabilitation rate against the national averages for combined program agencies Federal fiscal year 2015



## Department lacks some oversight and training to effectively manage program costs and clients'

**progress**—Program counselors are authorized to approve up to \$25,000 in employment plan rehabilitation service costs per client, and supervisors can approve up to \$50,000 total. However, the counselor expenditure authorization level is too high to adequately control program costs. Instead of blanket authorizations, other states have limits on the types of services that staff can approve, such as a counselor approving a maximum of \$3,500 for dental restoration services. Similarly, the Department was developing a "service authorization threshold" guide for counselors in October 2016 that showed services by category and, as of November 2016, planned to develop similar guidance for its supervisors and managers. In addition, although federal law allows states to establish reasonable expenditure and time limits for clients to receive services, the Department has not established such limits.

The Department began to review some program data on case costs in August 2016, but it has not used its other data to analyze where program changes are needed, such as why cases close without an employment outcome or the length of time a client spends in the Program. Additionally, the Department does not provide any supervisory training for department program supervisors, such as trainings that would help with expenditure approvals, help staff meet program requirements, and ensure that client employment plans are well-developed.

**Some staff guidance lacks details, and staff training is limited**—The Department's Vocational Rehabilitation (VR) manual has general information about using assessments to determine employment plan services to provide to clients, but the eligibility and employment plan development chapters lack guidance on the specific assessments to conduct for these activities. In addition, the VR manual does not have sufficient information about examples of potential comparable benefits that counselors should research or how counselors should document their search for comparable benefits. We identified a case where the Department spent nearly \$167,000 on services for a client who had private health insurance, but the client's file lacked documentation of the search for comparable benefits.

Further, the Department lacks adequate guidance and oversight for educational and vocational training. Other states require supervisory approval for a client to attend a 4-year university, have more guidance regarding monitoring progress for clients who are pursuing educational or vocational training, and have more guidance regarding the purchasing or leasing of textbooks, computers, and supplies.

Finally, although the Department has training materials for its program counselors, this training is being revised, some counselors have not received it, and the training material is not referenced in the VR manual.

#### Recommendations

The Department should:

- Continue efforts to establish lower expenditure authorization levels by service categories and move away from blanket authorization levels;
- Better monitor case costs and the time clients are in the Program;
- Revise its VR manual to improve guidance on assessments, comparable benefits, and educational and vocational training; and
- Develop and implement supervisory trainings and continue its efforts to revise staff trainings.

Arizona Auditor General

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Arizona Auditor General

#### INTRODUCTION

#### Scope and objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security's (Department) Vocational Rehabilitation Services Program (Program), pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit is the first in a series of five audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit reviewed data for the 10,526 program client cases that were closed during federal fiscal years 2014 and 2015, and provides recommendations for improving the Department's program case management processes, including increasing its oversight of rehabilitation service costs and clients' progress, and enhancing its staff guidance and training.

Other department audits will focus on childcare provider monitoring, and complaint-handling processes; information technology security; licensing and oversight of homes for the developmentally disabled; and the statutory sunset factors.

#### Department administers Vocational Rehabilitation Services Program

The Department is responsible for administering the Program, which has a goal to help individuals with disabilities prepare for, enter into, or retain competitive integrated employment (see textbox). The Program is

basis and:

primarily funded by federal grant monies, which are provided to states to assist them in delivering vocational rehabilitation services to individuals with disabilities. The federal government generally covers 78.7 percent of the costs for these services, and the states cover the remaining portion. To administer the Program, including personnel costs and client rehabilitation services, during state fiscal year 2017, the Department's expenditures are estimated to total more than \$137 million (see pages 6 through 7 for more information on the Program's revenues and expenditures).

The Department's program administration activities include:

• **Determining program eligibility**—The federal government establishes program eligibility requirements, but the Department's program staff

**Competitive integrated employment**—The individual with a disability works on a full- or part-time

 Receives the same wages and benefits the employer provides for the same or similar work performed by individuals who are not disabled;

- Interacts with other employees and customers to the same extent as employees who are not disabled and in comparable positions; and
- Has opportunities for advancement that are similar to employees who are not disabled and have similar positions.

Source: Auditor General staff analysis of 34 Code of Federal Regulations (CFR) 361.5(c)(9).

(counselors) determine whether individuals are eligible for the Program based on those federal requirements. As of October 31, 2016, the Program had approximately 2,200 individuals in the application or eligibility determination status.

To be eligible for the Program, applicants:

- Must have a physical or mental impairment that substantially impedes their ability to obtain or retain employment; and
- Should be able to secure, retain, or regain employment after receiving vocational rehabilitation services.

According to a federal draft performance document for federal fiscal year 2015, Arizona's Program, similar to the federal vocational rehabilitation services programs administered in 25 other states and 6 territories, is a combined program, meaning that it does not exclusively serve individuals with visual impairments or blindness. Auditors' assessment of the 10,526 cases the Department closed during federal fiscal years 2014 and 2015 found that approximately 69 percent of individuals served had a mental disability, nearly 20 percent had a physical disability, and approximately 9 percent had a sensory disability. Approximately 2 percent of the cases did not have a disability listed.

The federal government requires that the Department determine eligibility within 60 days after an individual submits an application, unless the Department and applicant agree to an extension. However, according to the Office of the Auditor General's fiscal year 2015 Single Audit for the State of Arizona, the Department did not meet this requirement for 11 of the 40 applications reviewed.<sup>2</sup> Specifically, this report noted that the Department took between 66 and 192 days, or an average of 128 days, to determine whether these 11 applicants were eligible for the Program or to close their cases. The Department's response to this report indicated that it will continue to intensely monitor, manage, and ensure that staff understand and adhere to applicable eligibility policies and procedures in order to meet the eligibility compliance requirements.

- **Establishing an order of selection and waiting list**—The federal government requires that states provide services to all eligible individuals and if a state does not have the fiscal and personnel resources to do so, that it establish, in its state plan, the order it will follow in selecting eligible individuals to be served.<sup>3</sup> The federal government requires that states' order of selection ensure that the individuals with the most significant
  - disabilities will be served first. Arizona, like 16 other combined program agencies, has established a prioritized order of selection (see textbox for Arizona's order of selection).

Because it cannot serve all eligible individuals, the Department places eligible individuals on a waiting list. According to department program administrators, Arizona's waiting list has been in place since fiscal year 2009, and since that time, Arizona's Program has been able to serve only individuals who fall under the Priority 1 category. As of December 1, 2016, there were nearly 2,800 individuals on the Program's waiting list. Most of the individuals—2,330—were priority 2; and the remaining individuals—459—were priority 3.

According to the Joint Legislative Budget Committee's *Fiscal Year 2017 Appropriations Report*, the Department's fiscal year 2017 budget for the Program includes an increase of \$2.45 million, with \$2 million coming from State General Fund monies, to allow it to serve approximately 2,900 eligible individuals on the

#### Arizona's order of selection

- **Priority 1:** An eligible individual with a most significant disability that presents three or more serious limitations to the individual functioning in a work setting. Individuals in this category will require multiple vocational rehabilitation services that are anticipated to last longer than 6 months.
- **Priority 2:** An eligible individual with a significant disability that presents one or more serious limitations to the individual functioning in a work setting. Individuals in this category will require multiple vocational rehabilitation services that are anticipated to last longer than 6 months.
- **Priority 3:** All other individuals eligible for vocational rehabilitation services who have not been found to meet the criteria for Priority 1 or 2.

Source: Auditor General staff analysis of the Department's Vocational Rehabilitation Policy and Procedure Manual and 34 CFR 361.5 (c)(30).

waiting list. According to the Department, based on the financial resources it received, in November 2016, it began releasing 100 individuals in the Priority 2 category from the waiting list into the Program and informed the State Rehabilitation Council of its efforts to serve individuals on the waiting list (see textbox on page 3).

Limitations include mobility, communication, self-care, self-direction, interpersonal skills, work skills, and work tolerance impediments.

In addition to states, the following territories are also included in the count of combined program agencies: American Samoa, District of Columbia, Guam, Northern Marianas, Puerto Rico, and the U.S. Virgin Islands.

<sup>&</sup>lt;sup>2</sup> This finding was similar to the prior fiscal year's finding.

Each state wanting to receive federal program monies must develop a state plan that describes the state's vocational rehabilitation services program. The federal government must approve the state plan.

**Developing an employment plan—**Once an applicant is determined eligible, counselors must work with the eligible individual to develop an Individualized Plan for Employment (IPE). The IPE is a written program designed to achieve a specific employment outcome that, according to federal regulations, is "selected by the individual consistent with the individual's unique strengths, resources, priorities, concerns, capabilities, interest, and informed choice." <sup>4</sup> The IPE will include the specific rehabilitative services (see next bullet for examples of services) needed to achieve the employment outcome, timelines for achieving the outcome, criteria for evaluating progress, and state program and individual client responsibilities for achieving the outcome.

#### **State Rehabilitation Council**

In 1993, Arizona established an advisory council to advise the Program related to specific responsibilities, such as eligibility (including the order of selection), and the extent, scope, and effectiveness of services.

The Governor appoints members to the Council after soliciting recommendations from organizations representing a broad range of individuals with disabilities and organizations interested in individuals with disabilities. The Council shall have a minimum of 15 members and a maximum of 27 members.

Source: Auditor General staff analysis of information in the State Rehabilitation Council's Bylaws.

The federal vocational rehabilitation services grant requires that an IPE be developed within 90 days after an individual is determined eligible, unless the Department and applicant agree to an extension. However, according to the Office of the Auditor General's fiscal year 2015 Single Audit for the State of Arizona, the Department did not meet this requirement for two of the ten case files tested. Specifically, this report noted that the Department took 93 days to develop the IPE for one of these cases and 102 days for the other case. The Department's response to this report indicated that it will conduct several activities to help it meet this requirement, including developing and implementing additional training, requiring the use of automated system alerts, and requiring that managers review biweekly reports related to untimely cases to identify trends.

• **Providing and/or referring individual to services**—The Program must provide a wide range of services to help individuals with disabilities achieve their employment outcomes. As of October 31, 2016, there were more than 9,400 program clients receiving services. Program staff provide some services, and many other services are provided through contracted service providers. Services available to clients include assessments; job-related services, such as placement services; transportation expenses that are necessary to enable an applicant or eligible individual to participate in vocational rehabilitation services; and vocational training services (see Table 1, page 4, for more examples). In federal fiscal year 2016, the two service categories program clients most commonly used were assessments and vocational and other training, and two of the lesser-used services were personal assistance and interpreter services.

However, services will vary based on an individual's disabilities and his/her IPE goal (see textbox, page 5, for examples of the services included in two individuals' IPEs).

• Considering an individual's ability to help pay for services—When identifying services the individual will need to achieve his/her IPE goal, the Department considers an individual's ability to help pay for the cost of some of the program services provided. Although there is no federal requirement that financial need be considered in providing rehabilitative services, a state may choose to do so for many services as long as the requirements the state establishes do not result in denying an individual a necessary service. In addition, the state is required to maintain written policies regarding the process it uses to consider an individual's ability to pay. Federal requirements stipulate certain services where the state cannot consider an individual's ability to help pay for services, including assessment services for determining eligibility; vocational counseling and guidance; and job search, placement, and retention services.

<sup>4 34</sup> CFR 361.45(b)(2).

<sup>&</sup>lt;sup>5</sup> 34 CFR 361.54(b)(2)(i).

<sup>&</sup>lt;sup>6</sup> 34 CFR 361.54. In addition, states may not consider financial need if an individual has been determined eligible for Social Security benefits under Titles II or XVI of the Social Security Act.

**Table 1**Service category descriptions and the number of individuals receiving services and expenditures within each category
Federal fiscal year 2016

(Unaudited)

Service categories	Description	Number of individuals	Expenditures
Assessments	Includes educational, medical, psychological, and work habits and work tolerance assessments used for determining eligibility or vocational rehabilitation needs.	3,584	\$ 8,554,267
Diagnosis and treatment	Includes diagnosis and treatment for mental or emotional disorders; and physical restoration services, such as corrective surgery, dentistry, prosthetic and orthotic devices, and physical or occupational therapy.	796	5,791,766
Interpreter services	Includes sign language, oral interpreter services, and tactile interpreting services.	137	188,981
Job-related services	Includes job search and placement assistance, and job retention services.	3,345	4,563,715
Maintenance	Monetary support for a client's personal expenses, such as food, shelter, and clothing, that are greater than the client's normal expenses and necessitated by the client's participation in the Program.	219	344,516
Personal assistance	A range of services provided by one or more persons designed to assist a client perform daily living tasks on or off the job.	9	29,732
Rehabilitation Technology	Technological equipment or services, such as captioned videos, talking watches, telephone amplifiers, and vehicle modifications to assist clients improve in areas such as mobility, communications, hearing, and vision.	846	3,168,647
Transportation	Transportation expenses, such as training in the use of public transportation, that are necessary to enable an applicant or client to participate in a vocational rehabilitation service.	1,595	1,562,004
Vocational and other training	Includes training at universities, colleges, vocational schools, and technical institutes, and related costs such as tuition, training materials, and books.	4,491	28,198,434
Vocational rehabilitation counseling and guidance	Includes providing information and assistance to help the client in developing an employment outcome, identifying the vocational rehabilitation services needed to achieve the outcome, and selecting service providers.	156	161,472
Other	Other services provided not listed above including child care costs so that the client can participate in services; occupational licenses and customary occupational tools and equipment; and self-employment business consultant services.	1,721	838,958
Total		16,899	\$53,402,492

Source: Auditor General staff analysis of information from a draft report for federal fiscal year 2016 that the Department will submit to the federal government and other department-provided information, and 34 CFR 361.5, 361.48, and 361.52.

#### Examples of vocational rehabilitation services

**Client 1:** This individual had a traumatic brain injury and established a vocational goal to become a social worker. As a part of her IPE, this individual received the following services:

- Neurorehabilitation services, including occupational therapy, adjustment to the disability, and orientation and mobility;
- Licensure exam study materials, and application and registration fees; and
- Transportation services.

**Client 2:** This individual had physical disabilities because of a motor vehicle accident. She established a vocational goal of becoming an occupational therapy assistant. As a part of her IPE, this individual received the following services:

- Tuition, books, and supplies;
- Assistive technology and aids;
- Reasonable accommodations at school and work; and
- Counseling and guidance.

Source: Auditor General staff analysis of department-provided case example information.

Arizona statute establishes the specific services for which the Department considers financial need (see textbox). In addition, in some cases, the Program must search for other means of paying for the services prior to spending program monies. Specifically, before providing most services, the Program must look for

"comparable benefits," which are services or benefits paid for, in whole or in part, by other federal, state, or local public agencies; by health insurance; or by employee benefits. For example, federal regulations indicate that the Program cannot use federal program monies to pay for training or training services in an institution of higher education unless "maximum effort has been made" by the state program and the individual to secure grant funding to pay for some or all of the training. 8 See Finding 1 (pages 9 through 18), for more information related to developing additional staff guidance and oversight related to assessing comparable benefits and vocational training services at institutions of higher education.

**Financial need**—Arizona's Program pays for the following services only when a client is determined to need financial assistance:<sup>1</sup>

- Physical restoration;
- Transportation;
- Occupational licenses;
- Customary occupational tools and equipment;
- Maintenance; and
- Training books and materials.

Source: Auditor General staff analysis of A.R.S. §23-506.

#### Organization and staffing

The Program is overseen by an administrator and is located within the Department's Division of Employment and Rehabilitation Services. According to department information, the Program had 402 full-time equivalent (FTE) filled and 104 vacant staff positions as of September 30, 2016. These staff provide program administration and client services through one of more than 40 department offices located throughout the State. Specifically:

• Administration/support (133 filled, 21 vacant FTE)—Administration staff oversee the Program's day-to-day operations, while support staff develop policies and procedures, manage and monitor service contracts,

See Table 1 (page 4) for more descriptive information on some of these services.

<sup>&</sup>lt;sup>7</sup> 34 CFR 361.5(c)(8)(i)(A).

<sup>&</sup>lt;sup>8</sup> 34 CFR 361.48(b)(6).

provide staff training, and support the Program's automated system, which is used to record client data, such as eligibility and disability information, case status information, and rehabilitation service costs.

• Field offices (269 filled, 83 vacant FTE)—Vocational rehabilitation counselors, supervisors, and program managers provide services and oversee clients' cases. These services include determining program eligibility, providing information and assistance to help eligible clients develop an employment outcome, identifying the vocational rehabilitation services needed to achieve the outcome, and selecting service providers. In addition, support staff at the field offices include rehabilitation technicians and purchasing technicians who assist counselors and direct service staff with completing the various tasks associated with procuring and providing services. In April 2016, one Phoenix-based office began piloting a team approach to serving clients. Under the team approach, different vocational rehabilitation counselors are assigned to complete a specific step of the process, such as eligibility, IPE development and implementation, or job development and placement instead of one vocational rehabilitation counselor completing all steps for a client. According to the Department, this team concept has been successfully implemented within the specialty population of services to the blind and visually impaired.

#### Finance and budget

The Program receives both federal and state revenues. As shown in Table 2 (see page 7), during fiscal years 2014 through 2017, the Program received or is estimated to receive a total of between approximately \$87.6 million and \$139.5 million in program revenues, with federal revenue comprising the largest source of revenues. Specifically, it received or is estimated to receive between approximately \$68.1 million and \$108.3 million in federal program grant monies during fiscal years 2014 through 2017. In addition, during this same 4-year period, it received or is estimated to receive between approximately \$9.4 million and \$12.5 million in State General Fund appropriations.

Most of the Program's monies are spent on services for its clients with disabilities. Specifically, during fiscal years 2014 through 2017, the Program spent or estimates it will spend between approximately \$52.6 million and \$98.2 million on vocational rehabilitation services. The Program's administrative expenditures during this same period have ranged from or are estimated to be between approximately \$33.8 million and \$39.6 million, with the highest administrative expenditures being for payroll and related benefits.<sup>9</sup>

<sup>&</sup>lt;sup>9</sup> The federal government does not establish a specific limit on administrative expenditures for this Program.

**Table 2**Schedule of revenues and expenditures<sup>1</sup>
Fiscal years 2014 through 2017

(Unaudited)

	2014 (Actual)	2015 (Actual)	2016 (Estimate)	2017 (Estimate)
Revenues				
Federal grants <sup>2</sup>	\$ 68,099,059	\$ 78,260,326	\$ 88,101,436	\$ 108,350,928
State General Fund appropriations	10,243,678	9,371,312	10,534,939	12,535,010
Other <sup>3</sup>	9,281,904	12,214,294	14,262,576	18,637,298
Total revenues	87,624,641	99,845,932	112,898,951	139,523,236
Expenditures				
Client service expenditures	52,627,224	60,186,210	70,610,801	98,229,698
Administrative expenditures				
Payroll and related benefits	24,180,448	26,576,297	25,873,365	28,136,410
Professional and outside services	2,699,410	2,663,029	3,710,225	3,943,332
Travel	308,977	298,600	292,423	424,899
Other operating	2,806,139	2,803,999	3,169,869	3,219,034
Furniture, equipment, and software	3,850,911	5,009,619	4,359,324	3,924,556
Total administrative expenditures	33,845,885	37,351,544	37,405,206	39,648,231
Total expenditures	86,473,109	97,537,754	108,016,007	137,877,929
Excess of revenues over expenditures <sup>4</sup>	\$ 1,151,532	\$ 2,308,178	\$ 4,882,944	\$ 1,645,307

<sup>1</sup> This statement is presented on a budgetary basis in which expenditures are reported in the budget year incurred and includes information up to August 21, 2016.

Source: Auditor General staff analysis of financial information provided by the Department through August 21, 2016, from its Financial Management Control System for fiscal years 2014 and 2015, and the State's Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.

<sup>&</sup>lt;sup>2</sup> Amounts are primarily monies received from the U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration.

Amounts comprise monies from various sources, including transfers from other state and local government entities, for vocational rehabilitation services. For example, monies are received from the Division of Behavioral Health Services (BHS) under the Arizona Department of Health Services, or the Arizona Health Care Cost Containment System beginning in fiscal year 2017, and Arizona high schools and charter schools. Specifically, monies are received from BHS to provide enhanced and structured rehabilitation services for individuals diagnosed with a serious mental illness. Monies are also received from Arizona high schools and charter schools to provide vocational rehabilitation services to individuals with disabilities in preparing for and engaging in gainful employment.

<sup>4</sup> According to the Department, the excess of revenues over expenditures comprises unspent monies from revenues other than federal grants and State General Fund appropriations.

# Department should enhance processes for managing rehabilitation service costs and clients' progress

The Department of Economic Security (Department) should enhance its processes for managing its Vocational Rehabilitation Services Program's (Program) rehabilitation service costs and clients' progress. The Program provides vocational services to clients with disabilities in order to help them prepare for, enter into, or retain competitive integrated employment. However, the average amount of money the Department spends to rehabilitate clients is higher than comparable agencies, and the percentage of Arizona clients who achieve employment is lower than some comparable agencies. Although the Department has some important oversight processes, staff guidance, and training in place, these practices are too limited to effectively monitor rehabilitation service costs and clients' progress in the Program. As a result, the Department is not serving all of the eligible clients it could potentially serve. Therefore, the Department should take steps to improve its program oversight in several areas, including lowering the amount of rehabilitation service expenditures counselors can independently authorize, establishing reasonable expenditure and time limits for cases, and developing and using additional management reports, such as reports that show expenditures by case and length of time in the Program. In addition, the Department should clarify its policies and procedures in several areas and continue its efforts to enhance program training so that staff have a better understanding of how to assist clients and help manage program costs.

## Program works with clients to help them achieve employment

The Program's goal is to provide vocational services to clients with disabilities in order to help them prepare for, enter into, or retain competitive integrated employment (see textbox, page 1). To meet this goal, department program counselors (counselors) work with eligible clients to develop an Individualized Plan for Employment (IPE), which documents the client's specific employment goal and the steps and services needed to reach the goal. The Department's Vocational Rehabilitation manual (VR manual) includes the policies and procedures that counselors should use to guide their work. For example, the Department's procedures require counselors to contact clients at least every 90 days to monitor clients' progress in the Program and take appropriate action if a client is not making progress, such as readjusting the client's goal, modifying services, or closing the case.

One way in which counselors monitor a client's progress and continued participation in the Program is through intermediate objectives, which are all the major steps needed to achieve the employment outcome listed on the IPE and are required by department policy. For example, an intermediate objective may be that the client should attend an adult life skills group two times a week to improve communication and interpersonal skills until obtaining a job. Additionally, counselors are required to review invoices for client services to ensure that the services are being provided as required and are meeting the client's needs. While the client is pursuing his/her employment goal, the case remains open and the client receives IPE-related services. If the client achieves the employment goal listed on his/her IPE after receiving services and maintains employment for a minimum of 90 days, the client is considered successfully rehabilitated and the case is closed.

The counselor is the program employee who works most with the client, but program management is also required to be involved with various aspects of cases according to department policy, such as approving expenditures over a certain dollar limit, reviewing IPEs that meet certain criteria, and approving some services, such as vehicle

modifications. Further, the Department is responsible for monitoring the Program for overall costs and ensuring that it is serving as many clients as possible.

## Arizona had higher rehabilitation cost and lower rehabilitation rate than comparable agencies

A review of department program data and federal draft performance data identified that Arizona's federal fiscal year 2015 average cost per rehabilitation, i.e., the cost to rehabilitate a client who leaves the Program with an employment outcome, was higher than the national average for comparable agencies, and its rehabilitation rate was lower than the national average for comparable agencies. Additionally, the Department's expenditures for some clients who left the Program without an employment outcome in federal fiscal years 2014 and 2015 exceeded Arizona's federal fiscal year 2015 average rehabilitation cost. Specifically:

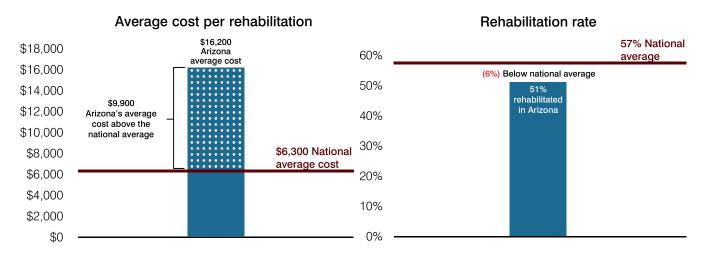
- Arizona had higher rehabilitation cost than combined program agency average—Arizona had the highest average cost per rehabilitation of the 32 comparable agencies (i.e., combined program agencies) more than 2.5 times higher than the average—in federal fiscal year 2015, which is the most current data available. Arizona's Program, similar to the federal vocational rehabilitation services programs administered by 25 other states and 6 territories, is a combined program, meaning that it does not exclusively serve individuals with visual impairments or blindness. 10 According to federal fiscal year 2015 draft performance data provided by the U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration, Arizona's average cost per rehabilitation was approximately \$16,200, but the national average for combined program agencies was approximately \$6,300 (see Figure 1, page 11). 11,12 Guam had the next highest average cost per rehabilitation of approximately \$13,100, followed by the U.S. Virgin Islands with an average cost of approximately \$11,600.
- Arizona had lower rehabilitation rate than combined program agency average—Although Arizona's rehabilitation rate was not the lowest of the combined program agencies, it was lower than the average for combined program agencies in federal fiscal year 2015. The rehabilitation rate is determined by the number of clients who received IPE-related services and exited the Program with an employment outcome out of the total number of all clients who received IPE-related services and exited the Program during the year. According to federal fiscal year 2015 draft performance data, Arizona's rehabilitation rate was approximately 51 percent, whereas the national average rehabilitation rate for combined program agencies was approximately 57 percent (see Figure 1). However, nine combined program agencies had rehabilitation rates that were lower than Arizona's. These rates ranged from approximately 29 percent (District of Columbia) to 50 percent (Illinois). Further, American Samoa had the highest rehabilitation rate of 100 percent, followed by North Dakota with a rehabilitation rate of approximately 71 percent.
- Arizona had above-average costs for some clients who left without employment—Although the federal government does not report average costs for clients who exit the Program without an employment outcome, auditors' analyses found that the Department also had some higher-than-average costs for these clients. Auditors analyzed data on the 10,526 department cases that closed during federal fiscal years 2014 and 2015 and found that 7,963 cases, or approximately 76 percent, left the Program without an employment outcome, and some of these cases had high expenditures. Specifically, 197 of the 7,963 clients who left the Program without employment, or nearly 2.5 percent, had program expenditures in excess of \$16,200—

<sup>&</sup>lt;sup>10</sup> In addition to states, the following territories are also included in the count of combined program agencies: American Samoa, District of Columbia, Guam, Northern Marianas, Puerto Rico, and the U.S. Virgin Islands.

<sup>&</sup>lt;sup>11</sup> The federal calculation used to determine the average cost per rehabilitation is based only on the service expenditures for those clients who received IPE-related services and exited the Program with an employment outcome. The calculation does not include operating expenditures that the Program may have incurred for these clients over the life of their cases. In addition, the calculation does not include any costs for any of the clients who exited the Program during the same period without an employment outcome.

<sup>&</sup>lt;sup>12</sup> Based on auditors' calculation, the average cost per rehabilitation for the 17 of the 32 combined program agencies under an order of selection in federal fiscal year 2015 was approximately \$6,550, approximately \$250 more than the average for all 32 combined program agencies. See the Introduction, page 2, for information on an order of selection state.

Figure 1
Comparison of Arizona's average cost per rehabilitation and rehabilitation rate against the national averages for combined program agencies
Federal fiscal year 2015



Source: Federal fiscal year 2015 draft performance data provided by the U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration.

Arizona's federal fiscal year 2015 average cost per rehabilitation for cases closed with an employment outcome. These expenditures included costs for client assessments and job-placement services. Additional analysis of these 197 client cases found that:

- 183 of these clients received IPE-related services, and 3 of the 183 cases had total expenditures over \$110,000.
- 14 of these clients did not receive IPE-related services, and 6 of the 14 cases had expenditures over \$32,000. Department program administrators state that for clients who have not reached the IPE stage, the Program spends money on items to determine whether a client is eligible, such as requesting medical records, transportation to assessments, and interpreter services.

## High program costs affect number of clients served

It is important for the Department to control its program costs and help as many clients as possible achieve an employment outcome. As indicated in the Introduction (see page 2), since fiscal year 2009, Arizona has not had sufficient resources to serve all its eligible clients and has implemented a waiting list. As of December 1, 2016, there were nearly 2,800 eligible clients on the waiting list. Auditors analyzed the waiting list data as of December 1, 2016, and found that the clients had been on the waiting list for an average of 3.5 years, with the time spent on the waiting list ranging from 2 days to over 7.5 years. Although the Program is receiving additional State General Fund and other monies in fiscal year 2017 to help serve additional clients, if the Department's rehabilitation costs were lower, it could serve more clients. For example, if Arizona's average cost per rehabilitation was the same as the national average for combined program agencies—approximately \$6,300—it could have paid for approximately 2,090 additional successfully rehabilitated cases in federal fiscal year 2015. In addition, because the Program's goal is to help eligible clients to obtain or retain competitive integrated employment, it is also important for the Department to continuously work toward increasing its rehabilitation rate.

Based on auditors' calculations, if Arizona's average cost per rehabilitation was in line with the average cost per rehabilitation for combined program agencies under an order of selection in federal fiscal year 2015—approximately \$6,550—then the Department could have paid for approximately 1,966 additional successfully rehabilitated cases in federal fiscal year 2015. For more information on an order of selection state, see the Introduction, page 2.

# Department lacks some oversight and training to effectively manage program costs and clients' progress

Although the Department has some policies and management reports for monitoring program cases, it lacks some of the necessary mechanisms to effectively manage program costs and clients' progress. Specifically, oversight of some areas, such as clients' costs or length of time in the Program, is too limited, and department program supervisors (supervisors) have not been trained on their role in helping counselors meet program requirements. Therefore, the Department should take steps to enhance its ability to manage program costs and monitor clients' progress by continuing its efforts to lower the amount of rehabilitation service expenditures counselors can authorize on their own. In addition, the Department should establish reasonable expenditure and time limits for cases and then use those limits to develop and implement additional management reports related to monitoring case costs and time in the Program. Further, the Department should analyze the data it already collects and use it to improve its program monitoring, such as analyzing case closure reasons. Finally, the Department should develop and implement training classes that are specific to supervisors and their role within the Program.

**Department's rehabilitation services expenditure authorization levels too high to manage costs**—The Department has rehabilitation service expenditure authorization levels in place for counselors and for supervisors, but they are too high to effectively manage program costs. Specifically, counselors are authorized to approve rehabilitation service expenditures up to \$25,000 total for a client's IPE. <sup>14</sup> After \$25,000 is reached, a supervisor must approve additional expenditures, up to \$50,000 total, after which regional program managers are also required to approve additional expenditures. However, the counselor expenditure authorization level is too high to adequately control program costs because supervisors are generally not required to be involved until IPE-related expenditures reach \$25,000, which is more than 1.5 times higher than Arizona's federal fiscal year 2015 average cost per rehabilitation—\$16,200—and nearly 4 times higher than the \$6,300 national average cost per rehabilitation for combined program agencies (see page 10). Auditors found that 270 of the 10,526 cases, approximately 2.6 percent, closed during federal fiscal years 2014 and 2015 had expenditures of at least \$25,000 during the life of the case.

Auditors contacted other states regarding their processes for managing their vocational rehabilitation programs and found that neither the Kansas Department for Children and Families, Rehabilitation Services, Vocational Rehabilitation, nor the Utah State Office of Rehabilitation, Division of Rehabilitation Services, have blanket authorization levels like the Department. 15 Rather, they both have lists of specific services/service categories and the amount that program staff can approve. For example, Utah's policy states that for dental restoration services. counselors can approve up to \$3,500 for the life of the case; supervisors can approve up to \$6,000 for the life of the case; and so on up to the district director. 16 Similarly, Kansas' policy states that counselors can approve \$3,000 for hearing aids/audiological devices, such as a doorbell amplifier, for the life of a case, and its program managers and administrators can approve \$2,000 or \$5,000 more, respectively. As of October 2016, department program administrators were developing a "service authorization threshold" guide that showed services by category; a service description, including items that would be covered by that service; and either a dollar limit or unit of service, such as one vision exam per case, that the counselor can approve. As of November 2016, the Department planned to develop and implement authorization levels for supervisors and managers as well. To more effectively manage program costs, the Department should continue its efforts to establish specific lower authorization levels for counselors, supervisors, and managers by service categories and move away from blanket authorization levels, such as counselors approving up to \$25,000 for a client's IPE expenditures.

**Department lacks reasonable limits for case costs and time frames**—Although federal regulations allow states to establish reasonable expenditure limits for clients and a reasonable time frame for clients to

<sup>&</sup>lt;sup>14</sup> The \$25,000 authorization limit does not include costs associated with the case prior to an IPE being developed.

<sup>&</sup>lt;sup>15</sup> Auditors selected three states for contact: Colorado, Kansas, and Utah, based on various factors including being a combined program agency or having undergone a recent performance audit (see Appendix A, pages a-1 through a-2, for more information about the state selection).

<sup>&</sup>lt;sup>16</sup> Dental restoration services may be needed for a client's rehabilitation if his/her dental condition prevents employment due to missing teeth, severe decay, or chronic infections.

receive services, the Department has not established such limits.<sup>17</sup> As federally allowed, the Department should establish reasonable expenditure levels and time limits for program clients. To do so, the Department should analyze its rehabilitation services expenditure data to develop reasonable expenditure levels for the life of a case or expenditure levels at which a more detailed review of the case is required. According to the Department, starting in August 2016, it began biweekly meetings to analyze why certain cases cost so much. The Department could use the results of this process to develop reasonable expenditures for the life of the case or expenditure levels at which more detailed review of a case is required. Similarly, the Department should analyze its program data to establish reasonable time limits for a case to receive services and exit the Program or time frames at which a more detailed review of the case is required. Additionally, the Department should include the reasonable expenditure and time limits within its written guidance and add a reference to this guidance in its VR manual.

Once the Department has developed reasonable expenditure and time limits for cases, it should also develop and implement management reports that will allow it to monitor where its cases are relative to those limits. Although department program management receives monthly reports showing the program expenditures for the previous months, the reports show only the overall costs, such as total number of clients who received diagnostic/assessment services and the total cost for these services, but the reports do not distinguish the expenditures for each client or show clients that are approaching or are at or above a designated threshold, such as \$5,000. Management reports that focus on costs by case could help the Department determine whether additional oversight is needed to ensure expenditures are reasonable and controlled.

Similarly, management reports that focus on clients' length of time in the Program could assist the Department in assessing whether clients are making adequate progress and taking appropriate steps if adequate progress is not being made, such as adjusting the IPE or closing the case. Although the Department monitors whether it is meeting certain federally required time frames, such as developing an IPE within 90 days after eligibility, it does not have a report to monitor length of time that clients spend in the Program. Auditors analyzed program data for cases closed in federal fiscal years 2014 and 2015 and found that clients who left the Program without employment were in the Program for a wide range of time—from as little as 2 days to more than 17 years. Therefore, the Department should develop and implement management reports focusing on the case expenditures and time limits that it develops in order to better monitor these areas. Further, the Department should establish a specific process supported by appropriate procedures for using these management reports, including how frequently to generate the reports, who should review the information, and what actions to take based on the results.

Department does not analyze data to identify other areas where changes are needed—According to the Department, in August 2016, it began reviewing some cases based on expenditure levels, such as cases between \$25,000 to \$75,000. However, the Department does not analyze other program data it already collects, such as reasons why cases closed without an employment outcome, or the length of time cases spend in the Program to help identify other program changes that may be needed or areas for improvement. For example, auditors' analysis of the 10,526 cases that closed during federal fiscal years 2014 and 2015 found that 7,963 cases closed without an employment outcome. Further analysis of the 7,963 cases that closed without an employment outcome found that 3,746 cases, or 47 percent, closed because the Program was unable to locate or contact the client; and another 2,765 cases, or 35 percent, closed because the client was no longer interested in receiving services. Period and another 2,765 cases, or 35 percent, closed because the client was no longer interested in receiving services. Period and another 2,765 cases, or 35 percent, closed because the client was no longer interested in receiving services.

<sup>17 34</sup> Code of Federal Regulations (CFR) 361.50 (c)(d).

<sup>&</sup>lt;sup>18</sup> Federal regulations require that an individual's eligibility be determined within 60 days of application, unless the Department and applicant agree to an extension. The federal vocational rehabilitation services grant requires that an IPE be developed within 90 days of an individual being determined eligible, unless the Department and individual agree to an extension.

<sup>&</sup>lt;sup>19</sup> The time spent in the Program includes any time the client may have spent on the waiting list.

Prior to closing a case in which the client does not have an employment outcome due to loss of contact, counselors must attempt to contact a client at least three times using at least two different forms of communication, such as calling the client or mailing him/her a letter, unless the client has only been referred to the Program in which case the counselor can send a letter to the client. According to department program administrators, supervisors and counselors can generate a report from the Department's case management system to monitor whether counselors are contacting clients at least every 90 days. However, this is not required by policy, and department program administrators acknowledged that the report has some problems, such as not easily showing how often a client has been contacted.

it might need to take to help more clients achieve an employment outcome, such as increasing the required contact that counselors have with clients by reducing it from 90 to 60 days.

The Department's program case management system has a wealth of data about the clients it serves, the types of services provided, and case outcomes. To better manage program costs and help serve its clients, the Department should continue to review case costs and should establish a specific process for periodically analyzing its data, including the types of data to analyze, the frequency of the analyses, who to report the information to, and what type of actions to take in response to the analyses.

**Department lacks training specific to supervisors**—According to department program administrators, the Department does not provide any supervisory training for department program supervisors. Specifically, the Department lacks trainings that focus on the supervisors' role, including helping staff meet program requirements; approving services for cases over \$25,000; and ensuring that client IPEs are well-developed. Instead, department program administrators indicated that supervisors are encouraged to take the same training classes that are provided to new program counselors once they become supervisors, although this is not required. Without specific training, the supervisors may not be adequately prepared to assist counselors and clients or to monitor case expenditures and progress.

Therefore, the Department should develop and implement a training program for supervisors. These trainings should focus on the supervisors' role in helping staff meet program requirements and also cover any monitoring changes made to its policies and procedures or oversight processes resulting from this audit, such as reviewing and using its management reports to actively monitor case cost and length of time in the Program.

### Some staff guidance lacks details and staff training is limited

The Department's ability to effectively manage client costs and progress is also impacted by limited staff guidance and training. Although the VR manual provides guidance to staff on moving a case through the Program from eligibility to closure, auditors identified three areas where the VR manual lacks adequate policy references—assessments, comparable benefits, and intermediate objectives. Additionally, the VR manual lacks sufficient, detailed guidance for cases involving educational and vocational training. Therefore, the Department should enhance its policies and procedures for these areas to include more information, such as guidance from its training documents. Further, the training provided to counselors has been limited, and the Department should continue its efforts to improve its training and provide it to all staff.

**Policy references for assessments are insufficient**—The VR manual has some guidance on potential assessments that should be conducted for clients when determining what IPE services to provide, but this information is not referenced in the eligibility chapter or the IPE-development chapter. For example, the VR manual has general guidance on assessments to conduct and what information the assessments are intended to provide in a chapter regarding IPE-related services. However, assessments are used to help determine a client's eligibility, as well as the IPE-related services to provide to the client but the VR manual chapters regarding eligibility and IPE-development do not have guidance on the specific types of assessments to conduct for clients or refer counselors to the applicable policy sections that contain some guidance for, and examples of, assessments.<sup>21</sup> Additionally, the Department's training for eligibility provides additional guidance, including who is able to provide information that can be used to make an eligibility determination, such as a treating physician, but this is not referenced in the VR manual.

In one case auditors reviewed, it appeared that the Department may have been able to determine that the individual would not have been able to benefit from services sooner than it did if it had better guidance on assessments. Specifically, counselors sent this client to two neurorehabilitation specialists to assess whether the client would be able to maintain a job in a competitive environment even though the client had a previous assessment conducted by a neurorehabilitation physician, which stated the client was not ready to enter the

<sup>&</sup>lt;sup>21</sup> Assessments are defined as services provided and activities performed to determine an individual's eligibility or priority category for the order of selection, and to determine the nature and scope of IPE-related services.

workforce. Department program administrators were unsure why the counselors sent the client to additional neurorehabilitation specialists and did not place the client directly into a trial work experience to determine if he could maintain employment in a competitive integrated environment.<sup>22</sup> Additional guidance regarding the types of assessments to conduct could potentially help the Department enhance its eligibility determinations. Therefore, the Department should add references to the applicable chapters as well as incorporate into or include a reference to the guidance from its training in the VR manual.

**Policy for documenting comparable benefits is insufficient**—The VR manual does not contain sufficient information about examples of potential comparable benefits that counselors should research or how counselors must document their search for comparable benefits. Comparable benefits are services or benefits paid for, in whole or in part, by other federal, state, or local public agencies; by health insurance; or by employee benefits. Auditors identified a case where the Department spent nearly \$167,000 on a client who, according to his application form, had private health insurance. However, neither auditors nor department program administrators could find documentation of the search for comparable benefits within the client's file, so it was not possible to determine if the counselor investigated whether the client's health insurance would have covered the cost of his services. Therefore, based on auditors' review of guidance in other states, the Department should enhance its guidance for comparable benefits in two ways. Specifically:

- Enhance comparable benefits guidance and increase frequency of searches—The VR manual has some examples of where to search for comparable benefits scattered throughout various chapters, but auditors found that some other states have additional examples of comparable benefits. For example, Utah provides examples of comparable benefits to explore, including Medicare or Medicaid, the Veteran's Administration, and workers' compensation. Further, Colorado's Department of Labor and Employment, Division of Vocational Rehabilitation and Utah require counselors to search for comparable benefits when the IPE is modified, which is more frequently than Arizona's requirement to search for these benefits at the initial IPE development stage only. Therefore, to help ensure comparable benefits are thoroughly researched, the Department should revise its policies in the VR manual regarding comparable benefits to include additional examples. The Department should also develop and implement a policy requiring counselors to search for comparable benefits more frequently, such as when additional services are added to a client's IPE.
- Enhance and require use of existing template and/or develop a new method to document comparable benefits—Colorado and Utah require the outcome of the search for comparable benefits to be documented in a specific location, such as a case note or within the IPE, respectively. Although department program administrators stated that there is a template that counselors can use to document the outcome of their research, department policy does not require that this form be used. Further, this template does not require the counselor to show what was done to search for comparable benefits or add a justification for not using comparable benefits. According to counselors auditors interviewed, some counselors would document the outcome in a case note within the client's electronic file, on the IPE, or in a note justifying the IPE. Therefore, to help ensure its efforts to identify comparable benefits are appropriately documented, the Department should develop and implement a policy within the VR manual requiring counselors to use the template, and/or continue its efforts to develop a new method, to document the outcome of comparable benefit searches. Additionally, the Department should modify its template and/or ensure its new method will capture specific information regarding comparable benefits, such as what was done to search for comparable benefits along with any justification for not using such benefits, develop and implement procedures on how to use the template and/or the new method, and include these procedures in the VR manual.

<sup>&</sup>lt;sup>22</sup> According to the VR manual, a trial work experience is an exploration of a client's ability and capacity to perform work duties in a realistic, integrated work setting for the purposes of eligibility determination.

Over \$160,000 of the \$167,000, or 96 percent, were monies that were spent to determine the client's eligibility for services, determine services to include on the IPE, or to diagnose and treat impairments.

<sup>&</sup>lt;sup>24</sup> As of November 2016, Colorado is reviewing this policy to determine the most effective and efficient location for counselors to document the search for comparable benefits.

Policy references for intermediate objectives are insufficient—Intermediate objectives identify the major steps needed to achieve the employment outcome listed on the client's IPE, are required by department policy, and should be used to monitor clients' progress toward goals and continued participation in the Program. Although the VR manual provides some broad guidance on intermediate objectives, including that they be measurable and have specific time frames for achievement, it lacks examples and specific guidance on monitoring progress against these objectives. Additionally, one of the Department's training modules for new program counselors contains additional guidance that is not reflected in the VR manual. Specifically, the training explains that counselors should use verbs to describe what the client or counselor needs to accomplish and should list the intermediate objectives in the order in which they need to be accomplished so that the client can meet his/her employment goal. For example, the client should (1) study for, take, and pass the exam to be a licensed social worker by December 31, 2017, and (2) pursue job opportunities, accept a position, and maintain employment as a licensed social worker. Therefore, the Department should revise its VR manual to include examples and additional guidance or add references to its training materials or other guidance documents regarding intermediate objectives, including how detailed the intermediate objectives should be written, what they are intended to cover, and the order in which they need to be accomplished.

**Department lacks sufficient guidance and oversight for educational and vocational training**— Educational and vocational training, particularly at higher education institutions (e.g., universities, colleges, community colleges, technical institutes, etc.) can be expensive, but the Department lacks adequate guidance and oversight for this area to help control costs and monitor clients' progress. The Department has some policies regarding higher education, including that the client must apply for a Pell grant and that the Program generally will pay for training only at accredited, public Arizona institutions. However, auditors' review of Colorado, Kansas, and Utah's policies and procedures regarding training at higher-education institutions identified additional guidance and oversight that would be helpful for the Department. Specifically:

- **Supervisory approval**—Utah requires supervisory approval for a client to attend a 4-year university, but the Department does not.
- Enhance guidance for monitoring progress—Colorado and Kansas have specific policies related to monitoring the progress of clients who are pursuing educational or vocational training. Specifically, Colorado requires clients to maintain at least a 2.0 grade point average or meet the requirements of their specific training program to continue their educational or vocational training program. <sup>26</sup> In addition to requiring clients to maintain at least a 2.0 grade point average, Kansas also requires that the IPE list the specific ways that progress will be monitored. Although the Department's VR manual states that clients must maintain "satisfactory progress" as determined by the educational institution, it does not provide guidance on the specific ways that the Department will monitor this progress.
- More guidance on supplies—Although the VR manual states that the Department will pay for supplies required for courses, other states have more guidance regarding required supplies. For example, Colorado has a policy regarding renting or leasing equipment needed for a client's vocational training when renting or leasing is adequate to meet the individual's training needs, unless the total rental/lease costs exceed purchase costs, and purchasing used textbooks. Auditors reviewed a case in which the Department purchased two computers for a client, in addition to textbooks and other supplies, while she was attending college. This client had expenditures totaling over \$25,000.

Therefore, the Department should develop and implement additional guidance in its VR manual to require supervisory approval for educational and vocational training. Further, the Department should enhance its guidance within the VR manual to define how satisfactory progress within an educational or vocational training program will be determined, such as through a specific grade point average, and require that the client's IPE

<sup>&</sup>lt;sup>25</sup> The Program will not pay costs for private institutions unless there is a disability-related reason or the program of study is not offered at a public Arizona institution.

<sup>&</sup>lt;sup>26</sup> If satisfactory performance is not achieved in any single reporting period, Colorado's policy allows the program to approve continuation of the training program for only one additional period to provide the client the opportunity to meet the satisfactory performance level required for graduation.

include the specific ways that the Department will monitor this progress. Finally, the Department should develop additional policies and procedures surrounding the purchase of equipment and supplies related to educational and vocational training.

Training for counselors is beneficial but has been limited—Although the Department has training materials that are beneficial in helping new counselors understand the process for working with clients, the training is in the process of being revised, some counselors have not received it, and, as indicated above, this training material is not included in the VR manual. According to department program administrators, the Department is revising its core training classes for new staff and had revised and implemented 5 of its 15 core classes as of October 2016. These 5 core trainings include a class on determining program eligibility and 1 on developing intermediate objectives for the IPE. For example, the training on determining eligibility provides guidance on reviewing documentation of disabilities; conducting assessments of clients, if needed; and relying on existing records, such as assessments that were previously conducted, including examples of who can provide reliable documentation for the determination, such as a treating physician. However, the Department did not provide training between January 2014 and August 2015 while these classes were under revision. Therefore, program counselors hired during that time frame did not receive any initial staff training, so they may be unaware of this information altogether. According to the Department, 46 counselors were hired during this time frame and are still with the Department as of December 2016. Further, although the training materials have useful guidance for counselors, the information from the trainings is not included in the VR manual.

The Department should continue to revise its training and develop and implement additional staff training. Specifically, the Department should continue its efforts to revise the remaining 10 initial staff training core classes. In addition, the Department should develop additional trainings to cover any changes made to its policies and procedures or oversight processes resulting from this audit. For example, the Department should provide training to counselors on approving services and monitoring clients who are pursuing vocational training and how to use the comparable benefits template and/or new method. As classes are completed, it should ensure that all staff are provided with these trainings.

#### Recommendations

- 1.1. The Department should continue its efforts to establish specific lower authorization levels for counselors, supervisors, and managers by service categories and move away from blanket authorization levels, such as counselors approving up to \$25,000 for a client's IPE expenditures.
- 1.2. To better monitor case costs and the time that clients spend in the Program, the Department should:
  - a. Analyze its rehabilitation services expenditure data to establish reasonable expenditure levels for the life of a case or expenditure levels at which a more detailed review of the case is required;
  - b. Analyze its program data to establish reasonable time limits for the case to receive services and exit the Program or time frames at which a more detailed review of the case is required; and
  - c. Include the reasonable expenditure and time limits within its written guidance and add a reference to this guidance in the VR manual.
- 1.3. Once the Department has established its reasonable expenditure and time limits for cases, it should:
  - a. Develop and implement management reports that will allow the Department to monitor where its cases are relative to the expenditure levels and time limits; and
  - b. Establish a specific process supported by appropriate procedures for using these management reports, including how frequently to generate the reports, who should review the information, and what actions to take based on the results.
- 1.4. To better manage program costs and help serve its clients, the Department should continue to review case costs and should establish a specific process for periodically analyzing its data, including the types of data

- to analyze, the frequency of the analyses, who to report the information to, and what type of actions to take in response to the analyses.
- 1.5. To improve the guidance for counselors on conducting assessments, the Department should add references to the applicable VR manual chapters as well as incorporate into or include a reference to the guidance from its training on eligibility.
- 1.6. To help ensure counselors thoroughly research and adequately document their efforts to identify comparable benefits, the Department should:
  - a. Revise its policies in the VR manual to include more examples of comparable benefits;
  - b. Develop and implement a policy to require counselors to search for comparable benefits more frequently, such as when additional services are added to an IPE;
  - c. Develop and implement a policy within the VR manual requiring counselors to use the Department's template and/or continue its efforts to develop a new method to document the search for and outcome of comparable benefits;
  - d. Modify the template and/or develop the new method to capture the specific information regarding comparable benefits, such as what was done to search for comparable benefits along with any justification for not using such benefits;
  - e. Develop and implement procedures regarding how to use the template and/or the new method; and
  - f. Include these procedures in the VR manual.
- 1.7. The Department should revise its VR manual on intermediate objectives by including examples and additional guidance, or references to the material covered in its staff training or other guidance documents, including how detailed the intermediate objectives should be written, what they are intended to cover, and the order in which they need to be accomplished.
- 1.8. To help better monitor its costs, the Department should develop and implement additional guidance in the VR manual for educational and vocational training by:
  - a. Requiring supervisory approval for clients pursuing educational or vocational training;
  - b. Enhancing its guidance within the VR manual to define how satisfactory progress in an educational or vocational training program will be determined, such as through a specific grade point average, and require that the client's IPE include the specific ways that the Department will monitor this progress; and
  - c. Developing additional policies and procedures surrounding the purchasing of related equipment and supplies, such as leasing equipment or purchasing used textbooks.
- 1.9. To help ensure counselors and supervisors are trained, the Department should continue to revise its training and develop and implement additional staff training by:
  - a. Developing and implementing supervisory training that focuses on the supervisors' role in helping staff meet program requirements and covers any monitoring changes made to the Department's policies and procedures resulting from this audit, such as reviewing and using its management reports to actively monitor case cost and length of time in the Program;
  - b. Continuing its efforts to revise its remaining ten initial staff training core classes;
  - c. Developing additional trainings to cover any changes made to the Department's policies and procedures or oversight processes resulting from this audit; and
  - d. Ensuring that all staff are provided with these trainings.

#### **APPENDIX A**

### Methodology

Auditors used various methods to address the audit's objective including reviewing federal and state laws and regulations, interviewing Arizona Department of Economic Security (Department) management and staff, and reviewing department policies and procedures and website information related to the Vocational Rehabilitation Services Program (Program). Auditors also used the following specific methods to address the audit's objective:

- To develop information for the report's Introduction, auditors obtained information from various sources. These sources included department management reports, such as its *Open Cases at Month End* report for October 31, 2016; and a draft version of a report the Department prepares and submits to the federal government. Auditors also analyzed data for the 10,526 cases the Department closed during federal fiscal years 2014 and 2015. In addition, auditors analyzed unaudited department-provided program financial information for fiscal years 2014 through 2017, including financial information from its Financial Management Control System and the State's Arizona Financial Information System.
- To determine whether the Department effectively managed program rehabilitation service costs and clients' progress, auditors obtained and analyzed various program data and reports. Specifically:
  - To compare Arizona's average cost per rehabilitation and rehabilitation rate to other states' programs and assess the number of additional clients the Department could have served if its rehabilitation costs were the same as the national average, auditors obtained and analyzed draft performance data for federal fiscal year 2015 provided by the U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration.
  - To identify additional program results, such as costs for clients who leave the Program without obtaining employment or length of time in the Program, auditors obtained and analyzed data for the 10,526 cases closed by the Department during federal fiscal years 2014 and 2015.
  - o To help understand the Program and identify some potential reasons for high-cost or lengthy cases, auditors conducted an in-depth review of the electronic case files for 7 of the 10,526 cases that closed during federal fiscal years 2014 and 2015. Specifically, auditors reviewed 3 cases with expenditures over \$100,000; 2 cases that had expenditures from the 4-year-college service category; 1 case that closed after the client was determined eligible but before signing an Individualized Plan for Employment (IPE); and 1 case that showed the client did not have a significant disability. Auditors reviewed these clients' electronic files for items such as the IPE, including the beginning and ending employment goals and projected costs; total expenditures; and whether these clients exited with or without an employment outcome.
  - To identify areas where the Department could enhance its oversight related to program costs and client progress, auditors obtained and reviewed management reports; reviewed the Department's policy and procedure manual; assessed the Department's training provided to department supervisors and counselors; observed staff; and conducted interviews with department program administrators and staff. Additionally, auditors contacted other states—Colorado, Kansas, and Utah—regarding their process for developing intermediate objectives; searching for comparable benefits; approving services;

supervisory oversight; and monitoring cases for expenditures and time spent in the program. Auditors also reviewed these states' policies and procedures.<sup>27</sup>

- To assess the reliability and accuracy of the Program's electronic case management data, auditors conducted interviews with department staff regarding controls over the Program's electronic case management system; reviewed a manual on electronic data requirements; conducted electronic data validity tests of various data elements; and compared the data auditors obtained from the Department for cases closed during federal fiscal years 2014 and 2015 to information published by the U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration. Auditors determined that the data was sufficiently reliable for the audit's purposes.
- To assess the Department's internal controls over rehabilitation service costs and clients' progress, auditors
  reviewed the Department's policies and procedures for the Program, including policies and procedures
  for developing intermediate objectives, searching for comparable benefits, approving services for clients,
  and supervisory oversight; reviewed case files and compared them to requirements outlined in policies
  and procedures; interviewed department program administrators and staff; and reviewed and analyzed
  department-prepared data and prior audit reports. Auditors' conclusion on these internal controls are reported
  in Finding 1 of the report.

Auditors conducted this performance audit of the Program in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Department's interim director, management, and staff for their cooperation and assistance throughout the audit.

<sup>&</sup>lt;sup>27</sup> Auditors selected Colorado, Kansas, and Utah, based on various factors, including being a combined program agency; being under an order of selection as of federal fiscal year 2015; having undergone a recent performance audit; having programs of similar size to Arizona or a larger program with a lower average cost per rehabilitation; and geographical similarity. For a definition of combined program agency and order of selection, see the Introduction, page 2.



Douglas A. Ducey Governor Henry Darwin Interim Director

January 18, 2017

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

Dear Ms. Davenport:

The Department of Economic Security appreciates the opportunity to provide a response to the Vocational Rehabilitation Program Audit conducted by your office that was received on January 10, 2017. The Department is committed to continuous quality improvement, transparency, and accountability.

Attached is the Department's responses to your finding and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Henry Darwin Interim Director

Enclosure: DES Vocational Rehabilitations Response

**Finding 1**: Department should enhance processes for managing rehabilitation service costs and clients' progress

**Recommendation 1.1:** The Department should continue its efforts to establish specific lower authorization levels for counselors, supervisors, and managers by service categories and move away from blanket authorization levels, such as counselors approving up to \$25,000 for a client's IPE expenditures.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's Vocational Rehabilitation Services Program (Program) recognizes that it is most efficient to minimize unnecessary steps in a process and have control at the lowest level possible, but also that checks and balances are appropriate. To that end, we will develop a risk matrix to determine services that are most likely to exceed basic thresholds or have significant cost implications and implement review thresholds where appropriate to better monitor expenditures. Additionally, we will create a review threshold for the total investment in services for a specific client. The threshold may be different for clients in different circumstances; i.e. blind and visually impaired, traumatic brain injuries, most significantly disabled, etc.

**Recommendation 1.2:** To better monitor case costs and the time that clients spend in the Program, the Department should:

**Recommendation 1.2a:** Analyze its rehabilitation services expenditure data to establish reasonable expenditure levels for the life of a case or expenditure levels at which a more detailed review of the case is required;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program is in agreement with the recommendation to establish reasonable expenditure thresholds and review requirements based on the life of the case and/or expenditure levels. The Program is precluded from placing absolute dollar limits on specific service categories or on the total services provided to an individual per 34 CFR 361.50 (c). The Program is also precluded from establishing absolute time limits on the provision of specific services or on the provision of services to an individual per 34 CFR 361.50(d)(2). As described in the previous response, we will work within these parameters to create reasonable review thresholds throughout Program management.

**Recommendation 1.2b:** Analyze its program data to establish reasonable time limits for the case to receive services and exit the Program or time frames at which a more detailed review of the case is required; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program is in agreement with the recommendation to establish reasonable time periods for the provision of services and establish review requirements based on the life of the case. Reasonable time periods will not be absolute, nor so short as to effectively deny an individual a necessary service, and must permit exceptions in order to address individual needs as required by 34 CFR 361.50 (d)(1).

**Recommendation 1.2c:** Include the reasonable expenditure and time limits within its written guidance and add a reference to this guidance in the VR manual.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program is in agreement with the recommendation to establish reasonable time limits and expenditure thresholds. Time limits and expenditure thresholds may be developed, but no absolute values can be placed on service expenditures or time in service per 34 CFR 361.50. The Program will also utilize a central location where all staff can access guidance materials. To the extent possible, the Program will incorporate the new thresholds into the case management system to ensure consistent adherence to the thresholds.

**Recommendation 1.3:** Once the Department has established its reasonable expenditure and time limits for cases, it should:

**Recommendation 1.3a:** Develop and implement management reports that will allow the Department to monitor where its cases are relative to the expenditure levels and time limits; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Over the past six months the Program has been developing ad hoc reports to extract and portray relevant cost and duration information from the case management system. The Program will continue to standardize and use these reports as a routine practice in ongoing program evaluation.

**Recommendation 1.3b:** Establish a specific process supported by appropriate procedures for using these management reports, including how frequently to generate the reports, who should review the information, and what actions to take based on the results.

<u>Department Response:</u> The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Facilitated by deployment of the Arizona Management System, the Program is establishing new data utilization processes that promote frequent review, planning, action, evaluation and standardization. In order to expedite review of information, the Program will establish standard work requirements and continue to enhance and standardize management reports for routine use and review.

**Recommendation 1.4:** To better manage program costs and help serve its clients, the Department should continue to review case costs and should establish a specific process for periodically analyzing its data, including the types of data to analyze, the frequency of the analyses, who to report the information to, and what type of actions to take in response to the analyses.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The Program agrees with the recommendation and will utilize its Business Intelligence Unit to continue to review case costs and analyze its data in the methods identified in the response to 1.2c and 1.3b.

**Recommendation 1.5:** To improve the guidance for counselors on conducting assessments, the Department should add references to the applicable VR manual chapters as well as incorporate into or include a reference to the guidance from its training on eligibility.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program agrees with the recommendation and will enhance the policy manual by adding information on when and how assessments can be provided during eligibility determination. The Program will also utilize a central location where all staff can access guidance materials, which outline reasonable expenditure and time limits on assessment and eligibility. The Program will also create a one-page reference guide for each VR counselor to describe frequently used policies and other pertinent information.

**Recommendation 1.6:** To help ensure counselors thoroughly research and adequately document their efforts to identify comparable benefits, the Department should:

**Recommendation 1.6a:** Revise its policies in the VR manual to include more examples of comparable benefits;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The Program agrees with the recommendation to incorporate more examples of comparable benefits into the VR manual, as well as in the consolidated reference information for each counselor.

**Recommendation 1.6b:** Develop and implement a policy to require counselors to search for comparable benefits more frequently, such as when additional services are added to an IPE;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program is in the process of deploying the Arizona Management System, which includes an evaluation of the current process and the creation of a more efficient and effective "future process". In the future process, the Program will incorporate the routine evaluation of comparable benefits. In the meantime, the Program will create communication materials and a brief training to ensure consistent review of comparable benefits.

**Recommendation 1.6c:** Develop and implement a policy within the VR manual requiring counselors to use the Department's template and/or continue its efforts to develop a new method to document the search for, and outcome of, comparable benefits;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program agrees with the recommendation and will amend the VR manual to require documentation of the search for and outcome of comparable benefits. Additionally the Program will continue to explore new methods to document the search for and outcome of comparable benefits.

**Recommendation 1.6d:** Modify the template and/or develop the new method to capture the specific information regarding comparable benefits, such as what was done to search for comparable benefits along with any justification for not using such benefits;

<u>Department Response:</u> The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Documentation regarding the search for comparable benefits and justification for not using such benefits is currently required. The Program will utilize training, communication, and case reviews to ensure consistent application of this standard.

**Recommendation 1.6e:** Develop and implement procedures regarding how to use the template and/or the new method; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

<u>Response explanation:</u> The Program will evaluate the most efficient way to ensure consistent capturing of the relevant information. This may include utilization of a specific template, but also may include other standardized options.

**Recommendation 1.6f:** Include these procedures in the VR manual.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> When a method to capture comparable benefit information is finalized, the Program will ensure that it is appropriately described in the policy manual.

**Recommendation 1.7:** The Department should revise its VR manual on intermediate objectives by including examples and additional guidance, or references to the material covered in its staff training or other guidance documents, including how detailed the intermediate objectives should be written, what they are intended to cover, and the order in which they need to be accomplished.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In order to ensure clarity and conciseness in the policy manual, the Program will develop written guidance and provide a link to the written guidance directly in the manual. We recognize the importance of the information and will utilize a central location where all staff can access guidance materials.

**Recommendation 1.8:** To help better monitor its costs, the Department should develop and implement additional guidance in the VR manual for educational and vocational training by:

**Recommendation 1.8a:** Requiring supervisory approval for clients pursuing educational or vocational training:

<u>Department Response:</u> The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

<u>Response explanation:</u> The Program agrees with the recommendation and, as described previously, is in the process of implementing review thresholds where appropriate including those which will address educational or vocational training.

**Recommendation 1.8b:** Enhancing its guidance within the VR manual to define how satisfactory progress in an educational or vocational training program will be determined, such as through a specific grade point average, and require that the client's IPE include the specific ways that the Department will monitor this progress; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program agrees with the recommendation and will enhance the VR manual to define how satisfactory progress in an educational or vocational training program will be determined. This will ensure consistent review of client progress.

**Recommendation 1.8c:** Developing additional policies and procedures surrounding the purchasing of related equipment and supplies, such as leasing equipment or purchasing used textbooks.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Per federal regulation, the Program is required to provide each client with the tools necessary to increase the probability of success. Occasionally, books and tools are believed to be necessary initially, but are ultimately deemed unnecessary. The Program will develop additional policies and procedures surrounding the purchasing of related equipment and supplies, such as leasing equipment or purchasing used textbooks in order to minimize the incidences of this issue.

**Recommendation 1.9:** To help ensure counselors and supervisors are trained, the Department should continue to revise its training and develop and implement additional staff training by:

**Recommendation 1.9a:** Developing and implementing supervisory training that focuses on the supervisors' role in helping staff meet program requirements and covers any monitoring changes made to the Department's policies and procedures resulting from this audit, such as reviewing and using its management reports to actively monitor case cost and length of time in the Program;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program recognizes the need to continue to develop and strengthen the skills of front-line supervisors. The Program will work with the Department's Office of Professional Development to develop and implement supervisory training that focuses on the supervisors' role in helping staff meet program requirements and covers any monitoring changes made to the Department's policies and procedures resulting from this audit.

**Recommendation 1.9b:** Continuing its efforts to revise its remaining ten initial staff training core classes:

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The Program agrees with the recommendation and will continue to work with the Office of Professional Development to revise its remaining ten initial staff training core classes.

**Recommendation 1.9c:** Developing additional trainings to cover any changes made to the Department's policies and procedures or oversight processes resulting from this audit; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program agrees with the recommendation and will continue to work with the Office of Professional Development to develop additional trainings to cover any changes made to the Department's policies and procedures or oversight processes regardless of the reason for the change. As described previously, the Program will also incorporate many of the performance audit concepts into the Programs reference document for VR staff.

**Recommendation 1.9d:** Ensuring that all staff are provided with these trainings.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Program agrees with the recommendation and will continue to work with the Office of Professional Development to ensure that all staff are provided with these trainings.





Douglas A. Ducey Governor Henry Darwin
Interim Director

FEB 0 9 2017

Ms. Debra K. Davenport, Auditor General Office of the Auditor General 2910 North 44<sup>th</sup> Street, Suite 410 Phoenix, Arizona 85018

Ms. Davenport:

The Arizona Department of Economic Security appreciates the opportunity to provide a response to the Child Care Administration Sunset Audit conducted by your office that was received on February 3, 2017. The Department is committed to continuous quality improvement, transparency, and accountability.

Attached is the Department's responses to your findings and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Henry Darwin
Interim Director

Enclosure: ADES Child Care Administration's response

# Finding 1: Department should strengthen its child care monitoring

**Recommendation 1.1:** The Department should implement a differential monitoring approach to more effectively and efficiently monitor its providers. This will require that the Department:

**Recommendation 1.1a:** Explore the various approaches to differential monitoring and select the best approach for Arizona certified child care providers;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES concurs with the Auditor General recommendation. ADES has begun exploring various approaches to differential monitoring. ADES will research and contact other states to learn about various approaches and experiences regarding differential monitoring.

**Recommendation 1.1b:** Determine the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration as a result of the differential monitoring approach;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once ADES determines the best differential monitoring approach for the State of Arizona, ADES will determine the necessary procedures for implementing the differential monitoring approach selected. The new approach will create efficiencies and great effectiveness in monitoring and enforcement to allow certification staff to spend more time with providers who display a need for more technical assistance and program support.

**Recommendation 1.1c:** Modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund state plan to reflect the differential monitoring approach;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation</u>: Once the differential monitoring approach for certified homes has been determined, ADES will modify regulation and documents including the Child Care Development Fund state plan for Arizona, administrative rule and policies to reflect the new monitoring approach and procedures.

**Recommendation 1.1d:** Train all inspectors on the differential monitoring approach and guidance documents; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will train all inspectors on the revised monitoring approach as well as any new materials. All guidance materials including desk aids, training materials, and documents will also be revised to reflect the new approach.

**Recommendation 1.1e:** Establish a process for assessing its differential monitoring approach and making adjustments as needed, including, at a minimum, assessment frequency, areas to assess, and how to make adjustments.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will establish a process for assessing the differential monitoring approach and make adjustments as needed. ADES has revised AzCCATS to track compliance data, monitoring results, and timeliness of visits. Once the new process is established, metrics will be pulled to determine the success of the new monitoring approach in all areas. ADES will monitor trends and implement adjustments as needed on an ongoing basis.

**Recommendation 1.2:** The Department should develop and implement a structured training program to help ensure new inspectors receive adequate and consistent training that includes:

**Recommendation 1.2a:** A structured curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has submitted a request to the Office of Professional Development to develop structured training. This training will include a structured curriculum covering child care policies, regulations, procedures and standards. The training will include face to face, independent study, computer, shadowing, and mentoring. The training will also include timelines of expectations which an inspector will need to meet.

**Recommendation 1.2b:** Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed, and time frames for completing the training content;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure written training plans are created with all new inspectors. The training plans include specific instructional areas, activities, tasks and exercises to be performed, and time frames for completion of all training content

**Recommendation 1.2c:** A requirement that a supervisor or an experienced inspector assess and verify the new inspector's competency through observing the new inspector's completion of required training tasks/exercises and signing and dating the training plan confirming they have been completed; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will require a supervisor and/or mentor to work closely with new inspectors ensuring a clear understanding of the expectations. The supervisor and/or mentor will observe the completion of the required training and tasks as well as observe site visits conducted by the new inspector. The plan will be signed and dated by the inspector and the supervisor and/or mentor after the tasks, visits, and training are completed.

**Recommendation 1.2d:** A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The supervisor will be responsible to track the status of the inspector's progress and completion of the initial inspector training as well as any other required training.

**Recommendation 1.3:** The Department should enhance its rules and policies manual to help ensure inspectors perform inspections consistently by:

**Recommendation 1.3a:** Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they reflect current regulations and practices;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its rules and policies manual as well as create desk aids to ensure inspectors perform inspections consistently. ADES will also establish and implement a schedule for routinely reviewing and revising its policies to ensure they reflect current regulations and procedures.

**Recommendation 1.3b:** Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce rules consistently, such as the rule related to having an operating fire extinguisher; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> ADES will ensure that adequate guidance, direction, and tools are developed to assist in ensuring that inspectors apply, measure, and enforce rules consistently. Inspectors will periodically shadow one another to also help ensure standard and consistent work.

**Recommendation 1.3c:** Ensuring that all inspectors are aware of any revisions made to its rules and policies manual.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure that all inspectors are aware of any revisions made to its rules and policies manual through written notifications, meetings and huddles.

**Recommendation 1.4:** The Department should revise its inspection case-read process to help improve its oversight of inspector performance by reviewing a sample of inspections for each inspector that includes all inspection types and considers the inspector's experience.

<u>Department Response</u>: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES is in the process of determining the best case-read process to help improve its oversight of inspector performance. The new case-read process will include reviewing a sample of inspections for each inspector, all inspection types and will consider the inspector's experience. Additionally, ADES will consult with the Federal Program Manager to ensure compliance of the new case-read process.

**Recommendation 1.5:** The Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has developed guidance and procedures and will develop policies for how and when staff should enter data and for when supervisors should ensure its reliability. Additionally, metrics are pulled from AzCCATS to reflect the timeliness in which data is updated in the system. A metric report is provided to supervisors weekly to ensure data is entered timely.

**Recommendation 1.6:** The Department should develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has updated AzCCATS to reflect compliance findings based on inspections. Reports will be created that provide information and data related to compliance issues discovered by inspectors, as well as the frequency of inspections. ADES will review the data and cases to identify trends. Additionally, joint inspections will be conducted with supervisors or mentors and inspectors to ensure compliance findings are consistent and to identify any areas for improvement. The joint inspections will include inter-rater reliability testing by examining the consistency in how inspectors are identifying violations, taking enforcement actions, and verifying violations are resolved state-wide.

The Department will utilize this information to build consistency among inspectors and inspections state-wide.

**Recommendation 1.7:** The Department should identify and develop management reports to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's childcare processes.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> ADES has updated AzCCATS to better monitor providers as well as staff. Reports reflecting the most common or severe violations cited can be pulled to identify trends and areas for improvement. With this information, trainings or technical assistance can be provided in the identified areas. ADES will continue to seek and develop various reports to improve child care processes and compliance.

# Finding 2: Department should improve its child care provider complaint-handling process

**Recommendation 2.1:** The Department should enhance its complaint intake process to ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints. Specifically, the Department should:

**Recommendation 2.1a:** Include information about its complaint-handling process on its website, such as an overall description of the process;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its complaint intake process and develop a plan to ensure that the public is aware of the complaint handling process. Once the complaint process has been identified, ADES will ensure it is placed on the ADES and CCR&R websites.

**Recommendation 2.1b:** Ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure that the public has a variety of ways to submit a complaint to the Department. This will include an online submission form and specific contact information including email address and phone number.

Recommendation 2.1c: Assign specific staff to receive and process complaints.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once ADES has enhanced the complaint process, ADES will assign specific staff to receive and process any complaints.

**Recommendation 2.2:** The Department should continue its efforts to modify AzCCATS to capture information related to complaints on certified child care providers. Specifically, the Department should:

**Recommendation 2.2a:** Develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the process, and how it should be entered into AzCCATS, by whom, and within what time frames;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement guidance within its complaint-handling policy on the complaint information that will be recorded in AzCCATS. ADES has updated AzCCATS to record complaints

**Recommendation 2.2b:** Ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES is working on developing a means to implement the November 2017 federal requirement that substantiated complaints be electronically available to the public.

Recommendation 2.2c: Ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed, as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will also need to capture dates for specific steps in the process, such as when complaints are received, and to monitor trends, AzCCATS will also need to capture information such as the nature of complaints and whether complaints are substantiated or not.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has updated AzCCATS to reflect findings for complaints. Reports will be created that provide information and data related to the nature of complaint by provider as well as frequency. ADES will review the data and cases to look for trends. Additionally, ADES will implement metrics from AzCCATS to reflect timeliness of complaint response in the system. A metric report is provided to supervisors weekly to ensure complaints are investigated and completed timely.

**Recommendation 2.3:** The Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation that outlines the specific steps that inspectors should perform, such as what documents to review, what items or areas to observe, and whom to interview.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement comprehensive complaint investigation policies and procedures. These will include a written plan on what documents to review, items to observe, whom to interview, and supervisor collaboration.

**Recommendation 2.4:** The Department should develop and implement additional complaint resolution policies and/or guidance in its complaint-handling policy regarding its enforcement options and follow-up activities. Specifically, the Department should:

**Recommendation 2.4a:** Develop and implement, within its complaint-handling policy, a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance the complaint-handling policy to ensure a systematic, fair, and progressively stringent enforcement process is in place.

**Recommendation 2.4b:** Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. ADES will include time frames in these policies and procedures

**Recommendation 2.5:** The Department should strengthen its monitoring of the complaint-handling process by:

**Recommendation 2.5a:** Establishing time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, the Department should also develop and implement policies

and procedures for monitoring compliance with the established complaint-handling time frames;

<u>Department Response</u>: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will establish time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, ADES will also develop and implement policies and procedures for monitoring compliance within the time frames.

**Recommendation 2.5b:** Developing and implementing policies and procedures directing the supervisory review of complaint handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its policies and procedures to include supervisory review of the complaint-handling process as recommended.

**Recommendation 2.5c:** Developing and implementing policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. Additionally, reports reflecting outcomes and trends will be made available and reviewed to identify areas of need for additional training.

**Recommendation 2.6:** The Department should develop and implement training on the complaint-handling process. Specifically, the Department should:

**Recommendation 2.6a:** Develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit.

**Recommendation 2.6b:** Provide this complaint-handling training to all staff who handle complaints directly; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will train all inspectors on the revised complaint-handling policies and procedures as well as any new materials. All guidance materials including desk aids, training materials, and documents will also be revised to reflect the new policies and procedures.

**Recommendation 2.6c:** Provide general training about the overall complaint-handling process to all child care services staff, including how complaints can be filed and an overview of the Department's policies and procedures for handling complaints.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop a curriculum and train all staff within the child care program on the revised complaint-handling process.

**Finding 3**: Department should examine costs and benefits of consolidating child care regulation under one agency

**Recommendation 3.1:** The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions.

<u>Department Response:</u> The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: ADES, other state and federal agencies, and stakeholders are currently, and will continue to, explore various methods and opportunities for aligning and partnering with the different child care provider regulatory agencies and functions throughout the state to better serve the provider and public.

**Recommendation 3.2:** The Department should document the process and results of its analysis to support its conclusions.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will document the process and results of the analysis to support its conclusions.

**Recommendation 3.3:** The Department should share any options to increase the efficiency and/or reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities, including policymakers, as appropriate, regardless of its conclusions regarding consolidation, and document these communications.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will share any options to increase the efficiency and reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities including policymakers regarding consolidation. These communications will be documented.

**Recommendation 3.4:** If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps to move toward consolidation, including:

Recommendation 3.4a: Seeking the necessary approval to proceed with consolidation; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once a decision has been made, if the Department determines that it would be worthwhile to pursue consolidation, ADES will pursue necessary approval to proceed with alignment, partnerships or consolidations by seeking the necessary approval.

**Recommendation 3.4b:** Working with stakeholders and the Legislature to develop and execute an implementation plan.

<u>Department Response</u>: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: If the Department determines that it would be worthwhile to pursue consolidation, ADES will work with stakeholders and the Legislature if needed to develop and execute an implementation plan

**Finding 4**: Department uses child care waiting list when funding is insufficient to meet the needs of all eligible families

**Recommendation 4.1:** The Department should complete its plans to standardize its process for determining when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct this process.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> ADES is currently working to determine a standardized process for determining when and how many children to release from the waiting list, including a schedule for how frequently to conduct this process.

**Recommendation 4.2:** The Department should include its standardized process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once a standardized process is determined, ADES will include it within its policies and procedures to ensure that staff know the steps that should be performed to determine when and how many children to release from the waiting list.





Douglas A. Ducey Governor

Your Partner For A Stronger Arizona

Michael Trailor Director

SEP 1 8 2017

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

Dear Ms. Davenport,

The Arizona Department of Economic Security (ADES) appreciates the opportunity to provide a response to the Performance Audit of the Division of Developmental Disabilities (DDD) conducted by your office that was received on September 6, 2017. The Department is committed to continuous quality, improvement, transparency, and accountability.

Enclosed is the Department's response to your findings and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Michael Trailor Director

Enclosures: ADES/DDD Performance Audit

**Finding 1**: Division should establish minimum qualifications for contractors that train and monitor developmental home licensees

**Recommendation 1.1:** The Division should establish minimum qualification and annual training requirements to help ensure monitoring agency applicants and, as applicable, their staff are and remain qualified to fulfill their responsibilities. Specifically, the Division should establish and coordinate a work group to develop minimum qualification and annual training requirements for monitoring agency applicants and staff. The Division's work group should:

**Recommendation 1.1a:** Include personnel from the Division's contracting, licensing, and quality assurance units as well as representatives from various external stakeholder groups, such as representative(s) from the Division's member population, guardian/family members, monitoring agency staff, and child and adult developmental home licensees;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division agrees and will establish minimum qualifications and standards for monitoring agencies to standardize the qualified workforce to support members in developmental homes. A work group including stakeholders will be chartered to address these recommendations.

**Recommendation 1.1b:** Study and identify effective minimum initial qualifications, such as specific education and/or experience requirements for monitoring agency applicants and staff; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division agrees that minimum qualifications for monitoring agency staff should be established in effort to standardize the qualified workforce to support members in developmental homes. The workgroup will study and identify effective minimum qualifications for monitoring agency applicants and staff. The group members will share ideas from their own work experience or education in the field of developmental disabilities. The workgroup will also research current trends and best practices incorporated by other social service entities both within Arizona and in other states.

**Recommendation 1.1c:** Study and identify annual training requirements for monitoring agency staff.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In order to ensure best practices for service delivery to Division members, the workgroup will identify effective annual training requirements for monitoring agency staff. The workgroup members will share ideas from their own work or education in the field of developmental disabilities. The workgroup will also research current trends and best practices incorporated by other social service entities both within Arizona and in other states.

**Recommendation 1.2:** After the work group has identified minimum qualification and annual training requirements for monitoring agency applicants and their staff, to help ensure monitoring agencies are aware of and meet these requirements, the Division should develop and implement a policy that incorporates these new requirements.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once the workgroup has identified minimum qualification and training requirements for monitoring agency staff, the DDD provider manual will be updated to reflect the requirements.

**Recommendation 1.3:** The Division should revise its qualified vendor agreement documentation to reflect its policy and ensure that monitoring agency applicants and their staff meet these requirements.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> Once the workgroup has identified effective qualification and training requirement for monitoring agency staff, the qualified vendor agreement will be updated to reflect the requirements.

**Finding 2**: Division lacks process for overseeing its contractors that train and monitor developmental home licensees

**Recommendation 2.1:** The Division should take several steps to establish a process for overseeing its contracted monitoring agencies. Specifically, the Division should:

**Recommendation 2.1a:** Develop and implement a policy that clearly defines monitoring agency roles, responsibilities, and requirements, including the requirements for conducting the "annual home visit" and the "monitoring visits";

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The provider manual will be updated to clearly define the roles and responsibilities of the monitoring agency. It will clarify ongoing monitoring, the role of the monitoring agency in the pre-licensure process, member placement, investigations, and all other aspects of the licensing process.

**Recommendation 2.1b:** Specify in its policy the type of records monitoring agencies must maintain to document their activities:

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division has assembled a partial listing of documents that monitoring agencies should maintain to ensure licensing compliance; it will finalize this

list of documents. Currently, when agencies submit a license application, they also submit an "Agency Statement of Acknowledgement" which affirms that the agency has specified documentation on file. While agencies cooperate with the Division in this process, it will be more clearly defined through the use of the provider manual or in policy.

**Recommendation 2.1c:** Ensure that the responsibilities and requirements established in its policy are incorporated in its qualified vendor agreement; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> Once the policies associated with developmental home monitoring are clarified, the qualified vendor agreement will be updated.

**Recommendation 2.1d:** Ensure that the responsibilities and requirements specified in the various qualified vendor agreement documents are internally consistent and reflect actual practice where appropriate.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division will continue to review to ensure that the responsibilities and requirements specified in the various qualified vendor agreement documents are internally consistent and reflect actual practice where appropriate.

**Recommendation 2.2:** To assist monitoring agencies in performing their responsibilities, the Division should:

**Recommendation 2.2a:** Develop and provide standardized guidance, including a checklist that would help facilitate a standard and consistent approach for the required home visits; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division will either develop a standardized monitoring tool to be used by all developmental home monitoring agencies or establish a checklist for monitoring agencies to use to develop their own monitoring tool for home visits.

**Recommendation 2.2b:** Develop and/or provide additional guidance for monitoring agencies to help ensure they submit more complete information for the home study in an effort to reduce division requests for additional information.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division currently provides technical support seminars several times per year on the home study process. The Division will continue to schedule these seminars and in addition will revise existing technical assistance documents to provide additional guidance on the required components of a home study. Additionally, new licensing workers, who request Quick Connect access, will be tracked to monitor

volume of new licensing workers and establish timelines for each completing this seminar. Additional ad hoc technical assistance meetings will be scheduled for agencies with higher add rates of new licensing workers.

**Recommendation 2.3:** The Division should enhance the guidance and/or resources it provides to monitoring agencies to help ensure they provide appropriate training to licensees. Specifically, the Division should develop and provide guidance, such as suggested course curricula or outlines of course content, which could include applicable laws/regulations and best practices, for its list of training topics. Additionally, the Division should develop guidance regarding fundamental content that must be covered in specific training topics for licensees and/or provide training materials to assist monitoring agencies to deliver trainings or make referrals to other resources, such as recognized adult learning experts, that could help monitoring agencies develop and deliver effective and appropriate trainings to licensee.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division has already taken steps to implement this recommendation. Developmental home licensing is governed by A.A.C. R6-6-1001 et. seq and R6-6-1101 et. seq. Both are currently under revision. The new proposed rules contain a more specific list of training topics for licensees. The Division will provide written guidance regarding the specific content that must be covered within each topic. All Qualified Vendors are required to have training resources either internally or externally for all required training.

**Recommendation 2.4:** The Division should develop and implement policies and procedures to guide and direct its staff in conducting oversight activities of its contracted monitoring agencies. These policies and procedures should:

Recommendation 2.4a: Identify the various oversight activities division staff should perform and how these activities should be performed. Oversight activities should include conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting supporting documentation, which may include electronic signatures/acknowledgements, to verify information monitoring agencies enter into the Division's database. The Division should also review monitoring agency supporting documentation for home visits to help ensure these visits were completed in accordance with rule and qualified vendor agreement requirements. For example, once the Division clearly defines the requirements of the "annual home visit" and the "monitoring visits" in the qualified vendor agreement, it should ensure that monitoring agencies meet these requirements by either conducting onsite visits, reviewing monitoring agencies' hardcopy files, and/or requesting and reviewing supporting documentation. In addition, the Division should review a sample of monitoring agency documentation for trainings provided to licensees to help ensure the training is appropriate given the needs of the licensees and the members;

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Division will establish monitoring procedures and allocate monitoring staff for the oversight of the developmental home vendor agencies. Monitoring staff will conduct site visits at regular intervals. Site visits will include reviews

of copy licensing files (hard copy or digital) and monitoring reports from the agency monitoring visits.

Recommendation 2.4b: Direct how information in the division database should be reported and used, including the development of management reports. Specifically, the Division should require its monitoring agencies to enter information into the database fields in such a way as to facilitate the Division's ability to generate timely, accurate, and useful reports of monitoring agencies' activities. The Division should then develop and generate management reports that provide information on monitoring agency activities, such as whether monitoring agencies are timely in completing unannounced home visits, whether home visits are conducted with an appropriate frequency during the license renewal year, and whether licensee training is completed in a timely manner. Finally, the Division should ensure that its policies and procedures include the requirement and process for generating and reviewing these reports; and

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The current licensing database does not have the ability to generate reports on either the timeliness or the quality of monitoring visits. Quick Connect is a licensing database that was created around 2006 and is shared with Department of Child Safety (DCS). The Division may consider replacing Quick Connect in the future. In the interim, DES will work with DCS to request an enhancement to Quick Connect to develop monitoring reports.

Recommendation 2.4c: Require the use of corrective action plans or other appropriate enforcement actions when the Division identifies deficiencies in monitoring agencies' activities. For example, when the Division discovers instances of poor performance among its contracted monitoring agencies, it should require that monitoring agencies develop and implement corrective action plans that would identify how the monitoring agency plans to correct deficiencies, timelines for correction, and any potential training needs. In addition, the Division's policies and procedures should ensure that monitoring agencies respond in a timely manner to a division request for corrective action. For example, the policies and procedures should direct division staff to conduct onsite visits to verify corrective action, or require monitoring agencies to provide progress reports by established time frames. In addition to using corrective action plans, the Division should require the use of other appropriate enforcement actions. These might include implementing a probationary period with increased division supervision or canceling qualified vendor agreements with monitoring agencies that continually fail to adequately complete their required responsibilities after other available remedies were not successful.

<u>Department Response:</u> The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

<u>Response explanation:</u> The Division will expand its use of corrective action plans and other enforcement actions to ensure compliance with corrections of deficiencies and will outline vendor requirements in policy, the provider manual, and/ or in the qualified vendor agreement.





Douglas A. Ducey Governor Your Partner For A Stronger Arizona

Michael Trailor Director

AUG 28 2017

Mr. Rick Hazelton Arizona House of Representatives Research Staff 1700 West Washington Street Phoenix, Arizona 85007

Dear Mr. Hazelton,

Thank you for the opportunity to participate in the sunset review process. Pursuant to A.R.S. § 41-2954 F, the Arizona Department of Economic Security has prepared the enclosed response addressing the five questions identified in the May 30, 2017, letter from the Honorable Heather Carter, Chair, House Health Committee of Reference. The Department looks forward to providing testimony to the committee.

If you have any questions, please contact Kathy Ber, Director of Legislative Services at (602) 542-4669.

Sincerely,

Michael Trailor

Director

Enclosure: Sunset Audit Request Response

cc: Representative Heather Carter, Chairman, House Health Committee of Reference Senator Nancy Barto, Chairman, Health and Human Services Committee of Reference Emily Mercado, Analyst, Senate Health and Human Services

# Arizona Department of Economic Security Additional Information for Sunset Review A.R.S. § 41-2954 F

# 1. An identification of the problem or the needs that the agency is intended to address.

The Arizona Department of Economic Security (the Department or ADES) is an integrated human services agency that provides critical protective and assistance services to Arizona's children, adults, and families. It was created to address the need for improved coordination of economic opportunities and the delivery of human services. The Department, through the over 40 programs it administers, serves 2.9 million Arizonans. The Department addresses the social and economic issues of abuse and neglect of vulnerable adults; homelessness; lack of basic subsistence and income as a result of poverty and unemployment; and avoiding institutionalization and retaining maximum independence for individuals with physical and developmental disabilities as well as the elderly.

The Arizona State Legislature established ADES in 1972 by consolidating the authority, power, and duties of five separate state agencies, followed by a sixth in 1974 (A.R.S. § 41-1954). The intent of the 1972 legislation and subsequent amendments was to provide an integrated approach to human services.

The Department is authorized to provide a broad range of human service programs such as social service programs for adults, children, and families; income maintenance services, including child support collection services and services to needy families with children; unemployment compensation; rehabilitation services; workforce training; and services for individuals with developmental disabilities.

On May 29, 2014, the Arizona State Legislature established the Department of Child Safety (DCS) separate from ADES, to provide greater visibility, transparency, and oversight for the state's child welfare function.

The Department is a fully committed participant in the Arizona Management System (AMS), a professional, results-driven management system that focuses on customer value and vital mission outcomes for citizens. The system is based on Lean principles, a proven people-centered approach that has delivered effective results in both public and private sectors. Lean focuses on customer value, continuous improvement and engaged employees to improve productivity, quality, and service.

2. A statement, to the extent practicable, in quantitative and qualitative terms, of the objectives of such agency and its anticipated accomplishments.

The Department's True North pathway is to ensure that all Arizonans who qualify receive timely ADES services and achieve their potential. Each Division, using the principles and tools of AMS, has gone through an iterative process to identify multi-year goals that represent significant improvement in human service delivery.

The goals are designed to ensure the ability of the Department to maximize efficiencies in its operations while continuing to serve Arizonans with integrity, humility, and kindness through its programs that provide essential services. These programs:

- Connect Arizonans to needed health, nutrition, and financial services;
  - o Anticipated Fiscal Year 2018 Accomplishments
    - Provide nutrition assistance to over 980,000 individuals.
    - Assist 8,900 Temporary Assistance for Needy Families (TANF) Cash Assistance eligible families avoid long-term dependence on financial assistance by diverting them to the three month Grant Diversion program.
- Empower Arizonans with developmental disabilities to live self-directed, healthy, meaningful lives;
  - Anticipated Fiscal Year 2018 Accomplishments
    - Continue to rank as the "Best Performing" state in the nation when it comes to key outcomes for citizens with intellectual and developmental disabilities.
    - Continue to provide services to nearly 12,000 of the 800,000 caregivers who assist elderly and disabled persons to allow them to retain independence by remaining safely in their own homes.
    - Coordinate delivery of intervention support services to more than 6,400 children under the age of four years who have disabilities or developmental delays.
    - Provide acute, long-term care and behavioral health services to over 37,500 individuals with developmental disabilities through the Title XIX and the State Only programs.
- Provide timely child support services that are in the best interest of the child;
  - Anticipated Fiscal Year 2018 Accomplishments
    - Increase child support collections to over \$702 million.
    - Establish paternity for 30,000 Arizona children through the Hospital Paternity Program and in collaboration with the Arizona Department of Health Services.
- Ensure Arizonans have access to systems of support that enable them to live safely, independently, and with dignity and self-determination;
  - Anticipated Fiscal Year 2018 Accomplishments

- Provide emergency shelter services to 7,500 homeless individuals.
- Provide safe refuge for over 7,500 survivors of domestic violence.
- Investigate 100 percent of potential adult abuse reports.
- Continue to provide one-on-one case management to over 2,500 homeless and at-risk veterans through Arizona StandDown events.
- Through community contracts, provide support to more than 60,000 eligible families to assist them to meet home energy costs.
- Drive economic opportunity by connecting job seekers and employers in meaningful employment, bridging and minimizing employment gaps, and promoting family success today and into the future.
  - Anticipated Fiscal Year 2018 Accomplishments
    - Assist over 4,000 TANF Cash Assistance recipients to obtain employment.
    - Assist 1,800 persons with significant disabilities gain competitive employment.
    - Enable the parents of over 25,000 children to obtain or maintain employment by providing child care support.

The Department continues its emphasis on efficiency in the delivery of its services. This effort is illustrated in two areas of customer service delivery improvement. First, the Department makes many of its services available to Arizonans online. Clients may apply for SNAP, TANF Cash Assistance, as well as Unemployment Insurance services through its online applications. Once approved for services, clients may check the status of their case, their benefit balance and read notices and updates from their case manager via existing online web sites. Clients may also use an Interactive Voice Response (IVR) system to access information about their assistance and child support cases. These Internet and telephonic based applications provide Arizonans 24 hour access to Department services.

Secondly, the Department has, through the use of multiservice center offices, enabled clients to conduct business with multiple Department program areas in a single office visit. The Department now has more than 70 multiservice offices throughout the state providing an array of services.

3. An identification of any agencies having similar, conflicting, or duplicate objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.

The Department coordinates its program planning with many other governmental entities at the local, state, and national level as well as with the various Native American tribes located in Arizona. This coordination assures there is no duplication of effort in service

delivery and that limited resources are used in the most efficient and effective manner to deliver critical services to the families it serves.

- The Department, through an Intergovernmental Agreement (IGA) with the Arizona Health Care Cost Containment System (AHCCCS) Administration, performs eligibility determinations for over 1.6 million acute care Medicaid recipients.
- The Department's Division of Developmental Disabilities coordinates with the AHCCS Administration to provide long-term care services to over 28,350 persons.
- The Department is an active partner in Arizona's workforce system, which operates under the brand ARIZONA@WORK, launched in February 2016. This collaboration encompasses the Workforce Arizona Council, ADES, the Arizona Commerce Authority (ACA), the Arizona Department of Education (ADE), Local Workforce Development Areas (LWDAs), as well as their respective Local Workforce Development Boards (LWDBs), comprehensive Job Centers, satellite offices, affiliate sites and an array of workforce partners. ARIZONA@WORK was created to increase public awareness and to break down silos among the various workforce partners.
- The Department works with the Arizona Coalition to End Sexual and Domestic Violence, contracted community based organizations, and other state agencies to coordinate services to survivors of domestic violence. State agencies include the Arizona Department of Health Services, the Governor's Office on Youth, Faith, and Families, the Arizona Department of Public Safety Victim Crime Services Unit, and the Arizona Criminal Justice Commission. The Department administers funding to contract services to victims and their families. These services include mobile and community based advocacy, housing interventions and shelter, as well as personal advocacy, case management, legal advocacy, and other supportive services such as transportation, referrals to community programs and a crisis hotline.

# 4. An assessment of the consequences of eliminating the agency or of consolidating it with another agency.

Terminating the Department would significantly harm the public health, safety, and welfare of Arizonans. The Department provides critical assistance services to Arizona's most vulnerable residents, including persons with disabilities, the elderly, and those facing life-changing challenges such as domestic violence, homelessness, and unemployment. Without the services provided by the Department, either directly or through its approximately 5,400 contracts with community organizations, governmental agencies, Tribal governments, and other community partners, these persons would be at risk of physical and emotional harm. They would also lose their ability to contribute to the state's overall well-being.

The Department provides an overarching umbrella of critical supportive human services. It is responsible for providing employment, training, and rehabilitation services, which are designed to assist persons to qualify for and find employment. It provides supportive services to assist those moving toward employment such as Unemployment Insurance, child care services, financial support through TANF Cash Assistance and SNAP, and medical assistance eligibility determinations. The Department provides child support services that assist families move to or retain financial stability and independence. The Department also provides critical assistance to individuals, and their families, with physical, intellectual, and emotional disabilities. Many times these services enable individuals to live independently and avoid institutionalization. Finally, the Department provides services that result in a direct positive impact on the safety of vulnerable adults and families such as adult protective service investigations and services to the homeless and those threatened by domestic violence.

The Department was formed by combining several existing state human service agencies into a single comprehensive agency. Because of the existing structure of the Department, it can provide a menu of services to vulnerable individuals and families, increasing the overall impact of these services. It can also leverage the flexibility in federal and state funds to deliver the array of its services in the most effective and efficient manner possible.

5. The extent to which the agency potentially creates unexpected negative consequences that might require additional review by the committee of reference, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently, and increasing the cost of government.

The Department makes every effort to mitigate situations that create negative consequences. Currently, the Department has two programs that maintain client waiting lists due to limited funding availability. As of July 13, 2017, the Child Care program has a waiting list of almost 3,300 families. These families are in the low income working category and need child care services in order to maintain their employment. The Vocational Rehabilitation program has a waiting list of nearly 2,775 as of July 2017, due to insufficient state matching funds to maximize its federal grant funding. As a result of these waiting lists, families who could benefit from Department-administered safety net services are unable to receive them. This situation places the persons at risk of losing current or potential employment opportunities and reduces the opportunity to become or remain self-sufficient.

# ARIZONA STATE LEGISLATURE

# INTERIM MEETING NOTICE OPEN TO THE PUBLIC

SENATE HEALTH AND HUMAN SERVICES AND HOUSE HEALTH COMMITTEE OF
REFERENCE FOR THE SUNSET REVIEW OF THE:
ARIZONA ACUPUNCTURE BOARD OF EXAMINERS
ARIZONA DEPARTMENT OF ECONOMIC SECURITY
ARIZONA REGULATORY BOARD OF PHYSICIAN ASSISTANTS
ARIZONA BOARD OF OCCUPATIONAL THERAPY EXAMINERS

Date: Monday, November 27, 2017

Time: 10:00 A.M.

Place: HHR 1

#### **AGENDA**

- 1. Call to Order
- 2. Sunset Review of the State of Arizona Acupuncture Board of Examiners
  - Presentation by the Office of the Auditor General
  - Response by the State of Arizona Acupuncture Board of Examiners
  - Public Testimony
  - Discussion
  - Recommendation by the Committee of Reference
- 3. Sunset Review of the Arizona Department of Economic Security
  - Presentation by the Office of the Auditor General
    - a) Child Care Services
    - b) Division of Developmental Disabilities
    - c) Information Technology
    - d) Vocational Rehabilitation Service Program
  - Response by the Arizona Department of Economic Security
  - Public Testimony
  - Discussion
  - · Recommendation by the Committee of Reference
- 4. Sunset Review of the Arizona Regulatory Board of Physician Assistants
  - Response by the Arizona Regulatory Board of Physician Assistants
  - Public Testimony
  - Discussion
  - Recommendation by the Committee of Reference

- 5. Sunset Review of the Arizona Board of Occupational Therapy Examiners
  - Response by the Arizona Board of Occupational Therapy Examiners
  - Public Testimony
  - Discussion
  - Recommendation by the Committee of Reference
- 6. Adjourn

#### Members:

Senator Nancy Barto, Co-Chair Senator David Bradley Senator Katie Hobbs Senator Debbie Lesko Senator Steve Montenegro Representative Heather Carter, Co-Chair Representative Regina Cobb Representative Jay Lawrence Representative Tony Navarrete Representative Pamela Powers Hannley

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#### ARIZONA STATE LEGISLATURE

SENATE HEALTH AND HUMAN SERVICES AND HOUSE HEALTH COMMITTEE OF REFERENCE FOR THE SUNSET REVIEW OF THE:

ARIZONA ACUPUNCTURE BOARD OF EXAMINERS
ARIZONA DEPARTMENT OF ECONOMIC SECURITY

ARIZONA REGULATORY BOARD OF PHYSICIAN ASSISTANTS
ARIZONA BOARD OF OCCUPATIONAL THERAPY EXAMINERS

Minutes of the Meeting November 27, 2017 10:00 a.m., House Hearing Room 1

#### **Members Present:**

Senator Nancy Barto, Co-Chair Senator David Bradley Senator Katie Hobbs Senator Debbie Lesko Senator Steve Montenegro Representative Heather Carter, Co-Chair Representative Jay Lawrence Representative Tony Navarrete Representative Pamela Powers Hannley

## **Members Excused:**

Representative Regina Cobb

#### Staff:

Rick Hazelton, House Research Analyst Jessica Newland, Senate Research Assistant Analyst

Co-Chair Carter called the meeting to order at 10:09 a.m. and attendance was noted. Representative Carter made statements regarding the content and order of the meeting.

# SUNSET REVIEW OF THE STATE OF ARIZONA ACUPUNCTURE BOARD OF EXAMINERS

#### **Presentation by the Office of the Auditor General**

Katie Grzybowski, Office of the Auditor General (OAG), distributed and explained a PowerPoint entitled "State of Arizona Acupuncture Board of Examiners" (Attachment A). Ms. Grzybowski gave an overview of the State of Arizona Acupuncture Board of Examiners. Ms. Grzybowski explained the Board's response to the audit and answered questions posed by the Committee.

#### Response by the State of Arizona Acupuncture Board of Examiners

Mario Fontes, Secretary, State of Arizona Acupuncture Board of Examiners, stated that the Board has been without a full-time Executive Director, but thanked the OAG for making their findings and working with them to address them.

Pete Gonzalez, previous Executive Director and current Acting Director, State of Arizona Acupuncture Board of Examiners, explained that he retired but was asked to return temporarily when the position was vacated. Mr. Gonzalez explained that a plan of action has been decided upon but due to staffing changes has not been fully enacted. Mr. Gonzalez spoke regarding the OAG findings and the Board's attempt to answer them and answered questions posed by the Committee.

- Mr. Fontes answered questions posed by the Committee.
- Mr. Gonzalez answered additional questions posed by the Committee.
- Ms. Grzybowski answered additional questions posed by the Committee.

#### **Public Testimony**

Catherine Niemiec, President/Founder, Arizona Institute of Herbal Medicine & Acupuncture, testified in support of the State of Arizona Acupuncture Board of Examiners and the need for its continuation. Ms. Niemiec answered questions posed by the Committee.

- Mr. Gonzalez answered additional questions posed by the Committee.
- Ms. Grzybowski answered additional questions posed by the Committee.
- Mr. Gonzalez answered additional questions posed by the Committee.

#### **Discussion**

The Committee members discussed what motion they want to move forward.

#### **Recommendation by the Committee of Reference**

Senator Barto moved the Arizona Acupuncture Board of Examiners be continued for one year and that the Board continue to address the concerns related to the Auditor General recommendation implementation, a follow up report shall be submitted by the Board to the Auditor General and to the Standing Health Committees by March 1, 2018. The report shall document the progress of implementing the Auditor General recommendations. The motion CARRIED by voice vote.

#### SUNSET REVIEW OF THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Representative Carter made remarks regarding the order of presentations for the Arizona Department of Economic Security (DES).

#### **Presentation by the Office of the Auditor General**

Stephanie Grosvenor, Office of the Auditor General (OAG), distributed and explained a PowerPoint presentation entitled "Department of Economic Security" (Attachment B) and gave an overview of DES.

## Response by the Arizona Department of Economic Security

Mike Trailor, Executive Director, DES, gave an overview of his work experience, DES and the management system he is implementing at DES. Mr. Trailor answered questions posed by the Committee.

**Dale Chapman. OAG.** gave an overview of risk assessments and how they decide what is chosen to be audited. Mr. Chapman answered questions posed by the Committee.

Representative Carter made statements regarding audits and the aging and adult services.

# a) Child Care Services

Ms. Grosvenor gave an overview of the audit on Child Care Services continuing to reference Attachment B. Ms. Grosvenor answered questions posed by the Committee.

# Response by the Arizona Department of Economic Security

Mr. Trailor answered additional questions posed by the Committee.

Michael Wisehart, Assistant Director, Division of Employment & Rehabilitation **Services, DES,** explained the screening program for those wishing to become a childcare provider. Mr. Wisehart spoke regarding audits and reviews and answered questions posed by the Committee.

#### **Public Testimony**

Erin Raden, Arizona Early Childhood Education Association, testified in support of the continuation of DES.

#### b) Division of Developmental Disabilities

Brian Miele, OAG, gave an overview of the audit of the Division of Developmental Disabilitites (DDD) referencing Attachment B.

# Response by the Arizona Department of Economic Security

Mr. Trailor responded to the Committee regarding the OAG audit of the DDD.

**Maureen Casey, Assistant Director, DDD, DES,** testified regarding the OAG audit of the DDD. Ms. Casey answered questions posed by the Committee.

Mr. Trailor answered additional questions posed by the Committee.

Ms. Casey answered additional questions posed by the Committee.

## **Public Testimony**

**Karen Van Epps, representing herself,** testified regarding outside monitoring, human rights committees and conditions in group homes.

Linda Mecham, District Central Human Rights Committee (HRC), gave an overview of the HRC and testified regarding complaints of not receiving a resolution and the need for the DDD to continue.

**Jon Meyers, Executive Director, The Arc of Arizona**, gave an overview of The Arc of Arizona and testified regarding homes for adults and providers conflicts of interest.

Ms. Casey answered additional questions posed by the Committee.

Mr. Trailor answered additional questions posed by the Committee.

Mr. Meyers answered questions posed by the Committee.

#### c) Information Technology

**Brian Miele, OAG,** gave an overview of the OAG audit of Information Technology referencing Attachment B and spoke of the findings and recommendations.

# Response by the Arizona Department of Economic Security

Mr. Trailor introduced Jim Hillyard, Deputy Director, DES.

**Jim Hillyard, Deputy Director for Operations, DES,** gave an overview of the progress being made to address the OAG recommendations and spoke to security practices. Mr. Hillyard answered questions posed by the Committee.

# d) Vocational Rehabilitation Service Program

**Stephanie Grosvenor**, **OAG**, gave an overview of the OAG audit and the Department's response and implementation of recommendations referencing Attachment B.

#### Response by the Arizona Department of Economic Security

Mr. Trailor re-introduced Michael Wisehart, Assistant Director, Division of Employment & Rehabilitation Services, DES.

Mr. Wisehart explained who is helped, how they are helped and that the Division still has much more work to do. Mr. Wisehart answered questions posed by the Committee.

Mr. Trailor made statements regarding his length of time at the agency and his plans moving forward.

#### Recommendation by the Committee of Reference

Senator Barto moved the Committee of Reference recommend to the full Legislature that the Arizona Department of Economic Security be continued for eight years. The motion CARRIED by voice vote.

Representative Carter questioned if the Committee could continue with the meeting in regards to time constraints.

**Debbie Davenport, Arizona Auditor General,** stated that her office did not do reviews so did not have presentations regarding the two remaining Boards on the agenda.

SUNSET REVIEW OF THE ARIZONA REGULATORY BOARD OF PHYSICIAN ASSISTANTS

#### Response by the Arizona Regulatory Board of Physician Assistants

Pat McSorley, Executive Director, Arizona Regulatory Board of Physician Assistants and the Arizona Medical Board, gave an overview of the Arizona Regulatory Board of Physician Assistants. Ms. McSorley answered questions posed by the Committee.

#### **Recommendation by the Committee of Reference**

Senator Barto moved the Committee of Reference recommend to the full Legislature that the Arizona Regulatory Board of Physician Assistants be continued for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE ARIZONA BOARD OF OCCUPATIONAL THERAPY EXAMINERS

#### **Response by the Arizona Board of Occupational Therapy Examiners**

Karen Whiteford, Executive Director, Arizona Board of Occupational Therapy Examiners and the Board of Athletic Training, gave an overview of the Board of

Occupational Therapy Examiners. Ms. Whiteford testified regarding the actions needing improvement and answered questions posed by the Committee.

Representative Carter and Senator Barto made remarks regarding the self-audit system.

#### Recommendation by the Committee of Reference

Senator Barto moved the Committee of Reference recommend to the full Legislature that the Arizona Board of Occupational Therapy Examiners be continued for eight years. The motion CARRIED by voice vote.

Attached is a list noting the individuals who registered their position on the agenda items (Attachment C).

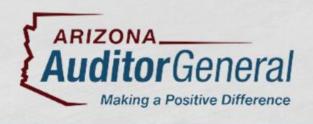
Attached are the forms noting the individuals who submitted a Speaker slip on the agenda items (Attachment D).

There being no further business, the meeting was adjourned at 2:40 p.m.

Respectfully submitted,

Shelley Ponce Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <a href="http://www.azleg.gov">http://www.azleg.gov</a>)





### Department of Economic Security Performance Audits and Sunset Review

Issued January – September 2017

Presenters: Stephanie Grosvenor Brian Miele

Date: November 27, 2017

#### Department background

- Provides a variety of human services
- 5 client service divisions
  - Aging and Adult Services
  - Benefits and Medical Eligibility
  - Child Support Services
  - Developmental Disabilities
  - Employment and Rehabilitation Services
- Served 3 million Arizonans (as of July 2017)



#### Reports



- Division of Developmental Disabilities (17-109)
- Information Technology Security (17-104)
- Vocational Rehabilitation Services Program (17-101)





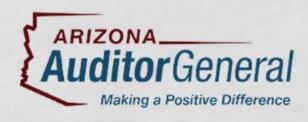
### **Child Care Services**

Presenter: Stephanie Grosvenor

#### **Child Care Services background**

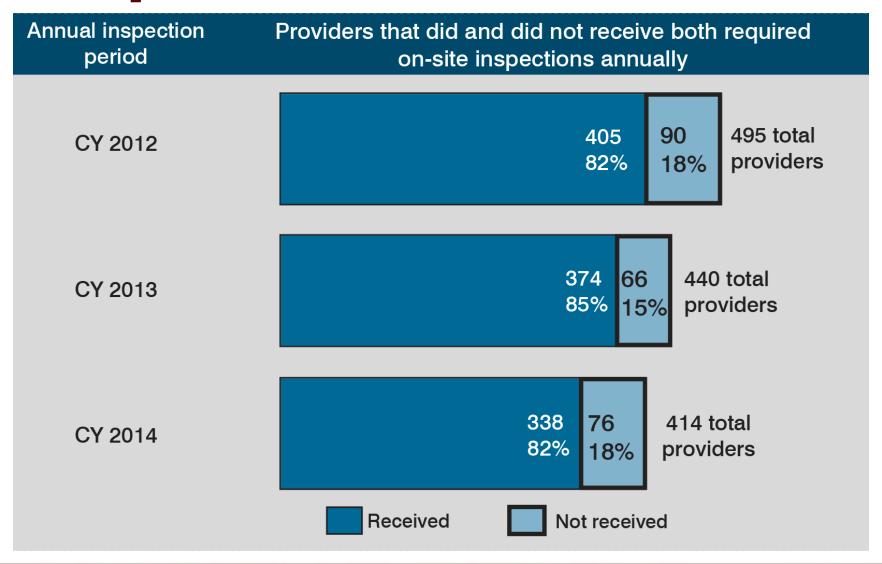
- Providing child care subsidies
  - > 30,000 subsidized children;
  - > 3,500 families on waiting list (September 2016)
- Department regulates
  - Providers who care for up to 4 children
- Department of Health Services regulates
  - Child care centers (nonresidential facilities)
  - Child care group home providers (5 to 10 children)





# Finding 1: Department should strengthen its child care provider monitoring

#### **Missed inspections**





#### Inconsistent inspections

Staff did not consistently assess provider compliance

- Inspections check for compliance with health and safety requirements
  - > Areas are clean and safe
  - >Proper supervision
  - ➤ Current accident/illness/injury logs



### Monitoring recommendations

Implement a differential monitoring approach

Develop a structured training program for inspectors

 Enhance guidance to help inspectors perform duties consistently





# Finding 2: Department should improve child care provider complaint-handling process

### Child care provider complainthandling process inadequate

Had not developed and implemented adequate procedures

 Complaints may not be documented, investigated, and/or resolved



### **Complaint-handling recommendations**

Place information on website about how to file a complaint

Modify data system to capture key complaint information

 Develop and implement policies and procedures for complaint investigations, enforcement, and followup





# Finding 3: Department should examine costs and benefits of consolidating child care regulation under one agency

### Department and Department of Health Services share similar regulatory responsibilities

- Department
  - > Providers caring for 4 or fewer children in their home or child's home
- Department of Health Services
  - > Child care centers
  - ➤ Child care group home providers (5-10 children)
- Similar regulatory responsibilities
  - Provider licensing/certification
  - > Health and safety standards
  - > Inspections



# Consolidation could result in economy and efficiency

- 31 states and the District of Columbia use one agency to regulate
  - >Child care centers
  - >Group home child care providers
  - > Family home child care providers



#### **Consolidation recommendations**

 Work with Department of Health Services and other stakeholders to examine the costs and benefits



#### Implementation status

Department agreed with recommendations

- Initial follow-up report results (November 2017)
  - 7 have been implemented
  - > 26 are in the process of being implemented
  - 4 are not yet applicable
  - 1 has not been implemented





### Questions



# **Division of Developmental Disabilities**

Presenter: Brian Miele

## Division of Developmental Disabilities background

- 38,000 individuals with developmental disabilities (members) as of December 2016
- To qualify, individual must have severe, chronic disability
  - > Attributable to cognitive disability, cerebral palsy, epilepsy, or autism
  - ➤ Manifested before age of 18, and likely to continue
  - > Results in substantial functional limitations in three or more life activity areas
  - > Requires special services that are of lifelong or extended duration



## Division of Developmental Disabilities background

- Most members reside in family's or own home
- 1,460 members live in developmental homes
  - > Home owner licensed by Division to provide room and board
- Division uses contractors to oversee developmental home licensees
  - > Training
  - > Monitoring
  - ➤ Home study





### Finding 1: Division should establish minimum qualifications for contractors

# Basic qualification requirements lacking

No minimum education or experience requirements

No annual training requirements

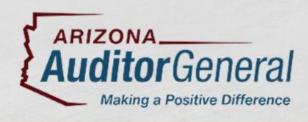
 Without basic qualification requirements, some contractors may have difficulty fulfilling responsibilities



#### **Qualification recommendations**

Develop minimum qualification and annual training requirements for contractors and their staff





### Finding 2: Division lacks process to oversee contractors

#### **Contractor oversight lacking**

- Issues and renews licenses based on contractorprovided information
  - > Does not verify accuracy of information
  - > Does not generate reports to monitor activities
  - > Does not regularly take enforcement action

Lack of oversight may impact members



#### Oversight recommendations

- Clearly define contractors' roles, responsibilities, and requirements
- Develop and implement standardized guidance to assist contractors in fulfilling their responsibilities
- Develop and implement policies and procedures to guide and direct its staff in conducting oversight activities



#### Implementation status

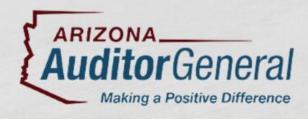


Initial follow-up work starting February 2018





### Questions



# **Information Technology Security**

Presenter: Brian Miele

### IT background

- Large amount of sensitive information:
  - > Names
  - ➤ Social Security numbers
  - > Driver license or state ID numbers
  - ➤ Mailing addresses
- A potential target for malicious attack





# Finding 1: Department should improve security processes and controls over its IT systems and data

#### Gained unauthorized access

 Simulated common attack patterns and exploited security weaknesses

- Ability to:
  - >Control all network user accounts
  - ➤ View, alter, or delete sensitive information

Department informed throughout



### IT Security process recommendations

 Improve vulnerability assessment, system update, and system settings processes

Ensure terminated employees' access is removed quickly

 Incorporate security standards when developing, securing, and testing web-based applications





# Finding 2: Department has not established an information security program

## Department lacked key information security program components

- Had not conducted department-wide IT risk assessment to identify threats, such as:
  - > Weak security practices
  - ➤ Outdated systems
  - > Lack of plans to restore business operations

 Had not established the authority and responsibilities for the program



## Information security program recommendations

- Establish a written plan for developing and implementing a department-wide information security program
- Further define information security program authority, roles, and responsibilities
- Ensure that resources are available to implement program
- Enhance efforts to establish information security policies and procedures, including:
  - > Data classification
  - > Incident response
  - Security awareness education and training

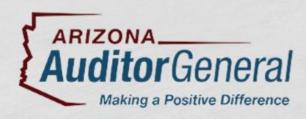


#### Implementation status

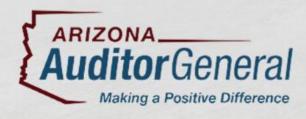


Initial follow-up work in process





### Questions



## Vocational Rehabilitation Services Program

Presenter: Stephanie Grosvenor

## Vocational Rehabilitation Services Program background

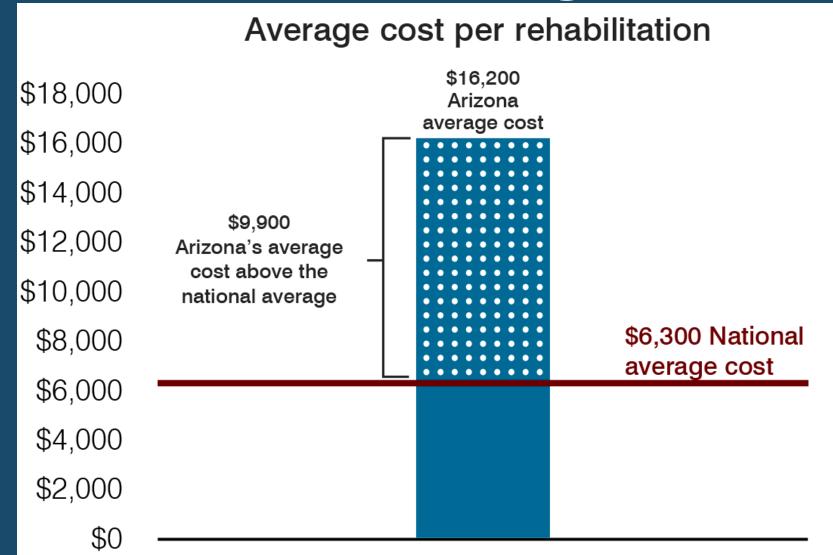
- Program goal: Help clients with significant disabilities obtain competitive, integrated employment
  - > Full- or part-time employment
  - > Same wages, benefits, advancement opportunities, and customer interaction
- Program cost: \$137.9 million (Fiscal Year 2017)
- Source of monies:
  - > 78.7% federal grant monies
  - > States generally cover remaining costs





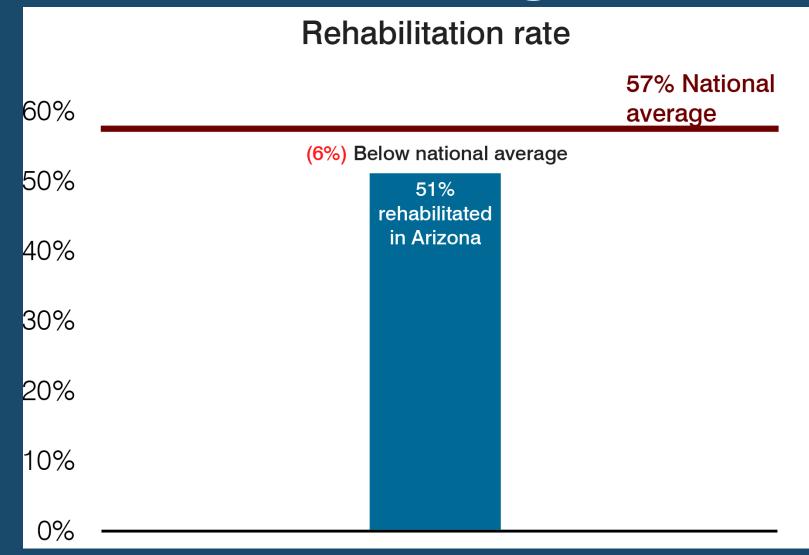
# Finding 1: Department should enhance processes for managing rehabilitation service costs and clients' progress

## Arizona's FFY 2015 rehabilitation cost higher than national average





## Arizona's FFY 2015 rehabilitation rate lower than national average





## Arizona cannot serve all eligible clients

Waiting list since Fiscal Year 2009

2,800 clients on waiting list (as of December 1, 2016)

 2,090 additional successfully rehabilitated cases, if cost same as national average



## Vocational Rehabilitation Services recommendations

Better monitor rehabilitation service costs and clients' progress

- Establish lower expenditure authorization levels
  - > Reduce from \$25,000

 Improve the guidance that staff use to authorize services and monitor and work with clients

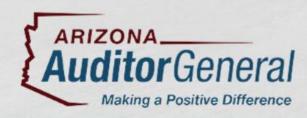


#### Implementation status

Department agreed with recommendations

- Initial follow-up report results (November 2017)
  - 3 have been implemented
  - > 12 are in the process of being implemented
  - > 5 are not yet applicable
  - 2 have not been implemented





### Questions