



# A Legislative Summary Document Regarding Department of Health

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## State Auditor's Observations

The Department of Health (Department) continues to manage certain federal funds in a way that could result in the payment of unnecessary interest expenses under the federal Cash Management Improvement Act (CMIA). The Department uses expenditure transfers to maximize its overall funding by using General Revenue funds and carrying forward federal funds for later use.

As of mid-November 2002, the Department had not reconciled the Health and Human Services Accounting System (HHSAS), its internal accounting system, to the Uniform Statewide Accounting System (USAS). In addition, the Department has not reconciled to HHSAS its subsystems that feed information to HHSAS to determine whether all transactions are properly reflected in both systems. However, the Department asserts that it had reconciled 94 percent of the dollar differences between USAS and HHSAS as of December 19, 2002. This assertion has not been validated.

The Department's annual financial statements were based on information from USAS. Without a routine reconciliation process, there is no assurance that the information in USAS includes all transactions made in HHSAS.

Federal government representatives have recently expressed concern regarding the timeliness and accuracy of the Department's internal cost recovery plan (ICRP). The State Auditor's Office has previously reported on the inaccuracy of the Department's ICRP in *An Audit Report on Financial Management at the Department of Health* (Report No. 01-021, March 2001).

The Department will include a new revenue source in its 2004–2005 Legislative Appropriations Request (LAR). The Department has received two grants totaling \$59 million from the Centers for Disease Control and Prevention and the Health Resources and Services Administration to upgrade preparedness for response to bioterrorism, outbreaks of infectious disease, and other public health threats and emergencies.

The most recent federal statewide single audit report specified that the Department had reportable conditions in subrecipient monitoring, eligibility, and earmarking.

Prepared for the 78th Legislature  
by the State Auditor's Office

January 2003

SAO No. 03-320

*This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.*

# Department of Health

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## Financial Profile

### Key Results

Although the Department has established reasonable procedures for the preparation of its Legislative Appropriations Request (LAR), confidence in the financial information used in the process is reduced because of the lack of reconciliations between the Department's numerous accounting systems and subsystems.

As was also noted in a previous State Auditor's Office (SAO) report, *An Audit Report on Financial Management at the Department of Health* (Report No. 01-021, March 2001), the Department has continued its practice of making expenditure transfers that change a transaction's method of finance from federal to state funds, creating unobligated federal funds. As a result of these types of transactions, the Department incurs an interest liability starting at the date the federal funds were initially drawn down.

### Revenue Projections

The Department annualizes actual collections and collaborates with other agencies to project revenues. For example, the Department obtained earnings from the Permanent Tobacco Fund from the Comptroller of Public Accounts' Treasury Division, and it based forecasts for unclaimed lottery proceeds on input from the Texas Lottery Commission. The Department does not attempt to project some revenues for which collections have been small, such as the sale of property.

The Department will include a new revenue source in its 2004–2005 LAR. The Department has received two grants totaling \$59 million from the Centers for Disease Control and Prevention (CDC) and the Health Resources and Services Administration to upgrade state and local public health jurisdiction preparedness for response to bioterrorism, outbreaks of infectious disease, and other public health threats and emergencies. Revenue from these grants is expected to amount to \$9 million in fiscal year 2002 and \$50 million in fiscal year 2003. The CDC has indicated that continued funding of approximately \$42 million per year for fiscal years 2004 and 2005 will be available for bioterrorism preparedness.

Additionally, the Health Resources and Services Administration allocated \$8.4 million of the \$59 million received toward the development of the Bio-Terrorism Hospital Preparedness Program. This program was designed to improve the capacity of hospitals, emergency departments, and state and local health departments when responding to bioterrorist attacks and other large-scale epidemics.

### Expenditure Projections

The fiscal year 2002 estimated expenditures appear to be in line with the fiscal year 2001 expenditures reported in the Department's Annual Financial Report. The Department provided support for its budget increases and reasonable explanations for those strategies that had significant budget amounts remaining after the third quarter. Expenditure fluctuations occurred because of changes in strategic structure, increases in caseloads, and increases in use of services.

The Department uses actuarial forecasts, program knowledge, and actual point-in-time data to project expenditures. The actuarial staff at the Health and Human Services Commission prepares forecasts for Medicaid programs, and a private actuarial firm prepares forecasts for the HIV Medications and Children with Special Health Care Needs programs. These caseload projections affect both the number of clients served (the baseline request) and the utilization amount for services (exceptional item request).

### Expenditure Analysis

The Public Health Services strategy expenditures increased by \$5.9 million from fiscal year 2001 to fiscal year 2002 because of a change in strategic structure. The regional and local health services were moved from the Health Care Coordination strategy to the Public Health Services strategy.

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In addition, the Indigent Health Reimbursement strategy expenditures decreased by \$25 million from fiscal year 2000 to fiscal year 2001 and increased by \$12 million from fiscal year 2001 to fiscal year 2002. The funding for this strategy is contingent on funding from unclaimed lottery proceeds, which can fluctuate significantly from year to year.

Expenditures in the Support for Indigent Health Services strategy are also dependent on funding from unclaimed lottery proceeds. These expenditures increased by \$17.6 million from fiscal year 2000 to fiscal year 2001.

The table below shows the Department's expenditures by Comptroller of Public Accounts category as reported by the Department in USAS for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the Department has spent its funds. We obtained explanations from the Department for fluctuations across years that appeared unusual.

<b>Expenditures by Comptroller USAS Category Groups</b>			
<b>Comptroller USAS Category Group</b>	<b>Appropriation Year 2000</b>	<b>Appropriation Year 2001</b>	<b>Appropriation Year 2002</b>
Public Assistance Payments	\$ 7,947,486,926	\$ 8,605,010,045	\$ 9,083,574,772
Interfund Transfers/Other (Note A)	5,916,098,051	6,127,056,671	765,052,570
Salaries and Wages <sup>a</sup>	184,701,898	184,987,359	191,986,139
Professional Services and Fees	154,752,753	165,454,613	187,495,028
Intergovernmental Payments	130,939,440	129,156,136	157,578,981
Supplies and Materials	81,969,029	91,366,260	106,600,189
Other Expenditures	26,026,772	33,739,604	27,158,081
Employee Benefits (Note B)	13,608,009	41,217,153	46,600,769
Rentals and Leases	6,862,437	7,006,549	7,050,243
Capital Outlay	6,169,813	9,735,301	2,610,700
Printing and Reproduction	6,167,266	6,550,844	5,467,607
Travel	5,620,035	6,232,265	6,276,838
Communications and Utilities	5,481,530	5,833,688	5,205,019
Repairs and Maintenance	3,592,620	5,709,268	3,129,422
Claims and Judgments	443,299	511,838	380,585
Cost of Goods Sold	108	425	0
Interest/Prompt Payment Penalties	56,378	322,863	242,783
<b>Total Expenditures</b>	<b>\$14,489,976,364</b>	<b>\$15,419,890,882</b>	<b>\$10,596,409,726</b>

<sup>a</sup> The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – The appropriation year 2002 decrease in Interfund Transfers occurred because appropriations and responsibility for Medicaid and other related programs were transferred from the Department to the Health and Human Services Commission.

Note B – For appropriation years 2001 and 2002, employee benefits increased because of a change in process. In previous years, the Employees Retirement System (ERS) paid for the State's portion of certain employee benefits for all agencies. In fiscal year 2000, agencies using the Uniform Statewide Payroll System (USPS) received the funding and paid the employee benefits directly. Because the Department did not use USPS, the benefits were still paid by ERS in fiscal year 2000. The process changed in fiscal year 2001, and all agencies received the funding and paid the employee benefits directly.

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## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### ***Ongoing Monitoring of the Department of Health's Implementation of Its Business Improvement Plan***

The State Auditor's Office will release a report in early 2003 on the implementation status of the Department of Health's Business Improvement Plan.

### ***An Audit Report on State Entity Compliance With Benefits Proportional by Fund Requirements***

(Report No. 02-069, August 2002)

The Department of Health (Department) submitted its fiscal year 2001 *Benefits Proportional by Fund Report* to the Comptroller of Public Accounts almost three months after that report's November 20, 2001, due date. Based on the information in that report, the Department reimbursed General Revenue \$96,723 in June 2002 (during the course of our audit). This was approximately four months after the Department submitted its report.

#### **Status of Audit Recommendations as of November 30, 2002**

No status is reported at this time to allow the Department sufficient time to address recommendations in this recently released report.

According to the Department, its delay in submitting the *Benefits Proportional by Fund Report* and reimbursing General Revenue was caused, in part, by the Department's ongoing transition to a new internal accounting system. Although we did not identify any significant errors in the method-of-funding or proportionality calculations in the Department's report, we cannot provide full assurance about the accuracy of the \$96,723 reimbursement amount because (1) the Department did not document its rationale for including or excluding funding amounts from its proportionality calculations and (2) in a March 2001 audit, we found weaknesses in the Department's business and financial practices that hindered its ability to provide reliable financial information.

### ***An Audit Report on the Medical Transportation Program at the Department of Health***

(Report No. 02-037, April 2002)

The Department of Health (Department) has not adequately managed its Medical Transportation Program contracts. This has resulted in clients receiving less than the contractually agreed-upon level of service.

In addition, the Department has not consistently referred questionable contractor activities to appropriate investigative and legal authorities for fraud investigation. The only investigation of Medical Transportation Program contractors by the Health and Human Services Commission's (Commission) Office of Investigations and Enforcement was underway during this audit. The investigation originated based on information the Commission received from another state agency.

Further, we estimate that if the Department had been successful in negotiating rates and/or service areas with bidders, the State could have reduced its costs by at least \$1.7 million in fiscal year 2002.

#### **Status of Audit Recommendations as of November 30, 2002 (unaudited)**

The Department has reported the following:

Partially implemented	10
<b>Total recommendations</b>	<b>10</b>

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## ***An Audit Report on State Owned Multi-Categorical Teaching Hospital Account***

(Report No. 02-025, March 2002)

The University of Texas Medical Branch at Galveston (Medical Branch) is in compliance with the criteria in Article II, Rider 56, page II-43, of the General Appropriations Act (77th Legislature). Rider 56 regulates the reimbursements that the Medical Branch can receive for the cost of indigent care from the State Owned Multi-Categorical Teaching Hospital Account (Account), which the Department of Health maintains. Rider 56 requires that (1) reimbursements from the Account be based upon a rate equal to 90 percent of the Medicaid fee-for-service rate at the time of service and (2) that the Medical Branch not be reimbursed for patient co-payments received.

The Medical Branch has a sound process in place to ensure that its reimbursement requests meet the criteria specified in Rider 56. We verified that reimbursements from the Account did not exceed the appropriate rates, and our testing found no inappropriate reimbursements of co-payments.

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## ***State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001<sup>1</sup>***

(February 2002)

### ***Subrecipient Monitoring***

The Department of Health (Department) had reportable conditions in subrecipient monitoring in the following programs: Childhood Immunization (this was a prior audit issue in the report for fiscal year 2000), Human Immunodeficiency Virus (HIV) Care Formula Grant (this was a prior audit issue in the report for fiscal year 2000), and the Maternal and Child Health (MCH) Block Grant.

<p><b>Status of Audit Recommendations as of November 30, 2002</b></p>
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<p>KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.</p>
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### ***Eligibility***

The Department had not monitored 3 of 50 (6 percent) of the local agencies reviewed in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program within the past two years. It also did not verify that participants were eligible based on documentation of income maintained in participant files. The Department relied on information on the form completed by the clinic. When the Department learned that a local agency supervisor was certifying friends who did not meet WIC income requirements, it corrected the situation.

### ***Procurement, Suspension, and Debarment***

The Department had reportable conditions in procurement, suspension, and debarment in the following programs: HIV Care Formula Grant (this was a prior audit issue in the report for fiscal year 2000), MCH Block Grant, and the Special Supplemental Nutrition Program for WIC.

### ***Special Tests and Provisions***

The Department had reportable conditions in special tests and provisions in the following programs: Managed Care Waiver: Medicaid Cluster, In-patient Hospital and Long-Term Care Facility Audits—Medicaid Cluster., and the Automated Data

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<sup>1</sup> Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see [www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345](http://www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345).

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Processing (ADP) Risk Analysis and Security System Review of Claims Management System (CMS) and Legacy System—Medicaid Cluster.

## ***Earmarking - HIV Care Formula Grant***

The Department does not track (1) the amount of HIV Care Formula Grant funds spent to benefit women, infants, and children with HIV or (2) the amount of HIV Care Formula Grant funds that subcontractors spend on administrative expenses.

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## ***State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001***

(Report No. 02-555, May 2002)

The Department of Health (Department) has taken steps to address issues reported in prior years that amount to a material weakness in its accountability for state resources and its ability to provide reliable financial information. However, the Department was not able to correct all of the issues during the period under audit. The Department has a plan to address the issues by May 2002.

<b>Status of Audit Recommendations as of November 30, 2002 (unaudited)</b>	
The Department has reported the following:	
Partially implemented	1
<b>Total recommendations</b>	<b>1</b>

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## ***An Audit Report on Financial Management at the Department of Health***

(Report No. 01-021, March 2001)

Over the last ten years, the State Auditor's Office, the Department of Health's (Department) internal auditor, and others have reported findings concerning the Department's business and financial practices. Many of the previous findings are similar to those identified in the current audit. The issues identified in these findings affect the Department's accountability and hinder its ability to provide reliable financial information. The consistency with which these issues continue to appear raises questions about the Department's ability to implement the comprehensive and long-term policy, operational, and technical solutions necessary to fix and prevent recurrent problems. The Department has not fully met all state and federal requirements and lacks an effective compliance monitoring process. Other concerns include the recurrent use of adjustments to correct accounting errors, incorrect expenditure coding, and inadequate information systems.

<b>Status of Audit Recommendations as of November 30, 2002 (unaudited)</b>	
The Department has reported the following:	
Implemented	9
Partially Implemented	2
Does not plan to take corrective action	1
<b>Total recommendations</b>	<b>12</b>

## **Performance Management**

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### ***Performance Indicators Used by Management***

The Department generates a Quarterly Strategic Financial Issues Report, which tracks year-to-date performance against targets and is submitted to the Board of Health. The Department has recently implemented an internal management process whereby staff members who are responsible for performance measures will be required to submit a corrective action plan when their functions do not meet or exceed their performance targets. These corrective action plans identify how the programs will achieve the established performance targets.

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Some of the previous outcome measures are no longer applicable due to the transfer of the Medicaid function to the Health and Human Services Commission.

## **Estimating Performance Targets**

The Department appears to use reasonable and logical approaches to forecast and project performance targets. The Department cannot use the same method for estimating its performance for all measures due to the variety of programs, objectives, and environments, but historical data is the major component in developing performance projections. Other factors involve recent data, yearly averages, level of funding available, capacity, and inflationary influences. The programs conduct fee studies and submit projections, which the Department's central office reviews and adjusts. The Department also tracks its compliance with the Coordinated Health and Human Service Strategic Plan and reports its progress to both the Health and Human Services Commission and the Board of Health on a quarterly basis.

## **Most Recent Performance Measure Certification**

**Fiscal Year 1998–Fiscal Year 2003**

The results of *An Audit on Performance Measures at 12 State Entities–Fiscal Year 2001* (Report No. 01-036, August 2001) for this entity are summarized below.

Period	Goal/Strategy	Measure	Certification Results	
2000	A.1.2	Food (Meat) and Drug Safety	Average Cost per Surveillance Activity	Factors Prevented Certification
2001 Q1	A.1.2	Food (Meat) and Drug Safety	Average Cost per Surveillance Activity	Factors Prevented Certification
2000	A.1.3	Environmental Health	Number of Enforcement Actions Taken	Factors Prevented Certification
2001 Q1	A.1.3	Environmental Health	Number of Enforcement Actions Taken	Factors Prevented Certification
2000	A.2.1	WIC Food and Nutrition	Average Food Costs Per Person Receiving Services	Certified with Qualification
2001 Q1	A.2.1	WIC Food and Nutrition	Average Food Costs Per Person Receiving Services	Certified with Qualification
2000	B	Medicaid Services	Total Average Monthly Premiums	Certified with Qualification
2000	B.1.5	Medicare Payments	Average SMIB Premium per Month	Certified with Qualification
2001 Q1	B.1.5	Medicare Payments	Average SMIB Premium per Month	Certified with Qualification
2000	B.1.7	Cost Reimbursed Services	Number of Undocumented Aliens Served	Certified with Qualification
2001 Q1	B.1.7	Cost Reimbursed Services	Number of Undocumented Aliens Served	Certified with Qualification
2000	B.1.8	Vendor Drug Program	Average Cost per Prescription	Certified with Qualification
2001 Q1	B.1.8	Vendor Drug Program	Average Cost per Prescription	Certified with Qualification
2000	E.1.1	Vital Statistics	Average Number of Days to Certify or Verify Records	Certified with Qualification
2001 Q1	E.1.1	Vital Statistics	Average Number of Days to Certify or Verify Records	Certified with Qualification
<b>Total Measures Certified Without Qualification <sup>a</sup></b>			<b>0/15 (0%)</b>	
<b>Data Reliability Percentage (Certified and Certified with Qualification)</b>			<b>11/15 (73%)</b>	
<sup>a</sup> The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].				

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Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevented Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

## Quality Assurance Team Reviews

Conducted by the Legislative Budget Board and State Auditor's Office

### Completed Projects

*Quality Assurance Team Annual Report – January 2003*

The Department of Health (Department) completed the Newborn Hearing Screening project at a cost of \$5,201,392 on August 31, 2001. The initial budget was \$5,824,854, and the initial completion date was August 31, 2001.

The Department completed the Trauma Reporting Analysis and Collection in Texas (TRAC-IT) project at a cost of \$2,019,383 on June 30, 2002. The initial budget was \$1,712,547, and the initial completion date was September 30, 2001.

### Completed Projects

*Quality Assurance Team Annual Report – January 2002*

The Department completed the following projects at the total costs noted:

- Financial – Human Resources Project: \$7,622,427 (cost to the Department prior to the project transferring over to the Health and Human Services Commission).
- Health Care Data Collection Project: \$1,949,495.

### Canceled Projects

*Quality Assurance Team Annual Report – January 2002*

The Department canceled the Vendor Drug ECM System project at a total cost of \$0.

### Ongoing Projects

*Quality Assurance Team Annual Report – January 2003*

Texas-Wide Integrated Client Encounter System (TWICES) — In April 1998, the Department began developing an automated system intended to replace the Integrated Client Encounter System, which maintains entitlement program participant information. Cost and time line extensions are due to the redesign of the project's technical architecture. Current expenditures are \$3,190,142.

Women, Infants, and Children Electronics Benefit Transfer (WIC-EBT) — In April 1998, the Department began work on replacing a paper-based WIC food delivery system with an electronic system. The project continues in pilot phase. The planned end dates related to several project milestones have slipped because of a change in a project subcontractor. The cost estimate decreased because of the decrease in technology costs and the establishment of a cost-sharing methodology with participating grocers. Current expenditures are \$4,773,996.



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Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
TWICES	Replace client encounter system	\$1,050,000	\$3,653,947	\$2,603,947	08/31/00	08/31/03	36 months
WIC-EBT	Replace paper-based system	\$34,101,866	\$22,449,164	(\$11,652,702)	09/30/01	02/29/04	29 months

## Disaster Preparedness

We gathered information from the Department of Health (Department) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the Department's plans. Our objective was only to provide the information reported by the Department.

The Department does not have a business continuity plan or a comprehensive integrated disaster recovery plan for information technology. Although the Department has initiated the development of a current agency-wide business continuity plan, including an integrated disaster recovery plan for information resources, it has not defined critical systems. According to the Department, this plan will be developed over the next 12 months, with testing to be conducted in December 2003.

The Department has plans for providing services in the event of a bioterrorism disaster, which it developed with \$51.4 million granted by the Centers for Disease Control and Prevention. Under the grant, the Department upgraded state and local public health jurisdiction preparedness and developed the Texas Health Alert Network for communication between all health department entities in the case of identification and suppression of bioterrorism. The network incorporates coordination with Emergency Management of the Department of Public Safety.

Additionally, the U.S. Department of Health and Human Services' Health Resources and Services Administration (HRSA) allocated \$8.4 million per program to improve the capacity of hospitals, emergency departments, and state and local health departments when responding to bioterrorism and epidemics.

## Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Health between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

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## Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 5,144,628	\$ 5,601,399	\$ 5,823,242
Out-of-State Travel	495,409	630,565	447,018
Foreign Travel	8	0	0
Other Travel Costs	(20,010)	301	6,578
<b>Total Travel Expenditures</b>	<b>\$5,620,035</b>	<b>\$6,232,265</b>	<b>\$6,276,838</b>
Limit on Travel Expenditures (Cap)	7,222,645	7,222,645	434,355 <sup>a</sup>
<b>Expenditures in Excess of Cap</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 12,663</b>

<sup>a</sup> Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the Department and approved by the Legislative Budget Board (LBB) in accordance with the General Appropriations Act. During May and August 2002, the LBB adjusted the Department's 2002 cap downward by a total of \$61,061, due to the transfer of Medicaid strategies to the Health and Human Services Commission.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.