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# Management Audit of the Department of Human Services

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Report No. 97-18  
December 1997

**THE AUDITOR**  
STATE OF HAWAII

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Submitted by

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STATE OF HAWAII

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## Foreword

This is a report of our management audit of the Department of Human Services. This audit was conducted pursuant to Section 69 of Act 328, Session Laws of Hawaii 1997, which directed the Auditor to conduct a management and financial audit of the Department of Human Services. The Auditor contracted with the certified public accounting firm of KPMG Peat Marwick to conduct the financial audit which appears as a separate report.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Department of Human Services during the course of this audit.

Marion M. Higa  
State Auditor

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# Table of Contents

## Chapter 1 Introduction

The Department Has a History of Poor Management, Wasted Resources, and Unproven Programs .....	1
Objectives of the Audit .....	4
Scope and Methodology .....	4

## Chapter 2 The Department of Human Services Has Failed to Take Significant Corrective Action

Summary of Findings .....	7
Programs Continue To Be Poorly Managed .....	7
The Department Wastes Resources .....	16
Program Effectiveness is Unproved .....	19
The Department Provides Unclear and Confusing Information .....	22
Conclusion .....	26
Recommendations .....	26

Notes .....	31
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## Exhibits

Exhibit 1.1	Program Realignment in the Department of Human Services .....	3
Exhibit 1.2	Programs Reviewed in the Department of Human Services Audit .....	5
Exhibit 2.1	Number of Cases Needing Reverification for the Med-QUEST Division .....	11
Exhibit 2.2	FY1997-98 Appropriations for Payment Programs ....	26

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## **Appendix**

Appendix A	Inconsistencies Among the Committees on Payment Projections .....	29
	<b>Response of the Affected Agency .....</b>	<b>33</b>

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# Chapter 1

## Introduction

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This management audit of the Department of Human Services is conducted pursuant to Section 69 of Act 328, Session Laws of Hawaii (SLH) 1997, which directed the State Auditor to conduct a management and financial audit of the department. The Auditor was directed to focus on the department's planning, management, staffing, and spending for: 1) welfare, family support and any and all associated training and work programs; 2) health care insurance payments; and 3) eligibility activities for any entitlement and optional program. The section further specified that the audit be conducted in "light of not only the newly designed federal changes in welfare programs but also in light of what the department should have been doing to maximize cost-effectiveness before the new federal guidelines were adopted."<sup>1</sup>

Separate management and financial audits were conducted. Office of the Auditor staff conducted the management audit. The Auditor contracted with the certified public accounting firm of KPMG Peat Marwick to conduct the financial audit which appears as a separate report.

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### **The Department Has a History of Poor Management, Wasted Resources, and Unproven Programs**

The Department of Human Services is responsible for handling the State's financial assistance, food stamp, and medical assistance programs. With a current operating budget in excess of \$1.1 billion, and over 2,000 full time positions, the department is one of the largest state agencies. The department's mission is "to provide high quality, efficient and effective services designed towards achieving self-sufficiency for clients as quickly as possible and to direct our limited resources toward helping those least able to care for themselves."<sup>2</sup> To achieve this mission, the department administers individual and family financial and medical assistance programs. It also offers employment and training programs that stress self-sufficiency. Despite these efforts, the department has historically been plagued by poor management resulting in wasted resources and unknown program effectiveness.

### ***Problems with the Department of Human Services' management were identified in prior audits***

Given the span of its programs and the size of its operating budget, the Department of Human Services must effectively manage its programs to ensure an efficient delivery of services. However, our previous audits found that the department has consistently failed to meet this standard. Our *Financial Audit of the Department of Human Services*, Report No. 94-5, found such serious deficiencies in the department's recording of accounting transactions and internal controls that we cited the

department's management for its "overall failure of stewardship."<sup>3</sup> In Report No. 95-17, *Follow-up Report on a Financial Audit of the Department of Human Services*, we found some improvement, but still noted problems in the department's financial controls over data collection, verification, and entry.

Audits of the department's programs have also revealed specific inadequacies. In our *Management and Financial Audit of the Foster Board Payment Program*, Report No. 94-28, we found that the department failed to manage the program so that it could budget responsibly. In the *Audit of the Department of Human Services' JOBS, Food Stamp Employment and Training, and General Assistance Work Program*, Report No. 95-4, we found that the department's comprehensive, multi-disciplinary team approach to employment and training was inefficient, expensive, wasteful, failed to focus on the reduction of welfare costs, and did not improve the participants' likelihood of finding employment. Management problems were also noted in our *Audit of the QUEST Demonstration Project of the Department of Human Services*, Report No. 96-19. We found that Phase I of the QUEST project was inadequately planned, hastily implemented, and had yet to demonstrate cost savings to the State.

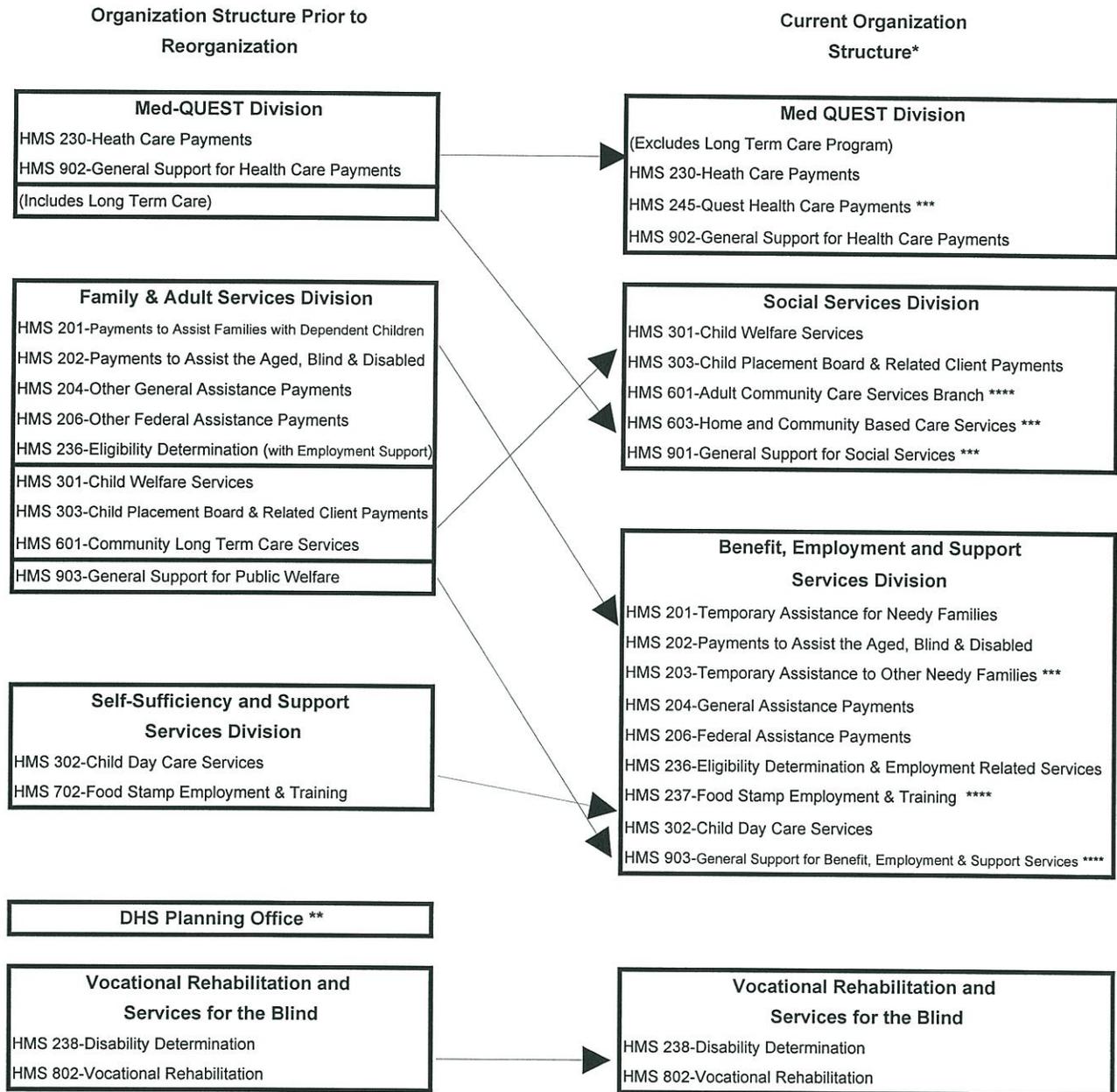
***Federal welfare reform requirements prompt the department to reorganize***

The department recently reorganized primarily in response to changing federal welfare reform requirements. Since over half of the department's \$1.1 billion operating budget consists of federal funds, it is essential that the department meet these requirements. The department believes the reorganization will enable it to effectively accommodate changes in federal welfare provisions. Statutory changes to accommodate anticipated welfare reform changes were adopted in Act 300, SLH 1996.

The department's reorganization, effective July 1, 1997, realigns its public assistance, social services, employment, and child care programs. This reorganization is illustrated in Exhibit 1.1. Family and Adult Services Division (FASD) programs that handle eligibility determination for financial assistance or payments merged with the employment and child care programs of the Self-Sufficiency and Support Services Division (SSSSD) to form the Benefit, Employment, and Support Services Division (BESSD). Social services programs of the Family and Adult Services Division that provide assistance to children and the elderly combined with the long-term care programs of the Med-QUEST Division to form the Social Services Division.

The department also eliminated the planning office, and reassigned planners to the individual divisions. Consequently, divisions are now responsible for planning while the director's office handles overall policy.

## Exhibit 1.1 Program Realignment in the Department of Human Services



\* Current organization structure become effective July 1, 1997  
 \*\* DHS Planning Office positions have been dispersed throughout the four divisions  
 \*\*\* New programs  
 \*\*\*\*Renamed programs

In addition, federal welfare reform prompted other programmatic changes. Public Law 104-193, the Personal Responsibility Work and Opportunity Reconciliation Act (PRWORA), requires welfare recipients to find a job within two years and limits cash assistance to a maximum of five years. Aid to Families with Dependent Children (AFDC), a state-federal matching funds program, was replaced with a federal block grant dubbed “Temporary Assistance to Needy Families” or TANF.

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## Objectives of the Audit

1. Review and assess the Department of Human Services’ planning, management, staffing, and spending for the First to Work Program, Food Stamp Employment and Training Program, QUEST demonstration project, and foster board payment program.
2. Review and assess the management and utilization of the department’s budget projections for its payment programs.
3. Make recommendations as appropriate.

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## Scope and Methodology

We reviewed federal and state statutes and rules and other relevant literature. Additionally, we reviewed legislative testimony, memoranda, status reports, financial reports, and other documents. We conducted interviews with staff in the department’s Office of the Director, Benefit Employment and Support Services Division, Med-QUEST Division, and Social Services Division. We also interviewed persons at the U.S. Department of Health and Human Services, the U.S. Department of Agriculture, and other state agencies regarding welfare reform.

The audit reviewed the First to Work Program, the Food Stamp Employment and Training Program, the QUEST demonstration project, and the foster board payment program. We conducted site visits, interviewed staff, and conducted case file reviews at all 11 First to Work program units and all five Food Stamp Employment and Training program units. For the QUEST demonstration project, we conducted interviews with division administrators and supervisory staff from all five eligibility units to determine the extent to which prior audit recommendations had been implemented. For the foster board payment program, we conducted interviews with division administrators and program staff to determine whether prior audit recommendations were addressed. Specific programs reviewed in this audit are shown in Exhibit 1.2.

Our work was performed from May 1997 to October 1997 in accordance with generally accepted government auditing standards.

**Exhibit 1.2**  
**Programs Reviewed in the Department of Human**  
**Services Audit**

**First to Work**

HMS 236 - Eligibility Determination and Employment Related Services  
HMS 237 - Food Stamp Employment and Training  
HMS 302 - Child Day Care Services (Payments)  
HMS 903 - General Support for Benefit, Employment, and Support Services

**Food Stamp Employment and Training**

HMS 236 - Eligibility Determination and Employment Related Services  
HMS 237 - Food Stamp Employment and Training  
HMS 302 - Child Day Care Services (Payments)  
HMS 903 - General Support for Benefit, Employment, and Support Services

**QUEST project**

HMS 230 - Health Care Payments  
HMS 245 - QUEST Health Care Payments  
HMS 902 - General Support for Health Care Payments

**Foster Board Payment program**

HMS 303 - Child Placement Board & Related Client Payments  
HMS 901 - General Support for Social Services



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# Chapter 2

## The Department of Human Services Has Failed to Take Significant Corrective Action

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The Department of Human Services has failed to take clear, decisive, and corrective action to manage its programs thoughtfully and judiciously. The Legislature has been concerned for several years that the department has been unable to demonstrate the effectiveness of its programs. In addition, departmental explanations and justifications for budget requests have been inconsistent and unclear. Our prior audits of the department have identified serious flaws in program and fiscal management. Despite the department's assertions that such problems are being addressed, these remain uncorrected and continue to negatively affect the ability of the department to meet the needs of its clients and to prudently use state resources to fulfill its mission.

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### Summary of Findings

1. Continuing poor management by the Department of Human Services serves neither taxpayers nor clients.
2. The department is wasting resources by failing to integrate similar programs.
3. The department has not demonstrated the effectiveness of its programs.
4. The department provides unclear and confusing information to the Legislature.

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### Programs Continue To Be Poorly Managed

The Department of Human Services continues to be plagued by poor program management. Consequently, it compromises its ability to serve its clients and protect the interest of the taxpayers. Several deficiencies identified in prior audits remain and are still not addressed. These areas have yet to be resolved by management and continue to hinder departmental operations.

### *Welfare-to-work problems persist*

The director of human services has failed to ensure that recommendations in our 1995 audit of the department's JOBS, Food Stamp Employment and Training, and General Assistance Work programs have been addressed. Since that time, JOBS has been replaced by the First to Work Program and the General Assistance Work Program

has been merged with the Food Stamp Employment and Training Program. While the focus of the Food Stamp Employment and Training Program has not changed, the priority of the First to Work Program is to help clients gain employment rather than provide education and training as was the case with the JOBS Program.

### **Policies and procedures are still lacking**

In 1995, we found that the Food Stamp and Employment and Training Program lacked formal policies and procedures, despite the fact that the program was established in 1988. Policies and procedures are important management controls to guide staff in their duties and to ensure that limited resources are safeguarded against waste, loss, and misuse.

We recommended that the department establish a policies and procedures manual for the program and the director promised to implement this recommendation. In November 1995, the director indicated that the manual would be finalized by July 1996. Despite the promise, the department still has no policies and procedures manual for the program. An administrator of the Benefit, Employment, and Support Services Division affirms that policies and procedures are being developed. However, the department failed to provide any evidence of even a written draft policies and procedures manual.

Consequently, the department cannot ensure that it provides clear guidance to personnel and it cannot effectively protect itself against waste, loss, and misuse of its resources.

### **Contract management is still lax**

The director also has not ensured that division administrators improve the contract management, oversight, and monitoring of the First to Work and Food Stamp Employment and Training programs. In 1995, we noted that the Self-Sufficiency and Support Services Division (now under the Benefit, Employment, and Support Services Division) had failed to institute necessary management controls to ensure the proper and consistent implementation of work programs and effective outcomes. Although the division relied heavily on contracts for services in these programs, contract management was weak. Further, division administrators failed to evaluate the effectiveness of these work programs in reducing welfare expenditures or increasing client employability.

We recommended that the division establish policies and procedures for contract management, oversight, and monitoring. We also recommended that staff receive formal training in contract management. At that time, the director agreed to address these recommendations. The

director recently noted that the department has provided state guidelines and interim rules on contract management and that division staff reference the state procurement code. However, the state procurement code covers only the request for proposal (RFP) process. It does not provide any guidelines for oversight and monitoring. The state procurement office states that it is each department's responsibility to determine how to oversee and monitor its contracts.

We also found no evidence that division administrators developed guidelines for contract oversight and monitoring. The First to Work Program's policies and procedures manual does not contain them. The Food Stamp Employment and Training Program lacks a policies and procedures manual and also has not developed written guidelines.

In 1995, welfare-to-work administrators paid minimal attention to contract management. Contracts were executed months late and in some cases even after the contract year expired. Little has been done to improve the situation. We found that contractors began to work prior to contract execution for 13 of 16 contracts issued for the First to Work and Food Stamp Employment and Training programs issued during FY 1996-97. This is not in the best interest of the State, the contractors, or the public. Allowing contractors to begin work before a contract is properly executed can result in conflict between the two parties and possible legal problems for the State.

In 1995, we reported that none of the contracts for the welfare-to-work programs specified the results the division hoped to achieve. Although our current audit found some improvement in this area, we found no evidence that the division had monitored 75 percent of the contracts we reviewed. The division's failure to monitor and evaluate contractor services and expenditures prevents it from identifying whether the contractor is achieving the program goals. Furthermore, the division cannot identify fraud, waste, and those projects or contractors it should avoid in the future.

Finally, none of the staff responsible for contract management in 1995 for the welfare-to-work programs received formal training in contract management. They relied on verbal guidance from supervisors or learned through "trial and error." Although the one program specialist currently responsible for contract management has requested training, it has not been provided because the department continues to lack contract management training guidelines. Consequently, the department cannot ensure that those individuals responsible for contract management protect the interests of the State.

***ALEX is still not operational***

The director has made little progress in addressing our 1995 recommendation to install an operational Automated Labor Exchange System (ALEX) in its First to Work (formerly known as JOBS) units. The ALEX system is an employment listing and job matching system maintained by the Department of Labor and Industrial Relations. It provides complete information about applicants, employers, and job orders, and helps to match applicants to employers. ALEX is designed to provide efficient and effective service to job seekers and employers.

Although ALEX is an excellent source of information about job openings and requirements, we found in 1995 that only 2 of 11 JOBS units had access to this employment information.

The director agreed with our findings in 1995 and stated that ALEX had been a priority since December 1990 and promised to work with a private contractor to link up with the Department of Labor and Industrial Relations mainframe computer. We found, in our current audit, that none of the units has an operational ALEX system. Only one unit has a link to the ALEX system but it has not been activated.

Division administrators contend that the Department of Labor and Industrial Relations is “protective” about the ALEX system and will not allow staff from other departments to utilize the system. However, Department of Labor and Industrial Relations staff counter that verbal agreements to allow the Department of Human Services staff to access the system are already in place. We urge that both the Department of Labor and Industrial Relations and the Department of Human Services ensure that a contract between the two departments for FY1997-98 which discusses the use of the ALEX system serves as the resolution to any past dispute regarding the system.

***QUEST still has significant deficiencies***

The QUEST demonstration project continues to suffer from management control problems identified in our 1996 audit of the QUEST demonstration project. QUEST is a five-year, federally-approved Medicaid waiver project, administered by the department’s Med-QUEST Division. We found that the planning for Phase I was both hasty and inadequate, and that the department was unable to demonstrate whether the project was saving the State money. Furthermore, management controls over eligibility determination were lacking, the required information system was not implemented, and critical research and management information system positions were vacant.

We recommended that the Med-QUEST Division ensure that eligibility branch units follow standardized procedures and annually verify the continued eligibility of QUEST recipients as required by the division’s administrative rules. Furthermore, we recommended that the governor

allocate resources to the department to implement the required management information system. We also recommended that the department address these concerns before implementing Phase II, the folding in of the aged, blind, and disabled population. The department agreed with all of the recommendations except for the postponement of Phase II.

In 1996, we found that the Med-QUEST Division had not verified the continued eligibility for cases initiated prior to 1996. Controls for eligibility determination have not significantly improved. Although communication between eligibility units has improved and the units are no longer backlogged with new applications, the annual eligibility verification process is still weak. In addition, the project lacks updated standard operating procedures and a management information system to provide the proper infrastructure for efficient operations.

### **The department cannot ensure proper eligibility**

The Med-QUEST Division still cannot ensure that only eligible individuals receive benefits. QUEST project's administrative rules require annual reverification of participant eligibility; however, the backlog for annual verification remains substantive. Over 19,000 cases (approximately 48,685 clients) statewide currently need eligibility reverification. Consequently, the department does not know how many of these cases are in fact ineligible and how many unwarranted payments are being made. Exhibit 2.1 shows the number of cases needing verification by unit.

### **Exhibit 2.1**

#### **Number of Cases Needing Reverification for the Med-QUEST Division**

<b>Site</b>	<b>Number of Cases Needing Reverification</b>
Oahu	16,240
Maui	1,635
Kauai	25
Big Island	1,574
East Hawaii	1,466
West Hawaii	108
<b>State Total</b>	<b>19,474</b>

Includes QUEST/QUEST-Net and Medicaid fee-for-service

Source: Department of Human Services, Med-QUEST Division, Eligibility Branch

In 1996, standardized procedures for QUEST eligibility determination were outdated and complicated. Some eligibility units in the Med-QUEST Division, which handled medical assistance, and the Family and Adult Services Division, which handled financial assistance, did not even follow them. Consequently, there were errors in eligibility processing and delays in serving recipients.

We recommended that the Med-QUEST Division ensure that units follow established standardized eligibility procedures. The director responded that the division had initiated plans to establish standard statewide procedures. Further, the director noted that Med-QUEST Division staff were meeting with the Family and Adult Services Division staff assigned to improve the current standard operating procedures.

The Family and Adult Services Division committee assigned to revise the procedures made several recommendations for improvements. These included revising the standard operating procedures and assigning a Med-QUEST Division liaison to answer questions about QUEST at each Family and Adult Services Division unit.

The committee also identified a lack of clear procedures for eligibility workers and noted that efforts to improve eligibility were hampered by limited resources and staff, lack of teamwork and training, and lack of accountability. The committee recommended training on the revised standard operating procedures for eligibility workers, and conducting a management evaluation of the Med-QUEST Division's eligibility branch.

Finally, the committee noted a major unresolved issue. HAWI (Hawaii Automated Welfare Information System), an automated, integrated eligibility determination and benefit issuance system, is client-based with the intent that one worker would be responsible for processing all programs. The split responsibility of two separate divisions for the same client for combination cases (i.e., persons receiving both financial and medical assistance) results in clients being denied medical services because health plans do not receive the information in a timely manner. Furthermore, the State assumes the cost of medical coverage on a fee-for-services basis and there has been a tremendous increase in the number of error reports. This is an ongoing issue that still needs to be addressed.

Recommendations to address these problems are with the director for approval and the standard operating procedures are still in draft form. Although it is encouraging that the department has identified such issues, we note that QUEST is now in its fourth year of the original five-year demonstration term and believe that these issues could and should have been identified and addressed very early on in the project.

### **A management information system has not been developed**

The QUEST project currently relies on two data systems: the Medicaid Management Information System (MMIS) and HAWI. Neither is designed to deal with enrollment in managed care plans or to track shared premium payments. As noted in our prior audit, this resulted in unmatched premium payments that totaled over \$24 million. Furthermore, the QUEST Information System, the management information system required by the Health Care Financing Administration (HCFA), still has not been developed. Without a management information system that is specifically designed for managed care purposes, the Med-QUEST Division continues to face eligibility determination problems and has experienced difficulty evaluating client data.

The State contracted with Unisys in 1994 to develop the QUEST Information System. Unisys originally was to have completed the comprehensive data system by Fall 1996, but the State and Unisys agreed to push the completion date to March 1998. Unisys is unable to complete the system and the department and Unisys have mutually agreed to terminate their contract. Consequently, the department and QUEST project are still without a functioning management information system. There are no current projections for when such a system will be in place. The seriousness of the lack of a required management information system for the QUEST demonstration project has been summed up by the department as follows:

The failure of the QUEST contractor to develop the system on a timely basis is seriously hampering all aspects of the administration of the QUEST program including the effect of draining the HAWI resources away from its original public assistance program support commitments. The management information system is planned to provide vital data needed to assess the effectiveness of the QUEST program. Because it is developed in fragments, the system is not responsive to the data analysis needs of the program.<sup>1</sup>

### ***The foster board payment program is poorly managed***

Our 1994 *Management and Financial Audit of the Foster Board Payment Program*, Report No. 94-28, found that the department was not properly managing the program. Administrators had paid insufficient attention to budgeting, had not established expenditure guidelines for board related services, and failed to provide demographic information. In our current audit, we found that the department had created a separate program ID (HMS 303) for the program and followed our recommendation to assign responsibility for developing budget projections to the Committee on Payment Projections. However, the

department failed to establish formal internal expenditure guidelines as promised in response to our previous report. The department also failed to provide us with definitive client demographic data.

### **Accurate caseload information is not available**

The Social Services Division cannot readily produce reliable information on the children being served through the foster board payment program. We first noted the department's inability to identify the number of children receiving services in our 1994 audit.

The division currently does not reliably account for the children actually being served in the program and the services provided to them. The division's inability to produce reliable demographic information hampers its ability to develop accurate budget projections. Currently, only expenditures over time are reviewed and not caseload.

Demographic data provided by the Social Services Division on services provided were conflicting. One set of figures reports the total caseload at 1,772. Another graphic, distinguishing children in foster care by age and sex, indicates a total caseload of 1,760. Still another graphic, categorizing foster children by branch and placement responsibility, has a total caseload of 1,744. These figures were provided to us on the same day and lacked precise reference dates.

Moreover, when we requested a clarification for these discrepancies, the division informed us that an additional 543 children received adoption assistance and 171 children received permanency assistance. These children should have been included in the total caseload because they are part of the foster board payment program. However, they are not included in the department's data which indicate caseload is anywhere between 1,744 and 1,772 children. Based upon this additional information we conclude that the division's caseload is approximately 2,458 to 2,489 children.

### **Fiscal controls are lacking**

Social Services Division administrators are responsible for exercising fiscal controls over all funds, including those for the foster board payment program. We found that administrators do not monitor actual program expenditures against program appropriations. This is due in part to a perception that the foster board payment program is an entitlement and that the needs of foster children should not be subject to fiscal controls.

As a result, the foster board payment program is administered and budgeted with little regard for fiscal constraints. Budget projections for the program are unreliable and it is difficult to correctly anticipate what

the level of appropriations should be. Consequently, an emergency appropriation of \$1.9 million for FY1993-94 and a supplemental budget increase of \$1.2 million for FY1994-95 were required to meet program budgetary shortfalls. However, in FY1996-97, \$2.2 million was lapsed back to the general fund.

In 1994, we found that division administrators had not developed guidelines for social workers that would ensure consistency in making payments and managing expenditures. Expenditures for services, other than the flat monthly board payments, were made largely at the discretion of individual social workers. We also found that budget constraints were not recognized and there were few limits on spending. We recommended that the division implement internal expenditure guidelines to keep spending within budget.

In response to our recommendation, the department stated that formal internal expenditure guidelines would be instituted. The department also stated that social work staff have discretion to determine individual monetary assistance needs based on the social service needs of the client and that the feasibility of developing more definitive guidelines had been reviewed and would need further assessment. Our current audit found that expenditure guidelines for board-related payments have yet to be established.

While the division has set monetary guidelines for special service payments and has required approval for some services, social workers are still given much latitude over the majority of the payment program services. There are no monetary guidelines for clothing or for transportation payment services. Instead social workers are given discretion in determining when these services are needed by a child. Costs for these services are not limited; rather, costs are based on actual service costs.

Finally, while the division claims that its priority is to meet the needs of its clients, it fails to ensure that the standard payment amount upon which the foster board program is based is current. The \$529 monthly payment per child regardless of age was established through the "Shopping Cart Study" conducted by the department in the late 1980s. The division has not reviewed this standard since the establishment of the flat rate payment system. These board payments, which meet the needs of children and youth in foster care, relative care, higher education, permanency assistance and adoption assistance, constitute approximately 86.5 percent of the program's expenditures for fiscal biennium 1995-97.

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## The Department Wastes Resources

The Department of Human Services wastes resources by poorly integrating its welfare-to-work programs. The Benefit, Employment, and Support Services Division currently administers two welfare-to-work programs separated by funding source. However, these programs have similar missions and program components, and are administered by the same staff. Some services may be unnecessarily duplicated and other services applicable to clients of both programs are unnecessarily restricted to a single program. As a result, client services are not being provided efficiently and resources are not effectively utilized.

### *Welfare-to-work programs are poorly integrated*

All welfare recipients are initially evaluated by income maintenance workers who determine the recipient's eligibility for financial assistance and food stamp programs. The workers also screen for applicable exemptions and refer non-exempt recipients to appropriate welfare-to-work programs. After referral, each client undergoes intake, orientation, and assessment.

Temporary Assistance to Needy Families (TANF) recipients are placed in the First to Work Program. All First to Work Program clients are placed in one of three service components — Quick to Work, Skills Building, or Social Work Case Management. Food stamp recipients are placed in the Food Stamp Employment and Training Program which develops an employment development plan that leads to employment. Welfare recipients who receive Temporary Assistance to Needy Families assistance and food stamps are exempt from participating in the Food Stamp Employment and Training Program if they are registered for the First to Work Program.

The First to Work and the Food Stamp Employment and Training programs are welfare-to-work programs designed to help recipients gain employment and self-sufficiency. Although the two programs have different funding sources (U.S. Department of Health and Human Services and the Department of Agriculture, respectively), they have similar missions, are administered by the same staff and have similar program service components.

### **Programs have similar missions and personnel**

The mission of the First to Work Program is to assist clients to move off financial assistance by making them self-sufficient through paid employment. Similarly, the mission of the Food Stamp Employment and Training Program is to provide employment counseling services to clients to facilitate program participation and achievement of personal and economic self-sufficiency. The missions of both programs are consistent with the overall mission of the department.

Both programs are managed by the same administrators of the Benefit, Employment, and Support Services Division. The division provides a variety of services to clients in both programs, including employment related services, child care services, and economic assistance to eligible families and individuals.

Although the programs are separated by funding source, the federal government does not prohibit the coordination between the two programs as long as the programs' goals remain similar, if the funding for each program is kept distinct, or clients use food stamps while participating in the First to Work Program. The federal government's main concern is that federal funds are not commingled. Currently, close to 90 percent of Temporary Assistance to Needy Families recipients use food stamps.

### **Services are similar**

The First to Work Program and the Food Stamp Employment and Training Program both help clients obtain a basic education, if needed, help them become job ready, assist them in obtaining a job, and provide work experience. These objectives are addressed by various program components.

The program components for both welfare-to-work programs are similar. The First to Work Program consists of the following overall components: Quick to Work, Skills Building, and Social Work Case Management. Meanwhile, the Food Stamp Employment and Training Program provides services through Job Search, Job Search Skills Training, Basic Education, Vocational Training and Work Experience program components and through other community employment and training programs.

### ***Programs can be integrated***

Integration of the First to Work and Food Stamp Employment and Training programs is not a new concept. In 1993, the department conducted the Positive Response in Developing Employment (PRIDE) demonstration project which attempted to have the Food Stamp Employment and Training Program mirror the JOBS (now First to Work) Program. The project goals included maximizing the employability of food stamp recipients, reducing food stamp dependency through improved program consistency and coordination, and enhancing services to food stamp recipients. The department also sought to reduce the complexity of and conflicts between JOBS and Food Stamp Employment and Training programs regulations.

Although results of the PRIDE demonstration project were largely inconclusive and limited by the lack of data, the basic intent of the

project is worthy of pursuit. The intent was “to increase the overall fairness by offering all public assistance recipients the same realistic and meaningful opportunities to achieve self-sufficiency.”<sup>22</sup>

Recently, the department identified the importance of coordination between welfare-to-work programs. This past legislative session the department attempted to “better link the two employment programs within the new division.” Currently, the Food Stamp Employment and Training Program just serves food stamp recipients, but the department has also discussed serving Temporary Assistance to Other Needy Families recipients who are not in the First to Work Program.

### **Integration is needed**

The First to Work Program currently only serves non-exempt, single-parent families receiving Temporary Assistance to Needy Families (TANF). Because the department feared it would be penalized 5 percent of its federal block grant for not meeting the federal participation rates for two-parent families, it created a separate, 100 percent state-funded program for two-parent households and non-citizens called the Temporary Assistance to Other Needy Families (TAONF). As of May 1997, there were 4,793 two-parent household cases and 1,963 non-citizen cases.

Two-parent families and non-citizens are held to the same five-year time limit as single-parent families, but are excluded from the First to Work Program. Although they are still expected to become self-sufficient through employment, they do not have a work program of their own and are currently not receiving any type of help.

The department is considering placing two-parent families and non-citizens in the Food Stamp Employment and Training Program. The placement of Temporary Assistance to Needy Families clients with food stamp clients necessitates better integration. The department will need to decide how to ensure that First to Work and Food Stamp Employment and Training participants each meet their respective requirements.

Time limitations on recipient benefits necessitate the integration of welfare-to-work programs. Federal welfare reform laws imposed time limitations on recipients of both Temporary Assistance to Needy Families and food stamps benefits. Temporary Assistance to Needy Families recipients are allotted five cumulative years of assistance on the federally supported welfare program. Any benefits paid to individuals beyond the five-year lifetime limits are paid by state tax dollars.

### **Costs could be contained and services could be enhanced**

All Food Stamp Employment and Training units statewide, with the exception of the Leeward Oahu area unit and the Maui unit, are co-located with First to Work program units. Although most units for both welfare-to-work programs are housed in the same facilities the programs are kept distinct and do not coordinate activities or share resources.

During one of our site visits to a Food Stamp Employment and Training unit, we found that food stamp clients were denied access to adult basic education classes provided for First to Work clients. These particular classes were held in a building in which First to Work and Food Stamp Employment and Training units were located. The classes were not full and food stamp clients could have fulfilled program requirements while benefiting from the classes.

The rationale of the Benefit, Employment, and Support Services Division for denying services to its own clients was that the two programs have different funding sources. However, the department could simply ensure that the funding for each program is kept distinct and is not commingled.

We urge the division to integrate program activities and components where applicable to reduce duplication of services. Since approximately 90 percent of the First to Work clients receive food stamps, funding issues should not be a large hindrance toward reducing duplicative services and wasting resources. The numerous similarities between programs provide ample opportunities to integrate program activities; thus, bestowing benefits to clients of both programs while providing services in an efficient manner.

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### **Program Effectiveness is Unproved**

The Department of Human Services has failed to evaluate the effectiveness of its programs. Program evaluation is a key management control to ensure that an organization's plans are carried out as intended and its goals are achieved. Effective program evaluations are designed and incorporated into a program at the planning stage. In addition to being an essential management tool, evaluations assist the Legislature in making budgetary decisions.

### ***The department has not conducted program evaluations***

According to the department's functional statements, the director is responsible for ensuring that programs and services are effective and efficient and that fiscal, equipment, space, and personnel resources are optimally utilized. Evaluation activities are to be primarily carried out by the director through the management services office. In reality, the director and the management services office have not developed

evaluation mechanisms. Division administrators who play a more direct role in ensuring that evaluation mechanisms have been implemented also have been lax in their duties.

The department continues to view program evaluation as an afterthought. Program evaluation is not incorporated into basic program design. Therefore, evaluations are not performed on a timely basis and prevent meaningful data collection. The department has even ignored program evaluations mandated by the federal government.

### **Demonstration projects necessitate program evaluations**

The department has failed to develop adequate evaluation mechanisms for two major waiver demonstration projects — the Pursuit of New Opportunities (PONO) that addresses welfare reform and QUEST that attempts to reform Medicaid by moving from fee-for-service to managed care. Because these types of projects are “demonstrations” they are intended to show how waived sections and revisions to federal requirements have impacted the manner in which the program is administered and, ultimately, how it affects the Department of Human Services’ clients. Thus, when the department submitted both the PONO and QUEST waiver demonstration project proposals, evaluations were a necessary component of the waivers. Although the department provided detailed descriptions of how PONO and QUEST would be evaluated in its waivers, it has not, at the time this audit was conducted, undertaken either evaluation as promised.

### **These requirements have been ignored**

The director and the division administrators of the Department of Human Services have yet to implement an evaluation mechanism to assess the effectiveness of the Pursuit Of New Opportunities (PONO) waiver. The PONO waiver was approved on August 16, 1996 and was implemented on February 1, 1997. It was designed to protect those who cannot work and to transform a welfare system that fosters dependence, low self-esteem, and socially unacceptable behaviors to one that rewards work and fosters self-reliance, responsibility, and family stability. PONO’s objectives are to protect those unable to work, meet transitional needs of participants to assist in their efforts toward self-sufficiency, reduce long-term dependency on welfare, help families stay intact by removing eligibility rules that force parents to separate to qualify for benefits, and treat all recipients in a similar manner as well as generate cost savings with the elimination of child support pass through payments.

The PONO waiver was submitted to the federal government prior to the enactment of federal welfare reform. The department wanted to ensure that it had some control over its welfare programs before federal

government mandates were implemented. However, the waiver included an external evaluation of the program in accordance with specific federal guidelines. The waiver request indicated the evaluation would include a treatment/control group and the State would have to prove that the project was cost neutral.

The department subsequently abandoned the evaluation outlined in the initial PONO waiver. An alternative evaluation mechanism remains only in draft form. Thus, there is no departmental requirement that information and data fundamental to the evaluation of the PONO waiver program be collected. The director and division administrators have failed to implement procedures that would allow them to track clients after they leave the program to ensure that they remain self-sufficient.

A U.S. Department of Health and Human Services official confirmed that the evaluation as initially described in the PONO waiver is no longer required. However, the federal government still expects some type of evaluation. The failure of the department to develop alternative evaluation guidelines for the project will make a meaningful assessment of PONO more difficult to implement.

***The department cannot determine whether QUEST has met its objectives***

The QUEST waiver demonstration project also lacks an effective evaluation. QUEST is Hawaii's use of managed care to reform the Medicaid program. QUEST project's objectives are to improve access to quality medical and related health care services, contain "explosive" costs in Medicaid, create a system where clients can choose to receive care from competing health care plans, and provide greater security for clients in both coverage and services. The department is unable to determine whether these objectives are being achieved, yet continues to pursue the growth and expansion of the QUEST project.

In our 1996 QUEST audit, we emphasized the importance of filling vacant researcher positions. Despite the importance of evaluation, the division had not filled researcher positions in the Health Coverage Management Branch at that time. The branch was fully aware that it needed to conduct research to meet federal requirements, but had only initiated the hiring process in July 1996 — two years after the start of the project.

The division has only recently filled two researcher positions to evaluate data and program effectiveness. Filling these positions a little over three years after the five-year demonstration project was implemented places the researchers in a catch-up position. Federally required encounter data which should have been analyzed and submitted quarterly has yet to be evaluated.

Encounter data are so disorganized, inconsistent and inadequate that a true evaluation will be difficult to implement. The division's Health Coverage Management Branch administrator confirmed that the first year of encounter data were disorganized. Data were not described in enough detail and the data fields were inconsistent among the health plans so reliable and comparative reporting was not feasible. The administrator further explained that the encounter data record layout was just designed and the new layout should now allow for comparisons. The division should have been able to test whether the encounter data were usable in October 1997. However, because the contract with Unisys, which was responsible for the October testing, has been terminated, the testing has not occurred. This further sets back the department's ability to review the effectiveness of the QUEST project.

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## **The Department Provides Unclear and Confusing Information**

The inability of the Department of Human Services to provide clear, reliable budget estimates for its payment programs hampers the Legislature's efforts to realistically appropriate funds for the department's programs. In accordance with the provisions of Chapter 37-66, HRS, the Legislature takes into consideration factors such as long-range plans, program objectives and policies, the six-year state program and financial plan, and the budget and revenue proposals recommended by the governor and any alternatives to these proposals in order to adopt programs and a state budget. Moneys are appropriated to support programs adopted in accordance with the projected state budget.

The legislative budget process relies heavily upon agencies to provide accurate budgetary projections to help determine correct appropriation levels. However, the department has been unable to provide clear, dependable budget estimates to the Legislature.

### ***Budget projections are inaccurate***

Budget projections for FY1996-97 were inaccurate. The FY1996-97 budget projections for QUEST managed care costs and the Medicaid fee-for-service program were \$54.7 million less than actual costs, necessitating an emergency appropriation. In the same year, the department lapsed \$21.9 million back to the general fund, of which approximately \$17 million was for its payment programs alone. According to the department's general fund lapsing report for FY1996-97, the department requested more funds than needed for its Aid to Families with Dependent Children or AFDC (now known as Temporary Assistance to Needy Families or TANF) by \$11.8 million, Payments to Assist the Aged, Blind, and Disabled by \$2.9 million, Other General Assistance Payments by \$162,000, Health Care Payments by \$337,000, and foster board payment program by \$2.2 million. This money could have been used by other programs.

***Committees on payment program projections are run inconsistently***

The department uses three committees to develop budget estimates based on payment projections. The Income Maintenance Committee on Payment Projections, under the Benefit, Employment, and Support Services Division, has been in existence since 1983 and develops the budget projections for the Temporary Assistance to Needy Families (HMS 201), Payments to Assist the Aged, Blind, and Disabled (HMS 202), Temporary Assistance to Other Needy Families (HMS 203), and the General Assistance (HMS 204) programs.

Despite the fact that foster care and Medicaid have long been part of the department's responsibilities, committees to review these programs' payment needs were established only recently. The Child Welfare Services Committee on Projections, run by the Social Services Division, has been in existence only since the early 1990s and develops budget projections for foster board payments and board-related expenditures (HMS 303). The Med-QUEST Division Committee on Payment Projections was formed only in 1996 and handles the review of expenditures for the QUEST demonstration project (HMS 245) and Medicaid fee-for-service (HMS 230).

Although the three committees share the same purpose and are comprised of the same core staff, the director has failed to ensure that all of the committees meet on a regular basis, keep formal records of the meetings, and have adequately updated and refined forecasting methodologies. A table illustrating the inconsistencies among the three payment projection committees is attached as Appendix A.

Payment projection committees develop information inconsistently. The Income Maintenance Committee on Payment Projections continuously refines its methodology, meets regularly on a monthly basis, keeps detailed meeting minutes, and utilizes forecasting methods (i.e., regression analysis) that take into account such factors as caseload and economic factors for more accurate budget projections. It also has a subcommittee that meets to actually develop the budget projections before presenting them to the larger committee. The other two committees are not as organized and their forecasting methods are not as sophisticated, although the same core personnel are involved.

The Child Welfare Services Committee on Projections meets every other month, keeps minutes, and utilizes time-series regression for forecasting that reviews expenditures over time. The Med-QUEST Division Committee on Payment Projections meets monthly, keeps no formal record, and has not developed a standard method for forecasting.

At the time of our 1994 audit of the foster board payment program, we noted that the department had only begun to develop a budget projection model for the program. We found that the time series regression model, which tracks expenditures over time, was inadequate because it did not

take into consideration factors other than expenditures. Nothing has changed over the past three years. The department still does not take into account such factors as caseload.

We also noted concerns with the inaccuracies of the budget projections for the QUEST demonstration project. We noted in our prior audit that the Med-QUEST Division had not consulted with the planning office nor with any of the committees on payment projections during the first few years of the project. If the division had spent time forecasting its needs, it may have been better prepared for the vast increase in enrollment and resulting increase in the cost of the project.

Although the department had started up a Med-QUEST Division Committee on Payment Projections, the committee is experiencing growing pains. Agendas or minutes are not regularly kept. The discussions are informal with the deputy director presiding, the finance officer presenting the financial reports, and the research staff presenting enrollment data. Although the budget projections are based on historical costs and enrollment/utilization numbers, the information is not subject to any type of forecasting analysis as with the other payment programs.

These inconsistencies among the three divisions and their respective committees on payment projections make it difficult for the Department of Budget and Finance and the Legislature to track the needs of the financial assistance, medical assistance, and foster board payment programs.

The Department of Human Services states that its numbers are accurate and faults the Department of Budget and Finance and the Legislature for “arbitrarily changing” its numbers. Although some revisions may be made to the initial numbers, the department is at fault for not clearly explaining its numbers and scenarios. The Department of Budget and Finance substantiates that the Department of Human Services constantly modifies its numbers until the very last minute before submission to the Legislature. This provides little time for the budget analyst at the Department of Budget and Finance to review the numbers. This also leaves the Legislature with little assurance that the State’s financial controller, the director of finance, can attest to the accuracy and reasonableness of Department of Human Services projections.

***The department does not present clear information***

During the past legislative session, the department could not clearly explain the basis for the payment projections. When the projections changed because updated information was obtained, the reasons for the changes were not always clear.

Confusion over the forecasting methods is not new. Our audit of the foster board payment program in 1994 was prompted by the department's inability to justify sufficiently its request for an emergency appropriation to cover a shortfall in FY1993-94 for foster board payments. The department had estimated that it would need \$1.16 million to cover the shortfall, but subsequently increased the request to \$1.96 million.

Section 56.3 of Act 252, SLH 1994, directed the department to conduct a study to explain its projection methodology for income maintenance payment programs in light of large shortfalls for its Aid to Families with Dependent Children (now known as Temporary Assistance to Needy Families), Aid to the Aged, Blind, and Disabled, and General Assistance programs. In response to the budget proviso, the department submitted the *Report on the Methodology of Payment Program Projections* in January 1995. While the report was very detailed, it was highly technical in nature and was not readily understood.

Although the Legislature realizes that forecasting has its limitations, the research staff at the Department of Human Services needs to simplify the process. A text on forecasting notes the following:

Presentation of forecasts to management should use simple illustrations and explanations. Forecasters tend to enjoy complex mathematics, but all forecasting processes should be able to be explained in laymen's terms. If the process cannot be explained to management without resorting to complex jargon, it should probably be discarded.<sup>3</sup>

The department has difficulty explaining the basis for its projections, and confuses the issue when it provides additional information. During the 1997 legislative session, the department developed and presented 32 different scenarios for its payment programs without clearly explaining the rationale or necessity of presenting such a large number of scenarios or what each scenario meant.

The department should ensure in its presentations to the Legislature and the Department of Budget and Finance that it: 1) clearly presents the models; 2) notes any assumptions and resulting limitations; and 3) keeps budget staff and legislators informed of any changes to the forecasting models.<sup>4</sup>

**Exhibit 2.2**  
**FY1997-98 Appropriations for Payment Programs**

Program ID	Program Title	General Funds	Federal Funds	Transfer Funds
HMS 201	Temporary Assistance to Needy Families (TANF)	\$44,009,296	\$85,910,687	
HMS 202	Payments to Assist the Aged, Blind, and Disabled (ABD)	\$29,474,516		
HMS 203	Temporary Assistance to Other Needy Families (TAONF)	\$42,573,741		
HMS 204	General Assistance Payments (GA)	\$27,047,944		
HMS 230	Health Care Payments	\$142,235,120	\$147,645,121	\$6,000,000*
HMS 245	QUEST Health Care Payments	\$166,963,798	\$169,005,837	
HMS 303	Child Placement Board and Related Client Payments	\$11,986,770	\$7,738,775	
<b>TOTAL</b>		<b>\$464,291,185</b>	<b>\$410,300,420</b>	<b>\$6,000,000</b>

\* Funds transferred from DOH for developmentally disabled clients.

The department’s \$1 billion budget is the second largest operating budget in the State and the payment programs make up close to 80 percent of the department’s budget or \$464.3 million in general funds and \$410.3 million in federal funds for FY1997-98. (See Exhibit 2.2.) The size of this budget requires communication that is comprehensible.

**Conclusion**

The Department of Human Services continues to manage its programs poorly. Rather than ensuring that program components are in place before a program is implemented, the department forges ahead without considering how the program’s effectiveness will be determined or how the new program will impact existing programs. When areas of concern are raised, the department fails to address some areas and the problems remain. Policies and procedures are not written, program effectiveness is undetermined, and staff are unclear about their responsibilities. Further, a lack of integration among divisions leads to duplicative effort. The department has been remiss in demonstrating to the Legislature that it can meet the needs of clients in the most cost-effective manner possible.

**Recommendations**

1. We recommend that the governor charge the director of human services with the responsibility for ensuring that the Department of Human Services corrects past deficiencies identified in prior audits. Specifically, the department must:

- a. Develop and implement written policies and procedures for Food Stamp Employment and Training Program staff;
  - b. Develop and implement written policies and procedures for contract management and provide formal contract management training to staff;
  - c. Ensure ALEX or another job search database is available for clients at all units;
  - d. Implement a management information system designed for managed care since the Department of Human Services does not know when the QUEST Information System will be completed;
  - e. Ensure that the report of the demographic data on foster children and their expenditures are complete and accurate; and
  - f. Develop ceiling amounts for foster board-related expenditures.
2. The department should assess the extent to which the First to Work Program and the Food Stamp Employment and Training Program can be integrated and proceed with that integration.
  3. The director should ensure that evaluations are incorporated into existing programs. In the future, the director should ensure that the evaluation component is developed prior to program implementation.
  4. The director should ensure that the committees on payment projections are run consistently. All of the committees should meet regularly, keep a formal record of meeting minutes, and continuously refine their projection methodology. Furthermore, any information presented to the Legislature should be clear, understandable, and accurate.



## Appendix A Inconsistencies Among the Committees on Payment Projections

	Income Maintenance (IM-COPP) and Sub-Income Maintenance (Sub-COPP)	Child Welfare COPP	Med-Quest COPP
<b>Date Formed</b>	IM-COPP was formed in April 1983.  Sub-COPP was formed in July 1996.	Child Welfare COPP was formed before February 1993.	Med Quest COPP was formed in July 1996.
<b>Frequency of Meetings</b>	IM-COPP meets on the last Wednesday of each month.  Sub-COPP meets on an irregular basis, but usually before the legislative session.	Meets every other month.	Monthly on varying dates.
<b>Committee Members</b>	Deputy Director, BESSD Administrators, DHS Administrative Service Officer, B&F Budget Analyst, DHS Researchers, other DHS personnel.  Deputy Director, Research Staff, Program Budget Analyst, BESSD Administrator, and Program Development Officer.	Deputy Director, Admin. for SSD, SSD Planner, Program Budget Analyst, Research Staff, B&F Budget Analyst, Fiscal Officer, and other DHS personnel.	Governor's Rep., Deputy Director, QUEST Financial Officer, Program Budget Analyst, DHS Research Staff, B&F Budget Analyst, and other DHS personnel.
<b>Methodology Used</b>	IM-COPP reviews the bivariate and multivariate regression models provided by the research staff.  Sub-COPP reviews the bivariate and multivariate regression models provided by the research staff.	Time series regression technique.	None.
<b>What is Presented at Meeting</b>	IM-COPP committee reviews payment projections presented by research staff and any other concerns on welfare reform.  Different payment projections are discussed and the best are chosen and presented to IM-COPP.	Budget projection numbers by researchers, trends concerning expenditures, and concerns with CWS, welfare reform.	Expenditure, enrollment numbers, and policy changes information.
<b>How Information is Used</b>	Project and monitor BESSD money payment programs' caseload and expenditures.  Sub-COPP determines the best group of scenarios to be presented to IM-COPP committee.	Project and monitor social services programs' expenditures.	Project and monitor Medicaid and QUEST payments.
<b>Meeting Minutes?</b>	IM-COPP has meeting minutes while Sub-COPP does not.	Yes. Minutes of the meetings are taken.	No. Notes only.



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## Notes

### Chapter 1

1. Section 69, Act 328, SLH 1997.
2. Hawaii, Department of Human Services, *DHS Story*, Honolulu, 1997, p. 1.

### Chapter 2

1. Justification for budget requests for HMS 904 provided to Rumiko Okuma, Budget Analyst, House Committee on Finance, by the Department of Human Services during the 1997 legislative session.
2. Deanna T. Schexnayder and Jerome A. Olson, *Hawaii Food Stamp Employment and Training/JOBS Conformance Demonstration: Impact Evaluation Final Report*, Center for the Study of Human Resources, Austin, TX, June 1997.
3. G.F. Wilkinson in C.L. Jain (ed.), *Understanding Business Forecasting*, 2nd edition, Flushing, NY: Greenway Publishing, 1988, p. 4.
4. *Ibid.*, p. 6.



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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of Human Services on December 3, 1997. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

The department generally agrees with our recommendations and claims to have begun implementing many of them. The department feels that our recommendation to develop a ceiling on foster-board related expenditures is a policy issue that should be determined by the Legislature. The department also acknowledges that the department must continue to improve its management strategies and communicate more clearly to the Legislature.

Although the department agrees with our recommendations and acknowledges the need for improvement, it takes issue with some of our findings. However, while the detailed response provides additional information about the department's programs, the response effectively reinforces the point of our findings — more work needs to be done to manage the department's programs with deeper commitment to prudent spending and demonstrated outcomes.

Policies and procedures need to be developed. Contract management needs to be improved. Consistent caseload information needs to be collected and reported. Welfare-to-work programs need to be more fully integrated. Programs must be evaluated.

The level of detail in the response does not obscure that point. The most important (and most telling) element of the department's response is the promise to implement our recommendations.

The department attached several documents to its response, some of which are dated after the completion of our fieldwork. Attachments accompanying the department's letter of response are on file at our office.

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor  
(808) 587-0800  
FAX: (808) 587-0830

December 3, 1997

*COPY*

The Honorable Susan M. Chandler, Director  
Department of Human Services  
Queen Liliuokalani Building  
1390 Miller Street  
Honolulu, Hawaii 96813

Dear Dr. Chandler:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Management Audit of the Department of Human Services*. We ask that you telephone us by Friday, December 5, 1997, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, December 12, 1997.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marion M. Higa".

Marion M. Higa  
State Auditor

Enclosures

BENJAMIN J. CAYETANO  
GOVERNOR



SUSAN M. CHANDLER, M.S.W., Ph.D.  
DIRECTOR

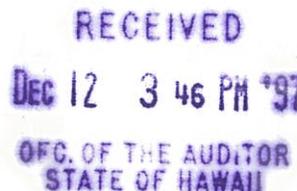
KATHLEEN G. STANLEY  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES

P.O. Box 339  
Honolulu, Hawaii 96809-0339

December 12, 1997

The Honorable Marion M. Higa, State Auditor  
Office of the Auditor  
465 S. King Street  
Honolulu, Hawaii 96813-2917



Dear Ms. Higa:

RE: Management Audit of the Department of Human Services

Attached you will find our Department's responses to the management audit findings and recommendations for the Department of Human Services. We are also submitting copies of:

1. Employment and Training Program operational procedures (draft);
2. Hawaii Health QUEST, Medical Early Periodic Screening, Diagnosis, and Treatment, Program Study Report by FMH, Inc., External Quality Review Organization, October 1997;
3. Information Summary 1994 - 1997, by the Department of Human Services, MedQUEST Division, November 1997;
4. Hawaii QUEST Monitoring Report August 1, 1994 through June 30, 1996, Submitted by the State of Hawaii Department of Human Services, May 1997;
5. QUEST/MEDICAID BRIEFING, February 7, 1997, by Susan M. Chandler, Director, Department of Human Services.

Thank you for the opportunity to comment on the draft *Management Audit of the Department of Human Services*.

Sincerely,

Susan M. Chandler

Susan M. Chandler, M.S.W., Ph.D.  
Director

Attachments

## INTRODUCTION

The Department of Human Services (DHS) has received the Management Audit of the Department and has several concerns it would like to address in its response. Generally, we find the Audit to be deficient in scope and methodology and the findings incomplete and in places, inaccurate. Many of the Auditor's findings were merely repeated comments from the 1995 Audit with little acknowledgment of the steps the Department has taken to improve. The Department is aware that it must continue to improve its management strategies and communicate more clearly to the Legislature about its complex programs and services. It is clear that DHS must better document its successes and explain its challenges.

The Department finds the Report's Chapter headings to be somewhat misleading and unhelpful, particularly since there is evidence of departmental progress being made in every area. To summarize the Department's response:

- All of the issues and recommendations noted in the Auditor's Report have been addressed by DHS and progress has been made on every one.
- Many of the questions raised by the Auditor could have been easily answered by interviewing the Director or the Deputy Director. However, neither was interviewed until the Audit was completed and discussed in an exit interview on November 28. The Auditors didn't ask for clarification from any of the Department's Division Administrators when information was conflicting or confusing. If the Auditor had requested information from the DHS management team, she would have seen the material attached in the Appendices and perhaps, many of her questions and concerns would have been answered.
- The Department is particularly concerned about the Auditor's criticism that the Department provided unclear and confusing information about its projections. DHS has a Committee on Payment Projections (COPP) for Medical Assistance, one for Benefit Payments and one for Social Services. These groups meet regularly and bring together departmental budget staff, research staff, program staff, management staff and Budget and Finance staff. The Benefit, Employment & Support Services Division (BESSD) is in the process of establishing another COPP to project case load and expenditures for the new employment and child care program activities. Program and budget projections are never perfect and they are particularly difficult when federal statutes and requirements change.
- Last year, DHS designed many new programs to meet the changing Congressional action and federal welfare reform. The Department will increasingly improve its predictive ability as it gains experience with these new programs. In years past, the DHS has done an excellent job of predicting its payment program caseloads and expenditures and the Legislature depended on the Department's projection

methodology. Last year, in an attempt to consider the impact of new welfare programs, the Department offered several different scenarios to discuss the possible effect of program changes. This may have been confusing to those unfamiliar with federal and state welfare policies and statistical techniques used in forecasting. The Department is very aware that payment projections are extremely important and feels confident that its methodology has been quite good. The overestimation of the welfare payment program last year was unique and the Department now has adjusted its assumptions and will be more accurate in Fiscal year 1999.

The following section contains the specific detailed responses to the auditor's findings.

## RESPONSES TO LEGISLATIVE AUDITOR'S FINDINGS

### FINDING #1:

#### A. Welfare-to-Work

1. Policies and procedures are still lacking in Food Stamp Employment and Training Program.

#### Response:

The Food Stamp Employment and Training Program is a federally funded program to assist able-bodied adults to become attached to the workforce. While it may seem somewhat similar to the Department's other welfare programs like Temporary Assistance to Needy Families under PONO, there are different federal rules and regulations that oversee the program's design and funding. Recipients of Food Stamps "only" cannot be served under TANF by law. Last year 3,372 persons entered Food Stamp E&T compared to over 169,047 who were eligible for PONO. While policies and procedures are extremely important, progress on this has been delayed by staff shortages and position vacancies. Since the last Legislative Audit, the Department experienced a reduction in program staffing in both the Food Stamp E&T as well as the JOBS/First-To-Work Program.

Attachment 1 is a list of operational procedures, in draft form, that have been sent to the auditor with our response.

2. Contract management is still lax in the First-to-Work Program.

#### Response:

The recommendation that the division establish policies and procedures for contract management, oversight, and monitoring is being addressed. As part of the reorganization, the Administrative Management Services (AMS) Staff Office was established within the BESSD to manage the contracts, budgets, and expenditures for the BESSD. Procedures were developed to better monitor the expenditures and authorize payments. The division is working on developing contracts on a more timely basis to coincide with the planned expenditures. Staff involved in the development and oversight of contracts attended the Department of Accounting and General Services Contract Administration training in November 1997 and as a result are establishing the roles and responsibilities of the program staff and the AMS staff in managing contracts.

3. ALEX is not operational in the First-to-Work Units.

Response:

At the time of the previous Legislative Audit, the Department had a contract with the Department of Labor and Industrial Relations (DLIR) for Employment Counseling Services. Accordingly, agreement had been reached for ALEX connections at each First-to-Work (FTW) Unit. At the end of June 1995, through restrictions, the Employment Counseling contract was eliminated. With that, funding for the ALEX connection was ended.

In the audit report narrative, there is recognition of the Department's belief that it was necessary for there to be Labor counselors in order to get access. In cooperation with DLIR, we will move forward to provide access to ALEX for the FTW and Employment and Training (E&T) Units. ALEX is currently available and accessible in the DLIR offices statewide.

B. QUEST

1. The Department cannot ensure proper eligibility.

Response:

The Med-QUEST Division (MQD) is very cognizant of the need to eliminate those individuals who should not be on the program. A major effort is underway to aggressively attack both the overdue and the currently due eligibility reviews. The current effort involves doing as much work by mail as possible, thus decreasing the need for clients to come into the office for personal interviews. Since any review done now will be due again in twelve months, the scheduling of the work will be done over a twelve month period, tackling those due this month and a percentage of those overdue. The overdue reviews addressed first are those in the Aged, Blind, and Disabled (ABD) population and those with earnings. This way the highest cost cases and those most likely to become ineligible will be given top priority. Also, by spreading the overdue eligibility reviews over a twelve month period, there will not be a large number due in a given month in one year and reviews will be fairly evenly divided among all months of the year.

While the number of cases with overdue eligibility reviews is large, the Branch sections have been working to bring that number down. The neighbor islands have made great strides and are just about up to date. The problem remains on Oahu.

The Med-QUEST Division has not ignored the problem and has implemented many strategies to address it. Eligibility reviews were completed on all of the ABD cases to ensure that they were up to date. This effort was done in late 1995 and early 1996. These are the highest cost cases that have been managed more aggressively than the other cases.

Additionally, the program has instituted a HAWI change to automatically insert a plan end date in the system whenever a case is closed. This will ensure that the plans are properly notified of the ineligibility of the individuals and do not continue coverage to ineligible.

The Department's Quality Control staff have continued to review medical cases for correct implementation of the policies and eligibility. Any adverse findings are reported to the Med-QUEST Division and cases are addressed immediately. In addition, the Quality Control staff works with the Division's staff to assist in the review of some of the applications and cases to detect and report any problem areas.

The Eligibility Branch has requested additional positions to accomplish all of its tasks. The Executive Supplemental Budget for FY99 includes requests for IMW positions. These additional positions will enable the Division to make more strides in accomplishing its work. Plans are to use the new IMW positions, should the legislature approve the request, to augment the Oahu sections. Staff will also be outstationed to the BESSD units to handle the medical portion of their cases. This co-location of staff will not only improve beneficiary services but will reduce duplication of effort between divisions. That would leave staff located at the MQD office needing to deal only with their "medical only" cases. It is felt that staff would be able to complete the majority of the reviews after the additional staff requested in the supplemental budget are hired.

The revised Standard Operating Procedures (SOP) have been finalized and staff will be trained. During the past year, Med-QUEST and BESSD divisions have worked together and made great strides in smoothing out the processes between them. This has shortened the time that clients wait to receive medical benefits. Liaisons are in place for all of the BESSD units on Oahu and complaints have been drastically reduced. The SOPs will provide written procedures for staff to follow.

2. An integrated management information system has not been developed.

Response:

The Department acknowledges that a fully integrated information system (i.e., the QUEST Information System (QIS)) has not been developed. However, the

Department does have interim systems designed to deal with enrollment into managed care plans and track premium share payments. The HAWI system, although not originally designed to deal with managed care enrollments, was modified at the inception of QUEST to accommodate this functionality. This functionality has been further modified to automatically insert plan end dates in the system whenever a case is closed. This will ensure proper notification of ineligible individuals to the managed care plans and reduce the amount of unmatched premium payments.

Although the contract with Unisys to develop the integrated QIS has been terminated, the Department is taking action to re-procure a contractor to develop an information system to support the Medicaid program, including the QUEST project. In December 1997 the Med-QUEST Division will be issuing a Request for Information (RFI) to determine what vendors and technologies exist in the marketplace that can assist the Division to cost-effectively implement an information system. After the completion of the RFI process, the Department anticipates issuing a Request for Proposal for the design, development and implementation of the information system in mid-1998.

C. Foster Board Payment

1. Accurate caseload information is not available.

Response:

The discrepancies noted in the "total caseload" report were due to different definitions; "foster care services" versus "foster board payments." The department provides foster care services for children who are living in out of home care but these services do not include adoption and other permanent legal custody types of cases such as legal guardianship. Our foster board payments include payments made for children who receive foster care services and also children who are eligible for adoption assistance and permanency assistance payments. The department includes adoption assistance and permanency payments as part of its total foster board payments caseload. However, the department does not consider these payments to be part of its foster care services caseload.

The auditor did not request demographic data on clients served under the foster board payment program, and consequently, the Department did not provide demographic data on clients receiving foster board payments.

The auditor did request demographic data on children receiving **foster care services**. We confirmed that this was limited to Emergency Shelter, Relative Placement, and Non-Relative Placement. We have reviewed the data and found that the data accurately matched the auditor's request.

The number of clients receiving foster care services was 1,772. The difference in numbers was due to missing data elements, not to inaccurate casecounts. This was clearly explained to the auditor. If the Auditor had requested demographics on all clients receiving foster board payments, we would have provided these statistics.

The auditor then requested a count (not demographics) of children receiving services under HMS303. This includes: wrap-around-services, emergency shelter, relative care, non-relative care, higher education, permanency assistance, adoption assistance, and board related expenditures. The auditor requested an unduplicated count. However, the auditor requested the count to be broken out by type of service, with each child being counted once in each service that he/she received. Since clients can receive more than one service, such a count results in duplication. The department provided the auditor with both duplicated and unduplicated counts.

Apparently, the auditor tried to compare the number of children receiving foster care (ESH, Relative, Non-Relative) with the number of children receiving services under HMS303(wrap-around, ESH, relative, nonrelative, higher education, permanency assistance, adoptions and related services) and found that they did not match.

#### FINDING #2:

Welfare-to-work programs are poorly integrated.

#### Response:

The Department's First-to-Work Program serves TANF recipients. Food Stamp "only" cases cannot be served under TANF by law. Food Stamp Employment and Training serves Food Stamp "only" recipients. The programs can be coordinated only when a client receives both Food Stamps and TANF. These families are integrated into the Department's First-to-Work program.

The example used by the auditor of a E&T participant not being able to access Adult Basic Education is inaccurate. Such a person could (and should) attend such a class given by the Department of Education at no cost. Such a person could not attend a TANF class under contract with First-to-Work which is offered during the day and designed for parents with children. If an E&T person attended the TANF class, the Department would incur a cost not budgeted. Under the current federal rules, the Department has integrated the welfare to work programs and will continue to search for ways to streamline and merge operations where possible.

On July 1, 1997, the financial and food stamp eligibility determination programs of the Family and Adult Services Division and the child care and employment programs of the Self-Sufficiency and Support Services Division were merged into the Benefit Employment and Support Services Division. This alignment allows better coordination among the welfare and work programs, improves operations and delivery of services and maximizes the utilization of resources.

FINDING #3:

A. The department has not conducted program evaluations.

Response:

The Program Evaluation Staff of the Management Services Office of the DHS have been performing various program evaluation activities including the development of evaluation instruments and mechanisms. (See Attachment 2) The department acknowledges, however, that existing staff cannot serve all program areas and concerns of the entire department.

Because of the many organizational and program changes that are currently affecting DHS, the Management Services Office, in consultation with the Director, decided to assess and prioritize program evaluation needs and activities. Thus, on November 5, 1997 the Management Services Office initiated an internal communication asking all DHS division administrators and staff officers to assess and report their top three (3) priority program evaluation services needs. (See Attachment 3). Upon receipt of all division/staff office program evaluation services needs requests, the Management Services Office, in consultation with the DHS Director, will establish a departmental program evaluation services priority listing and guidelines for Management Services Office staff to follow in their future work activities.

The Department is currently conducting an evaluation of the PONO program, which began December, 1996. (See Attachment 4) This evaluation tracks cohorts (random samples of recipients) as they enter the TANF system and progress through the five year eligibility. Every six months a new cohort is selected. This system objectively and systematically assesses on a regular basis what happens to PONO clients after they come in for services. Outcomes being measured include: income, earnings, work participation, hours worked, case closings, and recidivism.

B. The department cannot determine whether QUEST has met its objectives.

Response:

The department disagrees with the auditor's findings that the QUEST waiver demonstration project lacks an effective evaluation. While it is true that the

researcher positions were not filled for some time after the QUEST project was initiated and a fully integrated management information system for QUEST is not yet operational, it is not true that the Department has been unable to determine whether the QUEST program objectives are being met.

The Division has been actively involved in collecting and analyzing data on the program. The Division conducts regular on-site reviews; examines complaints and grievance logs submitted by the health plans, financial and utilization reports including Health Plan Employer Data and Information Set (HEDIS) utilization and quality of care performance measures; and has engaged the services of an External Quality Review Organization (EQRO) to evaluate the plans' quality of care performance. The Division has conducted annual customer satisfaction surveys since the inception of QUEST and will be implementing a provider satisfaction survey. Through other systems, the Division tracks the number of members served and the per member per month cost for the project.

As noted in the auditor's report, the objectives of QUEST are "to improve access to quality medical and related health care services, contain 'explosive' costs in medicaid, create a system where clients can choose to receive care from competing health care plans, and provide greater security for clients in both coverage and services." All of the data suggest:

1. Access has improved. The health plans have expanded the number of providers who see and treat persons on public assistance. By contract, each plan is required to provide each member with a primary care provider to oversee the person's health care needs. Each plan also has a quality assurance program which includes credentialing its providers and regular monitoring of its providers to ensure quality care. Additionally, the Department conducts on-site reviews of the plans.
2. As explained in our response to this in the Legislative Auditor's earlier report, QUEST has reduced the per member per month (PMPM) cost. The PMPM was further reduced when the Department rebid the QUEST contracts.
3. Members are offered and are exercising choices. Most choose their own medical and dental plans (less than 1% must be autoassigned). When the Division rebid the contracts, the State added a new medical plan, Kapiolani HealthHawaii and a new dental plan, AlohaCare. Therefore, this year, QUEST members were able to choose one of six medical plans and one of three dental plans.
4. As noted previously, QUEST members are provided with quality care. Access to services has improved, inpatient utilization (based on number of hospital days per 1,000 members) has been reduced, immunization rates have increased, EPSDT participation (Medicaid's program for children) has greatly

increased overall and in particular for adolescents. Complaints from members are low, and plan changes and satisfaction surveys over the past two years indicate general satisfaction with their plans, providers and the QUEST program.

The above information has been reported to HFCA and the Legislature.

With regard to the Auditor's specific findings on the two research positions and encounter data, we offer the following. Budget restrictions placed on the Department prevented the Division from filling all of its needed positions. The Department has acknowledged the importance of the researcher positions for QUEST and once the restrictions had been lifted, the research positions were filled. The first researcher position was filled in May 1997 and the second one in June 1997.

The Department agrees with the Auditor that an information system specific to managed care should be implemented for QUEST. The Auditor is correct in that the Division determined that the data fields of the initial encounter file required improvement. The revised encounter reporting requirements were developed jointly by the MQD research officer, MQD medical director, MQD systems officer, the MQD's external quality review organization (contractor involved in validating encounter data), Unisys personnel and QUEST plan representatives. The new encounter reporting requirements have been documented in a manual and distributed to the plans. The plans are currently revising their own data systems to comply with the requirements and have committed to converting the "old" encounter records to the new format.

While it is true that encounter testing had not occurred during the audit period, encounter testing has occurred subsequent to this period. The Division also did testing for provider reporting and has assumed responsibility for maintaining the health plan manual. The Division is now in the process of procuring an interim system which will process encounter records and generate utilization reports. The Division is confident that once the interim encounter system is implemented the QUEST plans will be able to send their encounters within two weeks of notification.

By July 1998, the Division should have encounter data back to January 1, 1995. The QUEST plans have all committed to submitting the necessary data in accordance with the new format. Therefore, the Division will have the necessary data to conduct the necessary pre- and post-evaluations required for the waiver projects. The Division is confident the new encounter system will be able to meet HCFA's requirements as well as provide more information for Division staff to effectively monitor plan performance.

We have transmitted to the auditor the following which demonstrate the Department is evaluating the QUEST program:

Hawaii Health QUEST, Medical Early Periodic Screening, Diagnosis, and Treatment, Program Study Report by FMH, Inc., External Quality Review Organization, October 1997

Information Summary 1994 - 1997, by Department of Human Services, Med-QUEST Division, November 1997

Hawaii QUEST Monitoring Report August 1, 1994 through June 30, 1996, Submitted by The State of Hawaii Department of Human Services, May 1997

QUEST/MEDICAID BRIEFING, February 7, 1997, by Susan M. Chandler, M.S.W., Ph.D., Director, Department of Human Services

**FINDING #4:**

A. Budget projections are inaccurate.

Response:

The auditor reports that "Budget projections for FY 1996-97 were inaccurate...the department requested more [general] funds than needed for its Temporary Assistance to Needy Families (TANF) program by \$11.8 million, Payments to Assist the Aged, Blind and Disabled by \$2.9 million, Other General Assistance Payments by \$162,000.... This money could have been used by other programs."

The percentage variances between appropriations and actual expenditures for the financial assistance programs, including all means of financing, are:

HMS 201 - Temporary Assistance to Needy Families 10.5%  
HMS 202 - Payments to Assist the Aged, Blind and Disabled 12.7%  
HMS 204 - Other General Assistance Payments 0.6%

The variance for TANF and AABD exceeded 10% because substantial changes to policies were made to these programs. The PONO waiver changed eligibility criteria, income and asset retention limits, and payment standards for HMS 201. Due to a newly expedited review process, more GA cases were moved to AABD pending SSI determination. Estimating the effect of this program change was difficult to predict. The Projections Sub-Committee of IM-COPP estimated the effect

that these changes would have on program caseloads and expenditures without the benefit of any prior experience. Under the circumstances, the projections were reasonable.

*Note: HMS 201 did not become the TANF program until 7/1/97 – during FY 1997 it was still AFDC. The auditor's report has the program title wrong.*

B. Committees on payment program projections are run inconsistently.

Response:

Although formal minutes were not taken for the Med-QUEST COPP meetings, notes were taken from the November 11, 1996 meeting and thereafter. (See Attachment 5) These notes recorded and highlighted the important issues discussed during these meetings. Although meetings were held in January, April, and May 1997, notes were not circulated for these meetings.

The auditor has also commented that the Med-QUEST Division budget projections are based on historical cost and enrollment/utilization numbers and the information is not subject to any type of forecasting analysis as with the other payment programs. Under the Medicaid Program, fee for service projected cost is based on the utilization of services, not caseload. For the QUEST program, the projection of recipients eligible for services is coordinated with the other payment programs.

The Department makes every effort, given our limited resources, to project as accurately as possible. Both the Executive and Legislative branches regularly make changes to our budget requests for the payment programs. During the 1994 legislative session, the budget submitted to the Legislature was reduced and this did not reflect the Department's projections. Subsequently, emergency appropriations were necessary to meet the shortfall. However, since January 1995, the requests reflect the Department's projections.

The 1997 legislative session was unusual: the policy and administrative changes due to welfare reform made the payment programs projections complicated and difficult to predict. The DHS research statisticians and budget analysts offered to meet with the Legislative Senate staff several times during the session, and the offers were not accepted. Perhaps this would have improved communication between the Legislature and the DHS.

The Department does modify its numbers and projections when necessary. The Department does an initial projection when we submit the budget in the fall, and then re-projects and updates our request in February or March. This is done to include the most recent available data in our projections, and hopefully make them as accurate as possible. In the past, the Legislature has routinely asked us to provide updated projections during the session for precisely these reasons.

C. The Department does not present clear information.

Response:

The Department provided Budget & Finance, the Legislature, and the public with all information used in the budget projections. This included the raw data, the forecast parameters, and the forecast methodology. The Legislative staff, the auditors, as well as members of the public were able to reconstruct our figures. A budget history from 1990 to 1995 was provided to the Legislature in 1995. An updated payment programs budget history from 1994 on, is attached. (See Attachment 6)

The Auditor claims that the Department uses complex mathematics and resorts to complex jargon. The most sophisticated mathematical technique used is regression analysis. This is the technique that the Legislative Auditor recommended that the Department use in budgeting public welfare programs. (BUDGET REVIEW AND ANALYSIS OF THE PUBLIC WELFARE FINANCIAL ASSISTANCE PROGRAMS, A Report to the Legislature of the State of Hawaii, Report No. 84-10, January, 1984)

Absent from the Auditor's report is any mention of the fact that the Department was budgeting for a new welfare reform program. This new program involved a number of policy changes. While the Department recognizes that the budget may have been confusing, the confusion was not due to complex modeling, but to the range of policy changes and options.

The Department feels that it continuously strives to: 1) clearly present the models; 2) note any assumptions and resulting limitations; and 3) keep the Department of Budget and Finance and legislators informed regarding the budget and caseload projections.

## CONCLUSION

The Department generally concurs with the auditor's recommendations and is actively implementing many of them.

The Department:

- has completed a draft of written policies and procedures for the Food Stamp Employment Program;
- is currently working to improve First-to-Work contract management;
- during December 1997, will be issuing a Request for Information (RIF) to determine what vendors and technologies exist to cost-effectively implement an information system, for the QUEST program. After completion of the RFI process, the Department anticipates issuing a Request for Proposal for the design, development and implementation of an information system in mid-1998.
- will continue to improve and clearly communicate information on foster children;
- will consider further integrating department work programs as federal law allows;
- will continue to evaluate and improve our program evaluation efforts;
- will continue the progress already made in the Committees on Projections including developing a new committee for employment and child care programs; and
- will renew our efforts to present clear and understandable information to the Legislature on the Department's complex and changing programs.

We will discuss Recommendation #1(f) with the Legislature as we believe that developing a ceiling on foster-board related expenditures is a policy issue to be determined by the Legislature.

The Department remains committed to its mission of servicing those most in need and looks forward to working with the Legislature to ensure that we do it in the most cost-effective and efficient manner possible.