AUDIT REPORT

Department of Human Services

June 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

June 26, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Virginia T. Lodge, Commissioner
Department of Human Services
400 Deaderick Street
Nashville, Tennessee 37248

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Human Services for the period July 1, 2002, through April 30, 2007.

The review of internal control and compliance with laws and regulations resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
07/061

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COMPTROLLER OF THE TREASURY
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June 14, 2007

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Human Services for the period July 1, 2002, through April 30, 2007.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Department of Human Services' compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Human Services is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Human Services' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Department of Human Services
June 2008

AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 2002, through April 30, 2007. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of equipment, payroll and personnel, state payment cards, inspections of child care providers, Community Tennessee Rehabilitation Centers' disbursements and receipts, travel, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Child Care Facilities Corporation; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

AUDIT FINDINGS

The audit report contains no findings.

Financial and Compliance Audit
Department of Human Services

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Financial and Compliance Audit
Department of Human Services

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Human Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

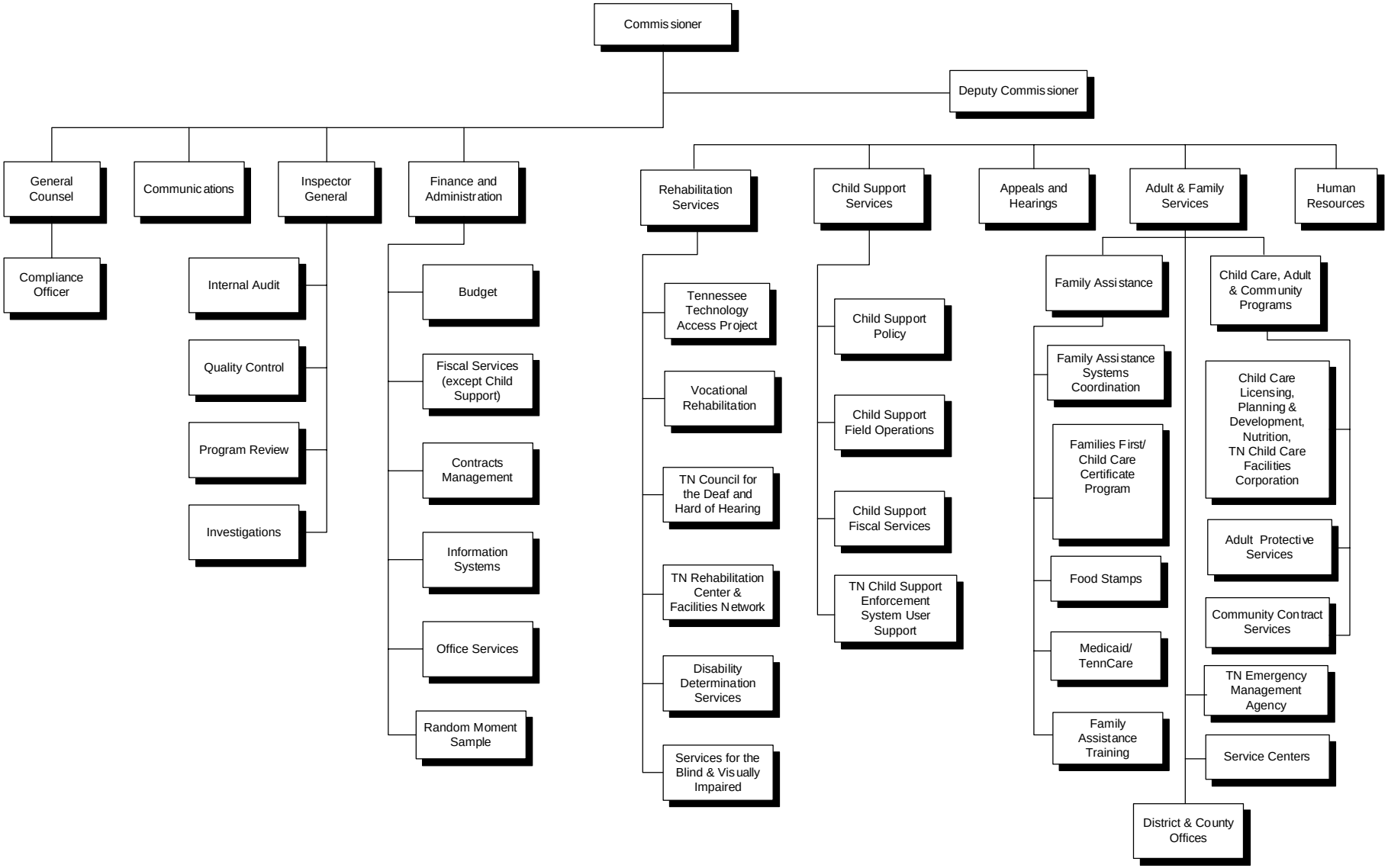
The mission of the Department of Human Services is to improve the well-being of economically disadvantaged, disabled, or vulnerable Tennesseans through a network of financial, employment, rehabilitative, and protective services. The department carries out its program responsibilities through three divisions: Rehabilitation Services, Adult and Family Services, and Child Support Services.

One of the department's main responsibilities is to operate Tennessee's major public assistance programs: Families First/TANF and Food Stamps. The department also strives to protect vulnerable adults and provides for a wide range of other services designed to help low-income children, adults, and their families through an extensive contract services network. The agency also helps Tennesseans with disabilities gain employment, live as independently as possible in the least restrictive environment, and receive timely and accurate decisions on their applications for disability or supplemental security income (SSI) benefits.

In addition, the department also provides services to parents seeking financial assistance for their children from the absent parent. The department also monitors licensed childcare facilities.

An organization chart of the department is on the following page.

Department of Human Services
Organization Chart



AUDIT SCOPE

We have audited the Department of Human Services for the period July 1, 2002, through April 30, 2007. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of equipment, payroll and personnel, state payment cards, inspections of child care providers, Community Tennessee Rehabilitation Centers' disbursements and receipts, travel, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Child Care Facilities Corporation; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Human Services filed its report with the Department of Audit on July 31, 2003. Audit report number 02/105 for the Department of Human Services, issued in May 2003, contained 13 audit findings. Ten of these findings were also included in the *State of Tennessee Single Audit Report* for the year ended June 30, 2002. The updated status of these ten findings was determined and reported in the *Audit Results From the Comprehensive Annual Financial Report and Single Audit Procedures for the Department of Human Services* for the year ended June 30, 2003. The updated status of the other three findings as determined by our audit procedures is described below.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Human Services has corrected previous audit findings concerning the use of contract employees, not reporting the results of the department's investigation of hotline calls to the Comptroller of the Treasury in a timely manner, the department's not including subrecipients in the Title VI and Title IX implementation plans, and the department's not submitting a Title IX compliance report to the Department of Audit.

Most Recent Audit Reports

Report number 07113 – The Department of Human Services' *Audit Results From the Comprehensive Annual Financial Report and Single Audit Procedures*, issued in February 2008, contained no audit findings that were included in the *State of Tennessee Single Audit Report*.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

Our objectives for reviewing equipment controls and procedures were to determine whether

- equipment was adequately safeguarded;
- equipment could be physically located, confirmed, or had transfer or surplus property documentation;
- state tags were attached to the equipment;
- location codes, serial numbers, descriptions, and state tag numbers were properly recorded in the Property of the State of Tennessee (POST) system;
- the annual equipment inventory process was completed;
- the department maintained proper accountability over the vehicles assigned to it by the Department of General Services;
- access to POST, the Tennessee On-Line Purchasing System (TOPS), and the State of Tennessee Accounting and Reporting System (STARS) was appropriate; and
- expenditures charged to equipment costing at least $5,000 reconciled to equipment additions in POST costing at least $5,000.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over equipment. We observed the physical security over equipment to determine whether equipment was adequately safeguarded. We obtained a current listing of the active equipment in POST assigned to the department with a cost of at least $2,000 but less than $5,000. We selected a nonstatistical sample from the listing and determined if the equipment could be physically located, confirmed, or had transfer or surplus property documentation; if state tags were attached to the equipment; and if the location codes, serial numbers, descriptions, and state tag numbers were properly

recorded in POST. Also, we traced equipment we observed in the department to a current listing of the active equipment in POST assigned to this department to determine if the location codes, serial numbers, descriptions, and state tag numbers were properly recorded in POST. We obtained a current listing of the active equipment in POST assigned to the department to determine if the annual equipment inventory process was completed. We tested the equipment on the listing with an acquisition date prior to January 27, 2003, and determined if the equipment items had an inventory date of January 27, 2003, or later in POST.

We obtained a current listing of the motor vehicles in the FleetTracker System assigned to the department. We selected a nonstatistical sample from the listing and determined if the vehicles could be physically located, confirmed, or had transfer documentation; if the license plate numbers, county codes, persons assigned the vehicles, and vehicle descriptions were shown in FleetTracker correctly; and if the vehicle mileage log books were up to date and the entries appeared proper.

We obtained a current listing of the persons assigned to the department with access to POST, TOPS, and STARS. We selected a nonstatistical sample from the listing and determined if the persons were active employees as of the date of the listing; if there was a properly approved security authorization form on file that agreed with the level of access on the listing; if the employees' duties required their designated level of access; and whether this level of access created an inadequate segregation of duties.

We obtained a listing of the department's expenditures in STARS charged to object code 16 (Equipment) with a cost of at least $5,000. We obtained a listing of the equipment in POST assigned to the department charged to object code 16 with a cost of at least $5,000. We compared the listings to determine whether the two listings reconciled.

Based on our observations, we determined that equipment was adequately safeguarded with minor exceptions. Based on our testwork, we determined that equipment could be physically located, confirmed, or had transfer or surplus property documentation; state tags were attached to the equipment; location codes, serial numbers, descriptions, and state tag numbers were properly recorded in POST; the annual inventory process was completed; access to TOPS and STARS was appropriate; and expenditures charged to equipment costing at least $5,000 reconciled to equipment additions in POST costing at least $5,000. We found that the department maintained proper accountability over the vehicles assigned to it by the Department of General Services and access to POST was appropriate with only a few exceptions.

PAYROLL AND PERSONNEL

Our objectives for reviewing payroll and personnel controls and procedures were to determine whether

- approval of overtime and compensation time was documented;
- access to the State Employee Information System (SEIS) was appropriate;
- payroll overpayment notification letters were completed and the overpayment repayments were recovered timely;
- supplemental payroll payments were properly approved and calculated and in compliance with applicable laws and regulations;
- newly hired employees were qualified for their positions and their initial wages were correct; and
- reemployment of retired employees complied with applicable laws and regulations.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over payroll and personnel; and to determine if approval of overtime and compensation time was documented. We obtained a current listing of the persons assigned to the department with access to SEIS. We tested the entire population and determined if the persons were active employees as of the date of the listing; if there was a properly approved security authorization form on file that agreed with the level of access on the listing; if the employees' duties required their designated level of access; and whether this level of access created an inadequate segregation of duties. We also obtained listings of the payroll overpayments and selected nonstatistical samples to determine if the payroll overpayment notification letters were completed and if overpayments were recovered timely.

We selected a nonstatistical sample from the listing of supplemental payroll payments and determined if the supplemental payroll payments were properly approved and calculated and in compliance with applicable laws and regulations. We selected a nonstatistical sample from the listing of new employees hired and determined if the newly hired employees were qualified for their positions and their initial wages were correct. We obtained a listing of the employees who received retirement pay from the Tennessee Consolidated Retirement System and regular pay from the department. We tested the entire population of retired employees who returned temporarily to work and determined if the reemployment of each retiree was in compliance with applicable laws and regulations.

Based on our interviews and review of supporting documentation, we determined that approval of overtime and compensation time was documented with minor exceptions. Based on our testwork, we determined that payroll overpayment notification letters were completed; supplemental payroll payments were properly approved and calculated and in compliance with applicable laws and regulations; newly hired employees were qualified for their positions and their initial wages were correct; and reemployment of retired employees complied with applicable laws and regulations. We also found that access to SEIS was appropriate and payroll overpayment repayments were recovered timely with only a few exceptions.

STATE PAYMENT CARDS

Our objectives for reviewing state payment card controls and procedures were to determine whether

- cardholders were eligible and payment cards were terminated timely;
- cardholders and approvers attended training conducted by the appropriate training personnel;
- payment card forms and agreements were completed and included the proper signatures for the cardholders and approvers;
- terminated cardholders' payment cards were terminated timely, card remnants were maintained by the Agency Coordinator, and purchases were not made after the cardholders were terminated;
- purchases were not made while the cardholders were on administrative leave;
- purchases were made from appropriate vendors;
- purchases made on weekends and holidays were valid;
- purchases were adequately supported and complied with purchasing procedures;
- purchases did not exceed the single purchase dollar limits and monthly cycle dollar limits; and
- payment card statements reconciled to the transaction logs and the reconciliations were submitted to the Division of Fiscal Services timely, and the transaction logs contained the required signatures.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over state payment cards during the audit period. We obtained a listing of the payment card cardholders and approvers during the audit period and tested the entire population to determine if the cardholders were eligible to be a cardholder and payment cards were terminated timely; if the cardholders and approvers attended training conducted by the appropriate training personnel; and if the State Payment Card New Application and Maintenance Forms, the State of Tennessee State Payment Card Cardholder Agreements, and the State of Tennessee State Payment Card Approver Agreements were completed and included the proper signatures for the cardholders and approvers. We obtained a listing of the cardholders who were assigned payment cards and who were terminated or placed on administrative leave during the audit period and tested the entire population to determine if the terminated cardholders' payment cards were terminated timely, if card remnants were maintained by the Agency Coordinator, whether purchases were made after

the date the cardholders were terminated; and whether purchases were made while the cardholders were on administrative leave.

We obtained a listing of the payment card transactions during the audit period. In some instances we tested the entire population and other times we tested nonstatistical samples to determine if the purchases were made from appropriate vendors; if the purchases made on weekends and holidays were valid; if the purchases were adequately supported and complied with purchasing procedures; whether the purchases exceeded the single purchase dollar limits and monthly cycle dollar limits; and if the payment card statements reconciled to the cardholders' corresponding transaction logs, the reconciliations were submitted to the Division of Fiscal Services timely, and the transaction logs contained the required cardholder and approval signatures.

Based on our testwork, we determined that terminated cardholders' payment cards were terminated timely, card remnants were maintained by the Agency Coordinator, and purchases were not made after the cardholders were terminated; purchases were not made while the cardholders were on administrative leave; purchases were made from appropriate vendors; purchases made on weekends and holidays were valid; purchases did not exceed the single purchase dollar limits; and payment card statements reconciled to the transaction logs, and the reconciliations were submitted to the Division of Fiscal Services timely. We also found that overall cardholders were eligible and payment cards were terminated timely; cardholders and approvers attended training conducted by the appropriate training personnel; payment card forms and agreements were completed and included the proper signatures for the cardholders and approvers; purchases were adequately supported and complied with purchasing procedures; purchases did not exceed the monthly cycle dollar limits; and the transaction logs contained the required signatures with few exceptions.

INSPECTIONS OF CHILD CARE PROVIDERS

The objectives of our review of the controls and procedures over inspections of child care providers were to determine whether

- access to the Tennessee Child Care Maintenance System (TCCMS) was appropriate; and

- the proper number of announced and unannounced inspections were made during the term of the license or approval, and the department appropriately investigated complaints.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over the inspection of licensed or approved child care providers. We obtained a current listing of the persons assigned to the department with access to TCCMS. We selected a nonstatistical sample from the listing and determined if the persons were active employees as of the date of the listing; if there was a properly approved security authorization form on file that agreed with the level of access on the

listing; if the employees' duties required their designated level of access; and whether this level of access created an inadequate segregation of duties. Also, we obtained a listing of the licensed or approved child care providers. We selected a nonstatistical sample from the listing and determined if the proper number of announced and unannounced inspections were made during the term of the license or approval, and that the department appropriately investigated complaints.

Based on our testwork, we determined that the proper number of announced inspections were made during the term of the license or approval; the department appropriately investigated complaints; access to TCCMS was appropriate, with only minor exceptions; and the proper number of unannounced inspections were made during the term of the license or approval with few exceptions.

COMMUNITY TENNESSEE REHABILITATION CENTERS' DISBURSEMENTS AND RECEIPTS

The 17 Community Tennessee Rehabilitation Centers (CTRCs) provide job readiness training in the form of work to clients with disabilities in the Vocational Rehabilitation program. The CTRCs also contract with companies who provide the work for the clients and contract income to the CTRCs.

The objectives of our review of the controls and procedures over disbursements and receipts at the centers were to determine whether

- disbursements from the bank accounts were properly supported and made to eligible recipients;
- requests for reimbursements and vouchers were properly completed and signed;
- bank accounts were reconciled to the CTRCs' disbursement records and the reconciliations included the required signatures; and
- contract income was adequately supported, deposited timely and intact, and recorded in the accounts receivable records properly.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over the Greeneville, Camden, Cookeville, Franklin, Gallatin, Cleveland, Columbia, Clarksville, and Union City CTRCs' bank accounts and contract income. We selected nonstatistical samples from the checks written at the centers and determined if the disbursements were properly supported and the clients were eligible on the Tennessee Rehabilitation Agency Client Tracking System during the pay period; the requests for reimbursements and vouchers were properly completed and signed; and the bank accounts were reconciled to the CTRCs' disbursement records, and the reconciliations included the required signatures.

We selected nonstatistical samples from the invoices written at the Greeneville, Camden, Cookeville, Franklin, and Gallatin CTRCs and tested the entire population of invoices written at the Cleveland, Columbia, Clarksville, and Union City CTRCs and determined if the contract income from the invoices was adequately supported, deposited timely and intact, and recorded in the accounts receivable records properly.

Based on our testwork, we determined that the requests for reimbursements and vouchers were properly completed and signed; bank accounts were reconciled to the CTRCs' disbursement records, and the reconciliations included the required signatures; contract income was deposited timely and intact and recorded in the accounts receivable records properly; disbursements from the bank accounts were properly supported and made to eligible recipients with few exceptions; and contract income was adequately supported with few exceptions.

TRAVEL

Our objective for reviewing travel controls and procedures were to determine whether

- payments for travel were made in accordance with the Comprehensive Travel Regulations.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over travel. We tested a nonstatistical sample of paid travel claims and expenses to determine whether the travel claims and expenses were in compliance with the state's travel regulations.

Based on our testwork, we determined that payments for travel were made in accordance with the Comprehensive Travel Regulations.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2006; June 30, 2005; June 30, 2004; and June 30, 2003, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated;*

- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained; and

- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 2006; June 30, 2005; June 30, 2004; and June 30, 2003, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We reviewed the supporting documentation and report for the department's evaluation of its internal accounting and administrative control.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls.

Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Human Services filed its compliance reports and implementation plans on June 30, 2003; June 30, 2004; June 30, 2005; and August 15, 2006.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The

Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

345.01	Division of Administration
345.13	Child Support
345.16	Field Operations
345.17	County Rentals
345.23	Temporary Cash Assistance
345.25	Food Stamp Coupons
345.30	Family Assistance Services
345.31	Appeals and Hearings
345.35	Disaster Relief
345.49	Community Services
345.50	Child Care Facilities Loan Program
345.70	Vocational Rehabilitation
345.71	Disability Determination