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ARIZONA DEPARTMENT OF ECONOMIC SECURITY  
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Janet Napolitano  
Governor

David A. Berns  
Director

April 14, 2004

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

Dear Ms. Davenport:

The purpose of this letter is to forward the Department of Economic Security's written responses to the revised preliminary draft report of the performance audit of the Department's welfare programs.

We appreciate the cooperation of your staff throughout the performance audit process. If you have any questions regarding the response, please contact Patrick Harrington, Assistant Director for the Division of Employment and Rehabilitation Services at (602) 542-4910, or Vince Wood, Assistant Director for the Division of Benefits and Medical Eligibility at (602) 542-3596.

Thank you for the opportunity to review the revised preliminary draft report.

Sincerely,

David A. Berns

Attachment

**Department of Economic Security  
Sunset Review Draft Report  
Response to Auditor General Recommendations**

**FINDING 1**

1. The Department should include performance measurements such as the federal work participation rate and job retention in the new RFP. The department should also assess liquidated damages for vendor deficiencies as determined by the Department.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will include performance measurements and liquidated damages when the next Jobs Privatization RFP is issued*

2. The Department should ensure that staff that perform contract management functions receive training targeted toward contract compliance, performance and fiscal monitoring. The Department should identify resources that could provide help in designing and teaching these classes, and develop its curriculum.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department's Audit and Management Services is currently reviewing the contract monitoring function of the Jobs Program to identify areas of improvement. The specific types of monitoring staff training needed will be identified. Once this is determined, contract-monitoring staff who lack required expertise will be identified and training will be arranged. The Department anticipates beginning training contract-monitoring staff by December 31, 2004.*

3. The Department should develop a training plan so that contractors and their employees are aware of necessary policies concerning case documentation, JAS input, and other matters. The Department should monitor that such training takes place.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. A formal training plan for the current Arizona Works Program will be developed and implemented by July 1, 2004. Training regarding policies of the Contractor will be the responsibility of the Contractor. A Department Policy/Training staff person will review and monitor the Contractor's training specific to the program to ensure appropriate interpretation of Department Policy and Procedures and that Federal and State mandates are trained in a timely fashion.*

4. The Department should develop a consolidated guide, plan, and tools for monitoring contract compliance, performance, and fiscal expenditures.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. A copy of the Monitoring Guide was provided to the Auditor General's staff on August 28, 2003.*

5. The Department should ensure that data is secure and accurate by doing the following:

- a. Define and require minimum security standards for contractors, allowing for variation according to assessed risk;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will include minimum-security standards in every RFP and contract that is issued.*

- b. Require security audits or evaluations of contractors, possibly requiring contractors to procure an independent firm to perform the audit;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will include a separate requirement in the RFP and contract that the contractor procure an independent firm to perform a security audit or evaluation of the contractor.*

- c. Require contractors to formulate policies that the Department would approve, such as log access review, incident report alerts, limiting access to cases and screens as appropriate, and inventory listing;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. For contracts pursuant to the new RFP, the Jobs Program will require contractors to formulate policies that the Department would approve to ensure they are consistent with DES security standards and policies, such as log access review, incident report alerts, limiting access to cases and screens as appropriate, and inventory listing.*

- d. Modify JAS to include the ability to maintain access logs;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department currently operates on the standards from the Office of Data Security within the Department for access by all external customers of the department. The Administration will modify JAS to include the ability to maintain access logs. The accessibility standards will be in compliance with Department standards.*

- e. Monitor access logs and complete Incident reports from such monitoring and require the contractor to do the same;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Administration will monitor access logs and develop incident reports from such monitoring and require the contractors to do the same.*

- f. Require contractor employees to undergo regular security awareness training, possibly using a computer-based approach already developed by the DCSE;

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will include in the contract that contractor employees must complete regular security awareness training. The Department will ensure that all required security awareness training is made available to each contractor, as appropriate.*

- g. Review compliance with the security requirements after the initial contract is awarded and on an ongoing basis thereafter.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Administration will review compliance with the security requirement after the initial contract is awarded and will monitor compliance on an ongoing basis.*

## **FINDING 2**

- 1. The Division should continue its efforts to ensure that supervisors review the required number of case files by monitoring the monthly case review reports, identifying local offices that are unable to meet the monthly quotas, and taking steps to improve these offices' performance. In addition, the Division should identify local offices that have established effective procedures for conducting consistent case file reviews and share these procedures with all offices.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division implemented a new automated case read tracking system effective January 1, 2004. The number of case reviews completed each month is captured by the automated system from which case read reports are generated. Local Office, Region, and Central Office management monitors individual office compliance with established expectations. Steps can then be taken to improve those sites that fail to meet expectations. The reports will also make it possible for agency management to identify sites that consistently meet expectations so that effective procedures can be shared with other sites as recommended.*

- 2. The Division should continue its efforts to improve its process for communicating policy changes to local office staff, continuing its efforts to update its policy and procedures. It should also continue its efforts to identify local offices that have developed effective processes for communicating policy changes to their staff and should share these processes with all offices.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Effective February 23, 2004, a new process for reviewing policy and training information distributed to local offices was established. This was an effective process developed in one of the Local Offices and implemented statewide. Local Office*

*Managers are responsible for ensuring that information disseminated to staff is reviewed and discussed within one week from the date the information was issued. A signed acknowledgement by each employee ensures the policy has been received and reviewed.*

3. The Division should continue its efforts to develop a training program for local office managers. The Division should ensure that the curriculum for this program includes classes on time and employee management, report use and management, and balancing increasing caseloads with reduced staff.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division is currently developing a training curriculum specifically for local office managers. The training content includes the following eight components:*

- *Overview of Training*
- *Introduction of FAA Management*
- *Managing the Office Functions – Local Office Procedures*
- *Management Reports*
- *Workload Management*
- *Personnel*
- *Leadership Skills*
- *Facilities*

*This training curriculum is scheduled for a workgroup review at the end of March 2004 with the final training available for delivery in May 2004.*

### **FINDING 3**

1. The Division should continue to assess it's staffing and, as resources permit it, should continue to assign extra staff to help address the overpayment backlog.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division identified additional staff to assist in addressing the overpayment backlog. As a result of completing 8,284 determinations in January 2004, the number of overpayment referrals, that are greater than 45-days, has been reduced to 2, 213. The agency anticipates the completion of these referrals by March 15, 2004. An ongoing assessment of staff resources will be made to balance the eligibility determination workload and the overpayment determination workload.*

2. To standardize its process for managing overpayment referrals, the Division should continue its efforts to implement an automated system for tracking and reporting overpayment referrals and claims, including the reasons referrals are not pursued.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. On January 20, 2004, the Division implemented the first phase of an automated overpayment tracking system. In Phase I, overpayment referrals are tracked from date of discovery through the overpayment claim date as provided for in the program federal guidelines. The second phase, scheduled for implementation on May 1, 2004, will include enhancements to system design to enhance data integrity and capture additional data elements for use in monitoring internal performance measures. In the third phase, scheduled for implementation on June 1, 2004, the production of various*

*reports needed to monitor performance measures will become available for use by management.*

3. To help the Department collect more overpayments by limiting the number of overpayment referrals that are dropped due to inaccessible case files, the Division should continue its efforts to implement an electronic document scanning system.

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department is currently reviewing options for document imaging; however, funding is not included for such a project in the current budget. The Division has modified the overpayment referral process in order to limit the number of referrals dropped due to inaccessible case files. Effective January 20, 2004, all information necessary for the processing of the overpayment determination is required by policy to be included with the overpayment referral at the time the referral is made. This will eliminate overpayment referrals dropped due to the case file being inaccessible.*