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This study was conducted to determine the effectiveness of Arizona’s implementation of State Legalization Impact Assistance Grants funds awarded under the Immigration Reform and Control Act of 1986.

The report was prepared under the direction of Don McLaughlin, the Regional Inspector General of Region VII, Office of Analysis and Inspections. Participating in this project were the following people:

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IMPLEMENTATION OF THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS UNDER THE IMMIGRATION REFORM AND CONTROL ACT OF 1986

STATE OF ARIZONA

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EXECUTIVE SUMMARY

PURPOSE

The purpose of this inspection was to determine how effectively Arizona implemented the State Legalization Impact Assistance Grants (SLIAG) program, to identify potential problems early in the process, and to identify good practices which all States could share.

BACKGROUND

The SLIAG program was established under the Immigration Reform and Control Act (IRCA) of 1986 to reduce the financial burden of providing public assistance, public health assistance, and educational services to eligible legalized aliens. In Fiscal Year (FY) 1988, $928.5 million in program funds were allocated to States, and funds will continue to be allocated through FY 1991. These funds also cover administrative costs for implementing SLIAG at the State and local levels. Payments are made for public assistance activities generally available to all needy individuals and public health assistance services offered under the States’ public health programs. The payments also cover educational services designed to assist eligible legalized aliens to attain a satisfactory level of performance in school and to achieve English language proficiency and citizenship skills necessary to become permanent residents. The Family Support Administration (FSA) is responsible for administering the program.

Because SLIAG was a new program, FSA realized that problems would surface early in its implementation. In addition to the normal difficulties encountered in creating new processes and procedures, FSA recognized that SLIAG would have unique problems. Some of these issues include the diversity of programs which SLIAG encompasses, cultural and language barriers associated with the service population, maintaining confidentiality of information, and the extremely short time frames for the grant award process.

METHODOLOGY

In response to the anticipated difficulties with implementing SLIAG, FSA requested that the Office of Inspector General (OIG) conduct reviews in 10 States to determine the progress of States’ implementing this program. The FSA selected nine States and the District of Columbia because of the variety of programs they offered, the number of eligible legalized aliens in the population, or the amount of the grant award. The nine States are Arizona, California, Colorado, Florida, Illinois, Massachusetts, New York, Texas, and Washington.
Interviews based on structured discussion guides for each major program area, as well as documentation furnished by FSA and State and local officials, built the base of information for this report. This report represents the review conducted in Arizona and reports on its implementing the SLIAG program as of August 1988.

Both FSA and Arizona were committed to identifying problems and developing innovative and effective solutions for them. Immediately following our on-site visits, FSA was given an outline of the State concerns identified in this report.

**FINDING: Since 1987, FSA has held national conferences and issued information to States on implementing the SLIAG program.**

- The FSA held several national conferences beginning in 1987 to share information with States on SLIAG legislation, the implications for States, the application process, and the documentation of costs.

- The FSA also provided States with “Question and Answer” issuances and demographic data from the Immigration and Naturalization Service.

**FINDING: To facilitate implementing the SLIAG program, Arizona took steps to ensure that funds control mechanisms were in place.**

- The State established a financial program capability in its computer system and in the Arizona Financial Information System. The Arizona Department of Administration ensured that appropriate entities had established procedures to identify all expenses and maintained appropriate records.

- The Arizona Department of Health Services used existing contracts with health service providers for the general population to serve eligible legalized aliens and to maintain records of expenditures. The department has established separate accounts for each of these providers in the financial information system.

**FINDING: The Arizona Department of Education has established a pre-enrollment appraisal testing program for eligible aliens.**

- Agencies receiving SLIAG funds will administer a pre-enrollment appraisal test. This test assesses an eligible legalized alien’s ability to speak and understand English and know United States history and government. The test results will be used to match the individual’s needs to program resources, instructional schedules, and referral services; establish a level of competency for placement and assessment of progress; and provide data on the number of individuals served, demographic information, and educational history.
Nevertheless, there are some funds control vulnerabilities.

**FINDING:** The State’s plan for claiming public health assistance costs is not in accordance with program requirements.

- According to the SLIAG regulation, there are three methods to claim actual public health assistance costs. The State’s formula is based on the annual budget for each program approved by the U.S. Department of Health and Human Services (HHS). This is not one of the methods prescribed by regulations.

**FINDING:** The FSA’s definition of public assistance includes some public health activities which created administrative and service delivery problems for Arizona’s public health agencies.

**FINDING:** The Arizona Department of Education may be claiming nonallowable costs as SLIAG-related costs for education.

- The curriculum includes instruction to improve the ability to benefit from occupational training and increase opportunities for more productive employment. Such vocational education services are not authorized for SLIAG reimbursement.

**FINDING:** The State has no plans to deduct program income from SLIAG-related costs.

- Educational providers are permitted to levy a $10 registration fee to cover costs of SLIAG reporting requirements. The SLIAG regulation states that program income must be excluded from SLIAG-related costs.

**FINDING:** The FSA application review process created a number of significant problems for Arizona. Also, the FSA’s application review process interfered with the State’s ability to plan for services.

- Delay in FSA issuing the implementing regulation resulted in the State’s inability to properly plan for SLIAG.

- Numerous policy misinterpretations and disagreements resulted because FSA did not provide definitive written instructions to assist Arizona in understanding SLIAG application requirements.

- The time frames were too short for submitting the initial SLIAG application, review and comment, and revisions of the application.
• Implementing SLIAG-funded programs was delayed because of a significant delay in notifying Arizona of the grant award.

• No formal appeals process exists if programs or costs are denied in the first level review.

As mentioned earlier, FSA and Arizona have already initiated action on some of the recommendations made in this report. Steps have been taken by FSA to provide States with more specific, formal guidelines for identifying and documenting actual program and administrative costs. However, additional actions are necessary in other areas on the part of FSA and Arizona.

**RECOMMENDATION:** The FSA should ensure that costs claimed for public health assistance are in accordance with one of the methods indicated in the HHS regulations and not based on budgeted costs.

**RECOMMENDATION:** The FSA should reconsider its position to classify certain public health services as public assistance and make appropriate adjustments to this position.

**RECOMMENDATION:** The FSA should ensure that SLIAG funds are being used only for approved adult education activities.

**RECOMMENDATION:** Arizona should ensure that program income is properly deducted from SLIAG-related costs before reimbursement is claimed by educational providers.

**RECOMMENDATION:** The FSA should make its application and grant process more orderly. Specifically, FSA should

- provide definitive written instructions on the SLIAG application requirements and establish a dialogue with Arizona on SLIAG policy, compliance, and reporting issues to minimize the confusion that occurred in the initial application process;

- ensure that sufficient time is allotted to the application process including Arizona’s initial application, FSA’s review and formal comment, Arizona’s consideration of FSA comments and negotiation of disputes, and its submission of the revised application for FSA approval;

- develop an appeals process to use if programs or costs associated with providing services are denied in the initial application process; and
- revise the grant award process for approved applications so that the notice of grant award reaches Arizona prior to the beginning of the fiscal year.

COMMENTS

The FSA and the State of Arizona both commented on the draft report. They generally agreed with our findings and recommendations. Both indicated that steps have been taken to improve implementation of SLIAG. Their comments are included verbatim as appendices B and C.
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INTRODUCTION

PURPOSE

The Family Support Administration (FSA) requested that the Office of Inspector General (OIG) conduct an inspection in nine States and the District of Columbia to determine how effectively the States implemented the State Legalization Impact Assistance Grants (SLIAG) program awarded under the Immigration Reform and Control Act (IRCA) of 1986. The inspection included reviewing mechanisms in place to identify these funds and determining whether present or projected policies and procedures adhere to FSA guidelines. The FSA also was interested in identifying potential problems early in the process and good practices which all States could share. This report presents the results of the inspection pertaining to the State of Arizona.

BACKGROUND

Under IRCA, eligible legalized aliens may apply for permanent residency within a 1-year period after they are first eligible (i.e., by the 31st month after they receive temporary resident status).

This new population will increase the demand for State public assistance and public health assistance services significantly. It will also increase the demand for State educational services as these new residents obtain English language and civic skills needed to become U.S. citizens.

To help States defray many of the costs of providing public assistance, public health assistance, and educational services to eligible legalized aliens, IRCA authorized $1 billion each year from Fiscal Years (FY) 1988 through 1991 for SLIAG grants, less an amount identified as the "Federal offset." With few exceptions, eligible legalized aliens are ineligible for federally funded public assistance programs such as Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid. The "Federal offset" is the estimated cost to the Federal Government of providing these services or benefits to those few legalized aliens who are eligible for them. In FY 1988, the law allocated $928.5 million to States.

To receive SLIAG funds, States must apply to the FSA Division of State Legalization Assistance, which is responsible for approving applications and administering the program. The application must be approved in total for a State to receive any SLIAG funds. The FSA also provides States with technical assistance on policy issues and on the methods used to determine costs and verify actual costs.
The basic requirement for States to claim reimbursement is that costs must be allowable, reasonable, and allocable. State public assistance and public health assistance programs must be the same ones available to the general public. States cannot create new programs in these areas specifically for eligible legalized aliens. However, States may create new or additional education programs for the eligible legalized alien population. States may also claim reimbursement for program administrative and SLIAG administrative costs.

Reimbursement for public assistance and public health assistance is limited only to the amount of State and local funds expended for SLIAG-related costs. The maximum SLIAG reimbursement for educational services is an average of $500 per year per eligible legalized alien. Determining program administrative costs should be made in accordance with the final regulation at 45 CFR 402.22.

The FSA is responsible for administering the program. Because SLIAG was a new program, FSA realized that problems would surface early in its implementation. In addition to the normal difficulties encountered in creating new processes and procedures, FSA recognized that SLIAG would have unique problems. Some of these issues include the diversity of programs which SLIAG encompasses, cultural and language barriers associated with the service population, maintaining confidentiality of information, and the extremely short time frames for the grant award process.

METHODOLOGY

The FSA selected nine States and the District of Columbia for the inspection because of the variety of programs offered, the number of eligible legalized aliens in the population, or the amount of the grant. The nine States are Arizona, California, Colorado, Florida, Illinois, Massachusetts, New York, Texas, and Washington. This report reviews Arizona’s implementation of the SLIAG program as of August 1988.

Prior to conducting the inspection, the OIG developed structured discussion guides for each major program activity at the State and local levels. On-site discussions were held with officials from the areas of public assistance, public health, and education.
ARIZONA'S ORGANIZATIONAL STRUCTURE

In Arizona, the Governor has designated the Arizona Department of Administration as the responsible administering agency for SLIAG. Under the designation, the State comptroller of the Arizona Department of Administration is specifically authorized to apply for and accept SLIAG funding and to provide assurance and certification, as required by Federal regulations, to the U.S. Department of Health and Human Services (HHS). The State comptroller serves as the single point of contact and has overall responsibility for the SLIAG program. In Arizona, the single point of contact is not actively involved in the day-to-day activities of administering SLIAG, but rather these responsibilities are assigned to the Fiscal Services Unit supervisor and the deputy comptroller.

The Arizona Department of Administration also is the grantee agency. The agency is responsible for drawing down Federal funds, disbursing these funds, and reporting expenditures of State and local funds to FSA. Arizona will allocate SLIAG funds in accordance with the published rules and regulations and in direct proportion to the documented expenses of each requesting entity.

When the single point of contact draws down the money from the Federal Government, it is deposited into one of two funds accounts. One fund is an account solely for money going to reimburse county expenses. The second is a general fund account used to reimburse State expenses.

On a monthly, quarterly, semiannual, or annual basis, each requesting State or local government entity will provide to the single point of contact a report documenting their expenses for the reporting period. Based on the reported expenditures and in accordance with the State’s allocation, funds will be drawn and disbursed.

In Arizona, 11 counties are participating in the SLIAG program, as well as 5 State agencies. All participants, whether State, local, or private, will have to provide to the single point of contact a copy of their contract, if required, or any other document that is required either by Federal or State law in order to participate and receive funds under the program.

Arizona’s intentions are to use existing service delivery and funding mechanisms and to use current providers of services to accommodate the needs of the eligible legalized aliens. The availability of those services are limited to those generally available to other Arizona residents.

Participating service providers must be able to relate specific costs to services provided to individual eligible legalized aliens except where Federal regulations permit establishing costs on the basis of a ratio between the States' total population and the number of aliens in the State. The exception primarily relates to public health services. As far as public assistance
and education are concerned, Arizona will require that an eligible legalized alien identify himself by presenting an I-688 (Temporary Resident Card) or I-688A (Employment Authorization Card) issued to him by the Immigration and Naturalization Service (INS). However, it should be noted that the I-688A does not document that an alien was granted lawful status, but merely that he or she applied for such status. This card will identify the eligible legalized alien by an alien registration number.
FINDINGS AND RECOMMENDATIONS

Both FSA and Arizona were committed to identifying problems and developing innovative and effective solutions for them. Immediately following our on-site visits, FSA was given an outline of the State concerns identified in this report.

FINDING: Since 1987, FSA has held national conferences and issued information to States on implementing the SLIAG program.

- The FSA held several national conferences beginning in 1987 to share information with States on SLIAG legislation, the implications for States, the application process, and the documentation of costs.
- The FSA also provided States with “Question and Answer” issuances and demographic data from the INS.

FINDING: To facilitate implementing the SLIAG program, Arizona took steps to assure that funds control mechanisms were in place.

- The Arizona Department of Administration has established a financial program capability in its own computer system, as well as in the Arizona Financial Information System, which will permit reconciling the SLIAG fund. The counties will receive State warrants for their reimbursement requests, and the State agencies will have the funds deposited directly to their general fund from which funding was appropriated for their operation of the SLIAG program. Prior to initial disbursement of SLIAG funds to any participating entity, an on-site audit will be performed by the Arizona Department of Administration to assure that the entity had identified all expenses properly and maintained the appropriate records. In accordance with the single audit provisions, an annual audit will be performed for following years.
- The Arizona Department of Health Services used existing contracts with health service providers for the general population to serve eligible legalized aliens and to maintain records of expenditures. The department has established separate accounts for each of these providers in the financial information system.
• Since SLIAG is a reimbursement grant, there should not be a situation where there are any significant cash balances. Under the Federal guidelines, the State has been advised that they could retain enough funding to provide up to a maximum of 3 days expenditures. The State intends to require expenditure documentation prior to drawing any SLIAG funds.

**FINDING:** The Arizona Department of Education has established a pre-enrollment appraisal testing program for eligible aliens.

• Agencies receiving SLIAG funds will administer a pre-enrollment appraisal test. This test assesses an eligible legalized alien’s ability to speak and understand English and know United States history and government. Based on this appraisal, they will be referred to appropriate programs and program levels. Supplementing the appraisal test, the pre-enrollment appraisal process will provide information on students’ educational histories, salient demographic characteristics, and data supporting their temporary residency status.

Nevertheless, there are some funds control vulnerabilities. Findings and recommendations concerning these vulnerabilities follow under major topic areas.

**PUBLIC ASSISTANCE**

**Assistance or Service Activities**

In Arizona, the administering State agency for public assistance is the Arizona Department of Economic Security. At the time of the review, only three entities were going to apply for SLIAG public assistance funding for services provided to eligible legalized aliens. These included the department itself and two counties. These entities do not intend to establish any new programs due to the availability of the SLIAG funding, but to use those existing programs generally available to the population of the State. Basically, any public assistance provided in Arizona with SLIAG funding will be by contract with Maricopa and Pima counties. The State will provide for services related to emergency assistance, food stamps, eligibility determination, and indigent health care.

**Documentation of Eligible Legalized Alien Status**

The intake application process will be modified to identify the eligible legalized alien and verify the registration number.
Program Costs

Since only three entities are applying for public assistance funding, they will establish their own procedures to determine actual case cost. They will then be required to submit a report to the single point of contact documenting their expenditures for the period for which they are requesting reimbursement. This report will be reviewed by the single point of contact for completeness and accuracy of computation.

Administrative Costs

The Arizona Department of Economic Security was developing procedures to determine direct administrative costs. The department was reviewing exception time reporting but was also considering other options such as time sheets for processing a case. Indirect costs are determined by the appropriate agency for the department.

Drawdown of Funds and Cash Balances

The drawdown of funds from the Federal Government is performed by the Arizona Department of Administration. The Arizona’s Organizational Structure section of this report addresses this function.

Interagency transfer of funds from the Arizona Department of Administration to the Arizona Department of Economic Security will be based on reimbursement of expenditures incurred in providing services to eligible legalized aliens. These expenditures will be documented and accounted for in accordance with Federal guidelines.

The only reports that are required to be furnished to the single point of contact will be the Standard Form 269, a Federal expenditure report. However, internal reports will be required by the individual agencies to account for the program aspects of the grant, and these will be included in the requested information section.

PUBLIC HEALTH ASSISTANCE

Assistance or Service Activities

In Arizona, the administering State agency for public health is the Arizona Department of Health Services. At the time of the review, 9 of the 11 counties were going to provide public health assistance services only. The reason for this is the complexity of claiming reimbursement of SLIAG funds for public assistance costs.
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**Documentation of Eligible Legalized Alien Status**

For public health services, the percentage method is used to determine the ratio of eligible legalized aliens to the population served. Data from the HHS are used to determine the number of eligible legalized aliens and special agricultural workers.
Program Costs

**FINDING:** The State's plan for claiming public health assistance costs is not in accordance with program requirements.

Counties providing only public health assistance services plan to use a formula based on the annual budget for each program and compute costs for reimbursement. The basis for the formula is stated in the HHS' rules and regulations for public health assistance. The HHS regulation 45 CFR 402.21(c)(2) provides three methodologies that can be used to claim costs for public health assistance. These methods are

- actual expenditures made to or on behalf of identifiable eligible legalized aliens who qualify for and receive such assistance and/or services;
- use of a statistically valid sampling of clients in the public health system of the State or local government; or
- use of the ratio of eligible legalized aliens in a service population to all members of the relevant service population.

**RECOMMENDATION:** The FSA should ensure that costs claimed for public health assistance are in accordance with one of the methods indicated in the HHS regulations and not based on budgeted costs.

**FINDING:** The FSA's definition of public assistance includes some public health assistance activities which created administrative and service delivery problems for Arizona's public health agencies.

Several programs administered by the State's Department of Health Services are considered public assistance for SLIAG reimbursement purposes. The distinction is important because identifying a service as public assistance requires documenting costs incurred when services are provided to individual eligible legalized aliens. If a program or service is considered public health assistance, the population ratio method for establishing costs can be used.

While there is no quarrel with the logic of FSA's definition of public assistance versus public health assistance, the distinction created serious administrative and programmatic difficulties for public health agencies. These agencies, not the public assistance agencies, must develop and implement new processes for identifying individual eligible legalized aliens in order to document costs.
Arizona noted that, initially, FSA indicated that services considered “public health” under the State’s public health plan would also be considered as public health assistance for SLIAG reimbursement. This position changed in June 1988.

State officials believe that the definition of some public health assistance services as public assistance has limited the extent to which the eligible legalized aliens want to participate in the SLIAG program. There are three levels of health services, primary, secondary, and tertiary. Under SLIAG, the first two levels fall under public health assistance, while the third comes under public assistance. Arizona does not believe it is worth changing the State’s system. Further, they do not want to undergo an audit.

RECOMMENDATION: The FSA should reconsider its position to classify certain public health assistance services as public assistance and make appropriate adjustments to this position.

Administrative Costs

The program administrative costs are those costs associated with administering SLIAG-allowable activities. These costs would be determined based on the accounting system’s identifying direct and indirect administrative costs allocable to SLIAG.

Drawdown of Funds and Cash Balances

The drawdown of funds is performed by the Arizona Department of Administration. The Arizona’s Organizational Structure section of this report addresses this function. Since the cash balances functions are similar in all three program areas, please refer to the section under Public Assistance.

EDUCATION

Assistance or Service Activities

The Arizona Department of Education is the administering State agency for the education portion of the SLIAG program. Educational services to eligible legalized aliens will be provided to adults through local educational agencies, community colleges, qualified designated entities, and community-based organizations. Arizona believes that the limits on elementary and secondary education are too restrictive and prevent them from including services to this group of children in their SLIAG application.

The department is designed to meet the needs of eligible legalized aliens whose lack of literacy, basic English language, and/or citizenship skills prevents them from succeeding in school or qualifying for their adjustment to permanent resident status and eventually U.S. citizenship.
The department's adult education programs includes adult basic education and English as a Second Language. To enroll in these programs an eligible legalized alien must be 16 years of age or older and need educational assistance in speaking, reading, or writing English below the eighth grade. This excludes any high school level classes or General Education Development classes.

**FINDING:** The Arizona Department of Education may be claiming nonallowable costs as SLIAG-related costs for education.

The curriculum for Adult Education Programs is a sequential program of instructions designed to

- develop and compose communication and handle the computational skills of adults;
- raise substantially the general educational level of adults to make them less likely to be dependent on others;
- improve their ability to benefit from some occupational training;
- expand and increase opportunities for more productive and profitable employment; and
- make them better able to meet their adult responsibilities as parents, citizens, and workers.

The SLIAG regulation 45 CFR 402.2 defines educational activities approved for adult eligible legalized aliens. These activities include:

- instruction in basic skills to enable adults to function effectively in society, including the ability to speak, read, and write the English language;
- instruction leading to the equivalent of a certificate of graduation from a school providing secondary education;
- instruction for adults with limited English proficiency;
- instruction in citizenship skills; and
ancillary services, such as educational counseling, transportation, and day care provided to individuals who receive educational services.

Vocational education services are not authorized under the Adult Education Act and may not be claimed as an allowable SLIAG-related costs.

The curriculum of the State, which refers to occupational training and increasing opportunities for more productive and profitable employment raises questions as to whether the State is funding vocational education courses.

**RECOMMENDATION: The FSA should ensure that SLIAG funds are being used only for approved adult education activities.**

Agencies receiving SLIAG funds will administer a pre-enrollment appraisal test to assess an eligible legalized alien's ability to speak and understand English and know United States history and government. Based on this appraisal, they will be referred to appropriate programs and program levels. Supplementing the appraisal test, the pre-enrollment appraisal process will provide information on students' educational histories, salient demographic characteristics, and data supporting their temporary residency status.

**Documentation of Eligible Legalized Alien Status**

Providers will indicate and document the number of eligible legalized aliens who were positively identified during the first three quarters of FY 1988 and will project the number of eligible legalized aliens who are to be served during the last quarter of FY 1988, ending September 30, 1988. At the end of the program year, providers would submit final claims for SLIAG reimbursable services that have been provided.

Although some eligible legalized aliens had been served through the Arizona Adult Basic Education program prior to the SLIAG program, the Arizona Department of Education had not been documenting services for these individuals. While the department will be identifying and documenting such services now, officials did not anticipate seeking SLIAG funds retroactively.

**Program Costs**

As a rule, reimbursement for all educational services provided will be determined by multiplying the adult school rate (currently $3.00 per student hour) by the number of hours the student is in class, up to a limit of $500 per student per Federal fiscal year. A higher cost per instructional hour may be considered in funding projects offering educational services for lower functioning eligible legalized aliens. Assessment costs need to be identified separately because such costs are not considered instructional.
Complete and accurate reporting by each project is vital to the overall operation of the SLIAG program. The Arizona Department of Education, Comprehensive Training Unit, will design a project reporting format to collect student enrollment and attendance, separation information, grade level of student’s curriculum, student progression, and other statistical information. This information will be reported to the SLIAG single point of contact who will in turn report it to FSA.

Purchasing equipment items is not encouraged as a general rule. However, where justified and reasonable, all approved equipment items will appear in the equipment category, regardless of unit cost, and under the assigned instructional service. The Arizona Department of Education has full disposition authority for all equipment purchased with SLIAG funds. If a project is terminated, the Arizona Department of Education reserves the right to move such equipment to Arizona Department of Education projects currently serving eligible legalized aliens. Requests for equipment items to be used in support of administration or ancillary services are subject to approval on a case by case basis.

Providers of adult educational services, including school districts (unified school districts and high school districts), community colleges, community-based organizations, and qualified designated entities, will receive SLIAG funds on the basis of the number of eligible legalized aliens already being served and a budget for the number estimated to be served in the future.

**FINDING:** The State has no plans to deduct program income from SLIAG-related costs.

In Arizona, an education provider may levy a $10 registration fee for adults to cover reporting requirements under SLIAG. No other fee, including tuition, may be charged to students receiving educational services, the cost of which is reimbursement through SLIAG.

The SLIAG regulation 45 CFR 402.2 states that program income (as defined in 45 CFR 74.42) must be excluded from SLIAG-related costs. States must calculate SLIAG-related costs net of program income. The fee being charged by educational providers would be considered as program income.

**RECOMMENDATION:** Arizona should ensure that program income is properly deducted from SLIAG-related costs before reimbursement is claimed by educational providers.

**Administrative Costs**

All provider costs budgeted and expended under administration are limited to 10 percent of the project reimbursement ceiling. Indirect costs are budgeted only under administration and may not exceed 8 percent of the project total; these costs are to be included within the 10 percent limitation.
Drawdown of Funds and Cash Balances

The drawdown of funds is performed by the Arizona Department of Administration. The Arizona’s Organizational Structure section of this report addresses this function. Likewise, cash balances functions are similar in all three program areas and should be referenced under this section for Public Assistance.

CROSSCUTTING ISSUES

Arizona initially believed that the SLIAG program was to be implemented easily, without extensive new processes or programs, so that the services could be provided in a timely manner using the existing public assistance and public health assistance programs. It did not happen this way. The State indicated it was experiencing far more difficulties than they originally expected. As a result, it has experienced a lack of interest by counties in participating in the SLIAG program. At the time of the review, only 2 of 11 counties were participating in both the public assistance and public health assistance programs. The remaining nine counties only participate in the public health assistance program.

FINDING: The FSA application review process created a number of significant problems for Arizona. Also, the FSA’s application review process interfered with the State’s ability to plan for services.

- Delay in FSA issuing the implementing regulation resulted in the State’s inability to properly plan for SLIAG.

- Numerous policy misinterpretations and disagreements resulted because FSA did not provide definitive written instructions to assist Arizona in understanding SLIAG application requirements.

- The time frames were too short for submitting the initial SLIAG application, review and comment, and revisions of the application.

- Implementing SLIAG-funded programs was delayed because of a significant delay in notifying Arizona of the grant award.

- No formal appeals process exists if programs or costs are denied in the first level review.

According to final regulations published March 10, 1988, States had to submit the FY 1988 application no later than May 16, 1988. Revisions to the application had to be submitted by July 1, 1988, and the FY 1989 application had to be submitted no later than July 15, 1988.
Due largely to these short time frames, FSA provided no formal feedback on revisions necessary in Arizona's FY 1988 application. The information was transmitted by telephone or in meetings. The time frames to make necessary revisions did not accommodate the organizational structure or the need to communicate with or seek approval from the program components impacted by revisions requested by FSA. Although some changes had a major effect on programs and grant amounts, the single point of contact received no official rationale from FSA for requesting these changes.

**RECOMMENDATION:** The FSA should make its application and grant process more orderly. Specifically, FSA should

- provide definitive written instructions on the SLIAG application requirements and establish a dialogue with Arizona on SLIAG policy, compliance, and reporting issues to minimize the confusion that occurred in the initial application process;

- ensure that sufficient time is allotted to the application process including Arizona's initial application, FSA's review and formal comment, Arizona's consideration of FSA comments and negotiation of disputes, and its submission of the revised application for FSA approval;

- develop an appeals process to use if programs or costs associated with providing services are denied in the initial application process; and

- revise the grant award process for approved applications so that the notice of grant award reaches Arizona prior to the beginning of the fiscal year.
The FSA and the State of Arizona both commented on the draft report.

**The FSA**

The FSA has generally agreed with the OIG report findings and recommendations. The FSA has taken a number of steps to improve implementation of the SLIAG program including clarifying program policies and procedures. In the report the State had several concerns about the FSA administration of the program. We have modified certain aspects of the report based on the comments received from FSA.

The FSA questioned the statement that the new population would significantly increase public assistance and public health assistance services. Early estimates indicated that large numbers of aliens would qualify to access the SLIAG program. The report recognized that information obtained during the review determined that substantial increases in workloads and expenditures could occur in these areas as well as in education. However, we understand from recent discussions with States’ officials that demand for services nationally is falling behind earlier projections.

The FSA’s definition of public assistance included some public health activities which created administrative and service delivery problems for Arizona’s public health agencies. The OIG recommended that FSA reconsider this position.

The FSA replied that they see this primarily as an issue of cost identification and that they will work with the States to develop methods of documenting costs which are consistent with FSA’s responsibilities as stewards of public funds. We believe that FSA’s actions to identify alternative methods is responsive to our concerns.

We continue to believe that a strict interpretation which permits public health costs to be claimed only for specific eligible legalized aliens is burdensome to the States and, in many cases, would require considerable revisions to the States’ system or statutory requirements. However, we do agree that FSA’s use of alternative systems, such as the Cost Documentation System and a revised population ratio method system which reflects usage, would be a positive effort to enhance cost effectiveness without requiring States to develop new systems or make considerable revisions to present systems. The population ratio method could be revised to consider not only eligible legalized aliens in the service population, but use of those services by the eligible legalized alien population based on information already obtained from program experience. Where appropriate, other alternatives might be used which would produce a more efficient system for the States and address congressional intent that the States would not be required to establish new or elaborate systems.
We report that no formal appeals process exists if program costs are denied in the first level review. We agree with FSA's statement that the Grant Appeals Board does have jurisdiction over matters for withholding and repayment of SLIAG funds. However, it was the States' concern that an effective appeals mechanism be in place for issues involving programs or costs at the first level of FSA's review in the application process.

The FSA made numerous comments to clarify certain matters of fact, policy, or procedure. We have included these comments verbatim in Appendix B.

*The State of Arizona*

The State has generally agreed with the OIG report findings and recommendations. Their comments are included verbatim in Appendix C. The comments have clarified several of the State's processes, organizational structure, and concerns noted at the time of the OIG on-site review.

Recognition is made of the State's concern regarding classification of some public health assistance activities as public assistance. Reference should be made to our comments above concerning this issue as addressed to FSA.
A number of practices have been identified that other States could share.

1. Prior to any disbursement of SLIAG funds to participating entity, an on-site audit will be performed by the Arizona Department of Administration to assure that the entity had identified all expenses properly and maintained the appropriate records. For the following years, in accordance with the single audit provisions, an annual audit will be performed.

2. The Arizona Department of Health Services used existing contracts with health service providers for the general population to serve eligible legalized aliens and to maintain records of expenditures. The department has established separate accounts for each of these providers in the financial information system.

3. The State intends to require expenditure documentation prior to drawing any funds. As such, the only time any funding balance should exist would be while the State’s claim for payments is being processed.

4. Agencies receiving SLIAG funds will administer a pre-enrollment appraisal test. This test assesses an eligible legalized alien’s ability to speak and understand English and know United States history and government. Based on this appraisal, they will be referred to appropriate programs and program levels. Supplementing the appraisal test, the pre-enrollment appraisal process will provide information on students’ educational histories, salient demographic characteristics, and data supporting their temporary residency status.
FAMILY SUPPORT ADMINISTRATION'S COMMENTS
Date: August 25, 1989

From: Acting Assistant Secretary for Family Support


To: Richard P. Kusserow
Inspector General

Attached are the Family Support Administration comments on the above report. Many of our comments are technical in nature due to the complexity of the legislation and the fact that the SLIAG program was very new at the time of the review.

We appreciate the assistance and cooperation we have received from you in response to our request to conduct this round of reviews of the SLIAG program. The reports we received are very useful to us in understanding how States are implementing the program.

Attachment
OIG DRAFT REPORT:
Implementation of the State Legalization Impact Assistance Grants

The Family Support Administration's comments are divided into three sections: Comments on background information and other narrative material that does not relate directly to the draft report's findings, comments on the findings, and responses to the draft report's recommendations.

Narrative:

Page 1 (Background) -- The draft report says, "This new population will increase the demand for State public assistance and public health assistance services significantly." The draft report isn't clear whose conclusion this is or upon what data and analysis the conclusion is based. The final report should clarify these points.

In the course of implementing SLIAG, we have discovered that neither State and local public health programs nor, with few exceptions, public assistance programs, inquire about legal status. This suggests that at least some aliens were using these services before legalization and that newly legalized aliens do not represent a "new population" for public assistance and public health assistance services. Preliminary cost data from States suggests that newly legalized aliens are accessing public assistance services at rates far lower than the general population. There are indications that a backlog of public health needs existed and was identified during the medical examinations required of all applicants for legalizations. However, there is no data to suggest that, other than this temporary bulge in demand for public health services, newly legalized aliens will generate a significant increase in demand for public health assistance or public assistance services.

Page 2 (Background) -- The draft report says, "States must develop a method acceptable to FSA for determining administrative costs." We note that several methods for determining the share of administrative costs in ongoing programs that are allocable to SLIAG and which are acceptable a priori are specified in the regulation at 45 CFR 402.22(b). The process of determining SLIAG administrative costs (those incurred in administering the SLIAG grant itself), like all costs associated with administering HHS grants, is governed by 45 FR Parts 74 and 92 and relevant OMB circulars.

Pages 3-4 (Arizona's Organizational Structure) -- The report says that, for public assistance and education services, the State will require that eligible legali...
be identified by an I-688 (Temporary Resident Card) or an I-688A (Employment Authorization Card). The report should make clear that the I-688A does not document that an alien was granted lawful status, merely that he or she applied for status. Use of SLIAG funds for public assistance and educational service is limited to costs associated with aliens who have been granted lawful resident status and, therefore, are "eligible legalized aliens." The effective date of this status is the date the application was filed with INS. This means that, as a practical matter, the cost of public assistance and educational services provided to individuals while their applications were pending with INS are allowable if the applications were approved, but not if they were denied.

Public Assistance:

Page 5 (Assistance or Service Activities) -- The draft report states that government entities seeking SLIAG funds for public assistance "do not intend to establish any new programs due to the availability of the SLIAG funding, but to use, with necessary modifications, what they have available now." It is important to note that all programs of public assistance must meet three criteria. First they must be generally available to the population of the State. Secondly, they must be means-tested. Lastly, they must provide for the subsistence or health of the individual. The requirement that the programs be generally available would preclude the State from developing any programs for "eligible legalized aliens". It is not clear what is meant by "necessary modifications." The final report should make clear how Arizona's plans relate to the statutory definition of public assistance.

Page 6 (Administrative Costs) -- The draft report says that the Department of Economic Security was developing procedures to determine direct administrative costs, and "indirect costs are determined by the appropriate agency for the department." We note that several methods for determining the share of administrative costs in ongoing programs that are allocable to SLIAG and which are acceptable a priori are specified in the regulation at 45 CFR 402.22(b). The process of determining SLIAG administrative costs (those costs incurred in administering the SLIAG grant itself), like all costs associated with administering HHS grants, is governed by 45 CFR Parts 74 and 92 and relevant OMB circulars. The final report should make that point clear.

Public Health Assistance

Page 6 (Assistance or Service Activities) -- The draft report says, "At the time of the review, 9 of the 11 counties were going to provide public health assistance services only. The reason for this is the complexity of claiming reimbursement of SLIAG
funds for public assistance costs." The final report should make clear that the availability of services to eligible legalized aliens is not an issue for public assistance or public health assistance programs. In both of these categories, use of SLIAG funds is limited to programs that are generally available to the population. Thus, all services for which SLIAG reimbursement could be claimed are available to the general population without regard to "eligible legalized alien" status. Because of differences in the way the terms "public assistance" and "public health assistance" are defined in IRCA, there are differences in required cost documentation. (This issue is discussed in more detail below.) However, we have made available to States a number of ways to determine allowable costs in public assistance programs that do not require setting up complex administrative structures or checking immigration status of program participants. The final report should make these points.

Page 9 (Administrative Costs) -- The draft report says that program administrative costs "would be determined based on the accounting system's identifying direct and indirect administrative costs allocable to SLIAG." The report should make clear that, as discussed above, the regulation sets standards for determining program administrative costs. Generally, the first step in calculating SLIAG-related program administrative costs is to determine total program administrative costs, and then to determine the proportion of these costs attributable to SLIAG by using one of the two methods specified in the regulation or another method that charges to SLIAG the proportion of program administrative costs that are attributable to eligible legalized aliens.

Crosscutting Issues

Page 13 -- The draft report says that "Arizona initially believed that the SLIAG program was to be implemented easily...so that the services could be provided in a timely manner to the eligible legalized aliens." The final report should make clear that the availability of public assistance and public health assistance services to newly legalized aliens is not an issue. Only the cost of providing to this population those public assistance and public health assistance services that are generally available to the population may be charged to SLIAG. Thus, no costs associated with public assistance or public health assistance activities directed specifically to eligible legalized aliens may be charged to SLIAG.
Findings:

Finding:

Since 1987, FSA has held national conferences and issued information to States on implementing the SLIAG program.

Comment:

Since the OIG's onsite visits in August 1988, we have continued to provide assistance to States. We have conducted several more workshops and meetings to assist States in implementation. In October 1988, we issued a compendium incorporating the extensive formal guidance previously provided to States on methods of cost documentation. We also have provided assistance to individual States in the form of correspondence, telephone consultation, and onsite technical assistance. We are in the process of conducting initial program reviews of the major States, including Arizona, which we visited in June 1989. We request that the final report reflect this continuing dialogue with States.

Finding:

The State's plan for claiming public health assistance costs is not in accordance with program requirements.

Comment:

While it is not clear what is meant by the explanation for this finding, the draft report appears to say that using the annual budget for a program in the population ratio method is not consistent with Federal regulation. We require that costs be determined based on net State or local government cost. In the population ratio method, this cost is multiplied by the ratio of eligible legalized aliens in the program's service population to all members of the service population. The "annual budget" for a program may or may not be the net State or local government cost. The final report should make clear how the population ratio works and that net State and local government costs must be used in making calculations under that method or any other method.
Finding:

The FSA's definition of public assistance includes some public health activities which creates administrative and service delivery problems for Arizona's public health agencies.

Comment:

We question how the definitions of public health and public assistance create service delivery problems for Arizona public health agencies. By statute and regulation, all programs or activities under both categories must be generally available. In practice, this means that SLIAG funds are available only to reimburse costs in ongoing, generally available programs. In most programs, immigration status is not a condition of eligibility. If the alien is eligible for services, he or she would receive those services regardless of whether they were reimbursed under SLIAG. The final report should clarify this point.

Page 8 of the draft report notes that "there is no quarrel with the logic of FSA's definition of public assistance versus public health assistance," but does not explain that logic or why the OIG recommends that FSA reverse its logic. The final report should explain that the regulatory definitions of public assistance and public health assistance are based directly on section 204 of the Immigration Reform and Control Act of 1986 (IRCA), which created SLIAG.

Programs of public assistance are defined as programs that "provide for cash, medical or other assistance...designed to meet the basic subsistence or health needs of individuals" [section 204(j)(2)(A) emphasis added]. Consistent with IRCA's explicit inclusion of medical assistance under the public assistance category, State or locally funded programs that provide medical treatment to needy individuals are considered by FSA to be public assistance.

IRCA defines programs of public health assistance as programs which "provide public health services, including immunizations for immunizable diseases, testing and treatment for tuberculosis and sexually-transmitted diseases, and family planning services" [section 204(j)(3)(A)]. These statutory definitions and the legislative history indicate that Congress intended to allow certain traditional public health functions under the public health assistance category
and medical assistance to the needy under the public assistance category. In implementing SLIAG, we have followed that statutory framework. We have defined public health assistance as, among other things, programs or activities that "are provided for the primary purpose of protecting the health of the general public" [45 CFR 402.2]. The scope of programs included in that regulatory definition of public health assistance goes far beyond the specific activities listed in the IRCA.

The public assistance/public health assistance categorization issue is primarily one of cost documentation requirements, not the allowability of costs associated with any particular health program. Without the distinction between categories, Arizona would likely use the population ratio method to establish costs for all programs run by the Department of Health Services. Implicit in this method is the assumption that eligible legalized aliens will access programs in the same frequency and at the same cost as the general population. We do not believe this assumption to be appropriate for medical assistance programs that provide treatment to needy individuals. To the contrary, the information that we have to date indicates that allowing use of the population ratio method for these programs generally would overstate costs, dramatically in some cases. However, we would be willing to allow use of the population ratio method for any program for which there is an empirical basis to indicate that doing so would not overstate costs.

FSA realizes that many public assistance and public health programs do not routinely collect information on immigration status but has found many do collect social security numbers. That is why we funded and devoted substantial staff resources to developing a system that matches the social security numbers of program participants with those of newly legalized aliens. This system gives States information on the number of newly legalized aliens participating in a program and the cost of services to them. It is now available and allows States to establish costs for FY 1988 as well as current and future years. We also have sent State SLIAG Single Points of Contact suggestions for other possible methods for establishing costs. None of these alternative methods requires setting up new administrative mechanisms or checking status of program participants.

The draft report says on page 8 that, "initially A indicated that services considered public health or
the State's public health plan would also be considered as public health assistance for SLIAG reimbursement. This position changed in June 1988." It is not clear precisely to what this statement refers. However, any statement that may have been made about classification of programs and activities would have been predicated on the statutory definitions of public assistance and public health assistance.

On page 9, the draft report says, "State officials believe that the definition of some public health assistance services as public assistance has limited the extent to which the eligible legalized aliens want to participate in the SLIAG program." It is not clear to what this refers, but it appears that the statement is based on the mistaken assumption that checking immigration status of program participants is the only way to document cost. As noted above, States have several options for establishing public assistance costs that do not require checking immigration status of participants.

The draft report on page 9 also says Arizona agencies "do not want to undergo an audit." SLIAG is covered by the Single Audit Act. Whether SLIAG transactions are selected for audit or not is not related to the category of services or the method the State uses to establish costs.

We will continue to work closely with Arizona to develop methodologies to document costs for all programs in its approved applications.

Finding:

The Arizona Department of Education may be claiming nonallowable costs as SLIAG-related costs for education.

Comment:

The draft report says, correctly, that SLIAG funds may not be used for vocational education services. However, the list of goals of Arizona's program of educational services for the newly legalized population appears to be consistent with the regulation and the Adult Education Act. The cost of providing basic education or English language instruction designed to prepare an individual for vocational or job training programs, to provide an individual with the English language or basic education skills needed to qualify for better jobs, or
to enable an individual to meet their responsibilities as parents, citizens, and workers is allowable.

Finding:

The FSA application review process created a number of significant problems for Arizona. Also, the FSA's application review process interfered with the State's ability to plan for services.

Comment:

The draft report says that the time period for submission, review, revision and approval of the initial application was too short. We agree that it would have been preferable to have had a longer period of time between the publication of the final regulation and the deadline for submission and approval of FY 1988 and FY 1989 applications. However, the final report should note that, because of the way IRCA set up the allocation formula, one major reason for the compressed timeframe was that we could not award funds to any State until all States' applications had been approved. In order for us to run the allocation formula, which IRCA requires to include estimates of costs, we must have approved estimates for all States before we can calculate States' allocations.

The draft report says that "numerous policy misinterpretations and disagreements resulted because FSA did not provide definitive written instructions to assist Arizona in understanding SLIAG application requirements." Had there been more time, we would have communicated more extensively in writing.

The report says no formal appeals process exists if programs or costs are denied. The Grant Appeals Board has jurisdiction over issues related to the withholding and repayment of funds. For other matters, the State may follow normal procedures for disagreeing with an agency finding.

The draft report on page 13-14, says that the single point of contact "received no official rationale from FSA for requesting...changes" in the application. The final report should note that FSA informed Arizona that the activities in question did not meet the statutory and regulatory criteria for public health assistance. In addition, guidance on allowable activities issued to States on June 17, 1988 described in great detail the kinds of activities which met the criteria for public health assistance and those that met the
criteria for public assistance and how to distinguish between the two categories.

Recommendations:

Four of the draft report's recommendations propose action on the part of FSA:

Recommendation:

The FSA should ensure that costs claimed for public health assistance are in accordance with one of the methods indicated in the HHS regulations and not based on budgeted costs.

Response:

The regulation not only specifies three ways in which public health assistance costs may be determined, but also provides for use of another reliable method subject to Federal review. Whether it is appropriate to use "budgeted costs" is not related to the method chosen. The total cost that should be used in the population ratio method, to determine average costs, or for any purpose is net State and local government cost. The "budgeted cost" may or may not constitute SLIAG-related cost as defined in the regulations at 45 CFR 402.2.

We review every aspect of costs submitted by States to ensure that costs claimed are allowable and allocable to SLIAG.

Recommendation:

The FSA should reconsider its position to classify certain public health assistance services as public assistance and make appropriate adjustments to this position.

Response:

As discussed above, the primary issue relating to the definitions of public assistance and public health assistance is one of cost documentation. States would like to use the population ratio method for all programs run by their health departments. The final report should clarify whether the OIG is recommending that we allow use of the population ratio in programs
where, as discussed above, its use would likely overstate actual costs.

We believe that using the population method for all programs run by State health departments would be inconsistent with our responsibility to exercise fiscal responsibility in administering SLIAG funds. However, we recognize that some States may encounter difficulties in establishing actual costs, especially where ELAs are a small percentage of a State's population or for programs that few ELAs access. We will continue to work with States to ensure that a method is available to allow them to establish actual costs for each program in their approved applications, consistent with our responsibilities as stewards of public funds.

Recommendation:

The FSA should ensure that SLIAG funds are being used only for approved adult education activities.

Comment:

We review closely the description of programs or activities included in States' SLIAG applications and obtain more information if there is any doubt about whether costs associated with a program or activity are allowable. Checking to see that all programs or activities for which SLIAG funds are being claimed fall within the scope of one of the categories of services, as defined by IRCA and the SLIAG regulation, is a part of all of our program reviews.

Recommendation:

The FSA grant process should be made more orderly.

Response:

Some of the specific recommendations refer to the application process. We agree that the application process should be conducted in a more orderly fashion than was the case for the initial submissions. As the draft report indicates, the timeframes for the FY 1988 and FY 1989 application processes were necessarily short. In effect, the States and FSA had to complete two application processes in less than a year. We do not expect similar problems for the FY 1990 and FY 1991 application processes.
To ensure that States have adequate time to prepare their FY 1990 applications based on empirical data, we have extended the deadline from July 15 to October 1. Additionally, we have encouraged States to submit as early as possible any new program descriptions, questions or issues, and have advised them that they may submit all or portions of their applications at any time. In order to reduce the possibility of misunderstanding, we have advised States that we will communicate all substantive questions and concerns on their FY 1990 applications in writing, as was done for States' end-of-year reports. We issued extensive written guidance on the FY 1990 application process and the standards we will apply.

The draft report on page 14 recommends that we "revise the grant award process for approved applications so that notice of grant award reaches Arizona prior to the beginning of the fiscal year." Under the regulation, that is not possible. For FY 1990, the deadline for submitting applications is October 1, 1989, and applications must be approvable by December 15, 1989. While we cannot run the allocation formula or award grants until all States' applications are approved, we expect to run the formula in January 1990. However, States have told us that, because they have FY 1988 and FY 1989 funding that they can carry over into FY 1990, the delay will not be a problem for them. For FY 1991, the deadline for filing applications is July 15, 1990, and applications must be approvable by October 1, 1990. We expect to run the allocation formula and prepare grant awards early in FY 1991.

The draft report also recommends that we develop an appeals process to use if programs or costs associated with providing services are denied in the initial application process. We do not believe such a process is necessary. The Department's Grant Appeals Board has jurisdiction over cases involving the repayment or withholding of funds. Normal channels within the Department are open to States that disagree with decisions made during the course of application review.
APPENDIX C

STATE OF ARIZONA'S COMMENTS
September 20, 1989

Don McLaughlin, Regional Inspector General
Office of Inspector General
Federal Office Building
601 E. 12th Street, Room 2848
Kansas City, Missouri 64106

Dear Mr. McLaughlin:


Our review consists of updated information as well as corrections to some discrepancies in your report.

If you should have any further questions please contact me at (602) 542-5405.

Sincerely,

Wendy H. Hammon
Single Point of Contact

Enclosure
STATE OF ARIZONA

Comments on the Office of Inspector General Report:
Implementation of the State Legalization Impact Assistance
Grants—Arizona

Page ii

Second Finding: The Arizona Department of Health Services
did not set up new contracts with providers to provide services
to Eligible Legalized Aliens. These contracts have existed for
years and are for the purpose of providing health services to
the general population.

Page iii

First Finding: The method referred to was used for SLIAG
applications in fiscal years 87, 88, and 89. Actual costs are
used for claiming reimbursements and end-of-year reports.

Second Finding: The FSA’s definition did cause some
administrative problems relating to reimbursement. It did not,
however, cause service delivery problems since the programs
existed prior to the implementation of SLIAG.

Third Finding: Arizona is not using SLIAG funds to provide
vocational training to E.L.A.‘s. The State Department of
Education is providing ESL/Civics classes which help to better
integrate the E.L.A.‘s into our society and make them more
productive in the workplace, as well as meet the INS
requirements for citizenship.

Fourth Finding: The State Department of Education assures
that all reimbursements are net of any fees received.

Page 3

First Paragraph: The State Accounting Administrator
Special Assistant now serves as the Single Point of Contact, and
has overall responsibility for the SLIAG program. The day-to-day
activities of administering SLIAG are assigned to the Special
Projects Unit.

Third Paragraph: There are two funds used for accounting
for SLIAG finances. One fund is used to reimburse county
expenses. The other is used to reimburse state expenses.

Fifth Paragraph: In Arizona, 13 counties now participate in
the SLIAG program.

Page 4

Last Paragraph: See comment under Page ii.
Paragraph under "Assistance or Service Activities":

Public Assistance is, and always has been, provided by all fifteen counties as well as the state. No specific contracts exist with Maricopa and Pima counties solely for the purpose of providing Public Assistance to E.L.A.'s. Public Assistance is generally available to the entire population.

In Arizona, the administering state agencies for public assistance includes not only the Department of Economic Security, but also the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services.

No modifications have been made to any public assistance programs.

"Prima" county should read Pima county.

First Paragraph: Nine entities have currently applied for public assistance funding in Arizona.

Last Paragraph: All 15 counties in Arizona provide Public Health and Public Assistance services to the general population. However, 8 of the 13 participating counties are going to provide public health assistance services only.

First Finding: See comment under Page iii, First Finding.

First Paragraph: The statement "Arizona does not believe it is worth changing the State's system" is misleading. Arizona does not want to produce any additional administrative burden in documenting expenses allowed under SLIAG.

The last sentence states that "Further, they do not want to undergo an audit." This is an untrue statement which was never used by the State of Arizona. The state realizes that under the Single Audit Act, a grant recipient is subject to audit on an annual basis.

First Finding: See comment under page iii, third finding.

First Finding: See comment under page iii, fourth finding.

#2: See comment under page ii.