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State Auditor

An Audit Report on

**Substance Abuse Program
Contract Monitoring at the
Department of State Health
Services**

May 2011

Report No. 11-030



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Overall Conclusion

The Department of State Health Services (Department) should implement an agencywide monitoring plan to coordinate and focus the monitoring of substance abuse contractors currently performed by:

- Three primary organizational units that directly monitor contracts (including the Contract Management Unit, which is responsible for managing all aspects of the contracting process, from contract planning through final contract close-out).
- Three secondary organizational units that perform functions that are related to the functions of the primary organizational units.

Having an agencywide monitoring plan would make contract monitoring more effective and efficient by ensuring that (1) there are no gaps or duplication in contract monitoring activities, (2) the Department monitors contractors with the highest risk of noncompliance, and (3) contractors implement corrective action.

In addition, when awarding and renewing substance abuse contracts, the Department should consider past monitoring results and ensure that contractors have implemented corrective action.

Examples of gaps in the Department's monitoring of substance abuse contractors include the following:

- The Department does not review user access to the Web-based Electronic Health Record and Billing System at the contractor level. At the 4 contractors that

Background Information

The Department receives federal funds to develop and implement prevention, treatment, and rehabilitation activities to address the diseases of alcohol and drug abuse.

In fiscal year 2010, the Department awarded 492 substance abuse contracts to 148 prevention, intervention, and treatment contractors. Those contracts totaled \$156,716,087.

In fiscal year 2010, the Department spent a total of \$148,302,571 for prevention, intervention, and treatment services from the following sources:

- Federal funds: \$120,002,444.
- General Revenue: \$21,908,261.
- General Revenue - Dedicated: \$6,391,866.

According to the Department, a total of 45,802 individuals received treatment services in fiscal year 2010.

The following primary organizational units within the Department monitor substance abuse contracts:

- Financial Monitoring Unit.
- Quality Management and Compliance Unit.
- Contract Management Unit.

The following secondary units perform functions that are related to functions of the primary units:

- Substance Abuse Services Unit.
- Child and Adolescent Services Unit.
- Substance Abuse Compliance Group within the Patient Quality Care Unit.

Substance abuse contractors request payment through a Web-based, electronic health record and billing system. The payments are automatically processed unless the Department had instituted a payment hold that requires a review.

auditors visited, from 3 percent to 43 percent of the user accounts for that system were for individuals who were no longer contractor employees.

- The Department has no method to easily track which contractors it has reviewed and the results of those reviews. This limits the Department's ability to identify contractors that it has not reviewed and contractors with a history of noncompliance with requirements.

The Department also should review its substance abuse contract monitoring activities for possible duplication of effort. For example, both the Contract Management Unit and the Program Staff Unit¹ review contractors' performance measure data. In addition, both the Quality Management and Compliance Unit and the Substance Abuse Compliance Group test contractors' compliance with standards of care in the Texas Administrative Code.

In addition, the Department should focus its monitoring on substance abuse contractors with the highest risk of noncompliance with requirements. To do this, the Department should complete risk assessments that consider results from contractors' single audit reports and monitoring conducted by all Department units. In fiscal years 2008 through 2010, the Department was able to perform financial reviews for only 72 percent of the contractors that had a contract in each of those fiscal years. In addition, the Department was able to perform Quality Management and Compliance Unit reviews on only 48 percent of those same contractors during fiscal years 2008 through 2010. Because the Department does not review all contractors, it should focus on the substance abuse contractors with the highest risk of noncompliance.

The Financial Monitoring Unit also should improve the risk assessment it uses to select substance abuse contractors for review by considering results from contractors' single audit reports and other organizational units' reviews. The Quality Management and Compliance Unit should develop and use a risk assessment process to select substance abuse contractors for review and the types of reviews it will conduct. The Contract Management Unit should implement a process to monitor substance abuse contractors with the highest risk of noncompliance with requirements.

After it reviews substance abuse contractors, the Department does not have a process to ensure that contractors implement corrective action. Reviewing for contractors' implementation of corrective action helps to ensure that the issues identified during monitoring have been corrected and helps provides assurance that funds are spent as intended.

Auditors also identified other less significant issues that were communicated separately in writing to the Department.

¹ In this report, the "Program Staff Unit" includes both the Substance Abuse Services Unit and the Child and Adolescent Services Unit.

Summary of Management's Response

Management agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors performed a limited review of general controls over the Department's Electronic Health Record and Billing System and its Contract Management System. This included reviewing password management, user access controls, and change management. As a part of that review, auditors identified less significant issues and communicated those issues to the Department in writing. Auditors also determined that application controls over the Department's Electronic Health Record and Billing System were sufficient.

Auditors tested user access and user rights to the Electronic Health Record and Billing System at the four contractors that auditors visited. As previously discussed, from 3 percent to 43 percent of the active user accounts for that system were associated with former contractor employees. In addition, three of the four substance abuse contractors that auditors visited assigned inappropriate system rights that would allow a user to both enter treatment services provided and request payment without proper approvals. These issues are discussed in more detail in Chapter 1-A of this report.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine:

- Whether the Department monitors substance abuse contractors by verifying that payments were appropriate, ensuring compliance with contract terms, requiring appropriate corrective actions and ensuring actions are taken, and verifying the accuracy of reported data.
- Whether the Department considers monitoring results when awarding and renewing contracts.

The scope of this audit covered September 1, 2006, through August 31, 2010.

The audit methodology included reviewing monitoring reports from the Department, collecting information and documentation related to contract monitoring, obtaining contract award and contract renewal information, performing selected tests and other procedures, analyzing and evaluating the results of tests, and interviewing Department management and staff.

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Detailed Results

Chapter 1

The Department Should Improve Its Substance Abuse Contract Monitoring Activities and Create an Agencywide Monitoring Plan

The Department of State Health Services (Department) should ensure that a minimum of one of its organizational units reviews substance abuse contractors' compliance with all high-risk contract requirements (see text box for more information on the organizational units). The Department lacks an agencywide monitoring plan that (1) coordinates and focuses organizational units' monitoring activities on the highest risk contract requirements and (2) prevents gaps and possible duplication in monitoring efforts.

Organizational Units

The following primary units within the Department monitor substance abuse contracts:

- Financial Monitoring Unit.
- Quality Management and Compliance Unit.
- Contract Management Unit.

The following secondary units perform functions that are related to the functions of the primary units:

- Substance Abuse Services Unit.
- Child and Adolescent Services Unit.
- Substance Abuse Compliance Group (Licensing) within the Patient Quality Care Unit.

When selecting substance abuse contractors for review, the Department does not focus on contractors with the highest risk of noncompliance with requirements. In fiscal years 2008 through 2010, the Department was able to perform financial reviews for only 72 percent of the contractors that had a contract in each of those fiscal years. In addition, the Department was able to perform Quality Management and Compliance Unit reviews on only 48 percent of those same contractors during fiscal years 2008 through 2010. Therefore, the Department should ensure that it reviews the contractors with the highest risk of noncompliance. However, auditors identified the following weaknesses within each of the three primary organizational units involved in contract monitoring:

- The Financial Monitoring Unit does not consider in its risk assessment (1) the results from contractors' single audits and (2) reviews performed by other organizational units.
- The Quality Management and Compliance Unit does not use a risk assessment process to select the contractors it will review and the types of reviews it will conduct.
- The Contract Management Unit does not conduct a risk assessment to focus its work on the contractors with the highest risk of noncompliance with requirements.

Each of those three organizational units also should improve other aspects of their substance abuse contract monitoring. Specifically:

- The Financial Monitoring Unit has comprehensive procedures for on-site and desk reviews of contractors; however, its limited scope desk reviews

should be strengthened by ensuring that those procedures cover significant expenditures made by each substance abuse contractor selected for review and varying the time periods tested.

- In fiscal year 2010, the Quality Management and Compliance Unit changed the focus of its reviews from comprehensive, on-site and desk reviews to focused, subject matter reviews. As a result of that change, the Quality Management and Compliance Unit no longer examines financial eligibility, treatment plans, and performance measure reporting in each of its reviews.
- The Contract Management Unit's procedures do not require contract managers to review all available information, such as single audit reports, Financial Monitoring Unit reviews, and Quality Management and Compliance Unit reviews. Instead, this unit is required to review data that contractors self-report on a monthly basis or data generated by a Department system. In addition, according to this unit's procedures, contractors with different risk levels receive the same level of monitoring.

Those three organizational units also do not have policies and procedures for verifying contractor implementation of corrective action, including corrective action to address serious internal control deficiencies.

Chapter 1-A

The Department Should Monitor Compliance with High-risk Substance Abuse Contract Requirements

The Department should implement an agencywide monitoring plan to coordinate and focus organizational units' monitoring activities on the highest risk substance abuse contract requirements and to prevent gaps and possible duplication in monitoring efforts. (See Appendix 3 for more information on the organizational units involved in contract monitoring.) The *State of Texas Contract Management Guide* states that an agency should design a monitoring program that focuses on the items that are most important, which generally means to focus the monitoring on the outcomes that results from the contract.

Gaps in Monitoring

Electronic Health Record and Billing System user access and user rights. None of the three primary organizational units involved in contract monitoring reviews contractor access to the Department's Web-based Electronic Health Record and Billing System. Title 1, Texas Administrative Code, Section 202.25, states that a user's access shall be appropriately modified or removed when the user's employment or job responsibilities change. Without a review of access, former contractor employees could potentially have access to and/or alter confidential data, create treatment services, and request payments. As Table 1 shows, at the four substance abuse contractors that auditors visited, from 3 percent to 43 percent of the active user accounts were associated with former contractor employees.

Payment Process

Contractor invoices are submitted through the Web-based Electronic Health Record and Billing System. The payments are processed through the Department's Contract Management System and its accounting system. The invoices and payments do not require a review or approval from a Department employee.

Table 1

Substance Abuse Contractor Former Employees with Active User Accounts for The Electronic Health Record and Billing System			
Contractor Name	Total Number of Active User Accounts	Former Employees with Active User Accounts	
		Number	Percent of Total
Hays-Caldwell Council on Alcohol and Drug Abuse	11	3	27%
The Patrician Movement	37	1	3%
Phoenix Houses of Texas Inc.	71	13	18%
Serenity Foundation of Texas	42	18	43%

Source: Auditor review of user access at each contractor.

Internal Control Systems

The Department's *Contractor's Financial Procedures Manual* specifies that internal controls should encompass five major concepts:

- Segregation of functions.
- Proper authorization.
- Proper recording of transactions.
- Limited access to assets.
- Evaluation of progress toward objectives.

In addition, none of the three primary organizational units has procedures to verify user rights or internal controls for the Electronic Health Record and Billing System at the contractor level. The Department's *Contractor's Financial Procedures Manual* states that effective internal control must be maintained for all Department contract funds (see text box). However, as Table 2 shows, three of the four substance abuse contractors that auditors visited assigned inappropriate system rights that would allow a user to both enter treatment services provided and request payment without proper contractor approvals.

Table 2

Substance Abuse Contractor Users with Inappropriate System Rights to The Electronic Health Record and Billing System			
Contractor Name	Total Number of Users	Users with Inappropriate System Rights	
		Number	Percent of Total
Hays-Caldwell Council on Alcohol and Drug Abuse	8	3	38%
The Patrician Movement	36	11	31%
Phoenix Houses of Texas Inc.	58	10	17%
Serenity Foundation of Texas	24	0	0%

Source: Auditor review of access at each contractor.

Verification of prevention curriculum. As of September 2009, the Quality Management and Compliance Unit ceased verifying that contractors provided a prevention curriculum at the community sites and/or schools specified in their contracts (see text box). As a result, the Department cannot ensure that the contractors provided the services for which they were paid. Auditors reviewed fiscal year 2009 and 2010 performance measure information that 10 contractors reported. Those 10 contractors were required to provide prevention services at a total of 147 community sites and/or schools. However, 7 (70 percent) of those 10 contractors did not report performance information for 49 (34 percent) of those 143 community sites and/or schools.

Contracts for Prevention Services

Contracts for prevention services specify community sites and schools at which the contractor will provide services. The contractor reports performance measure information for each community site and/or school to the Department.

Subrecipient Subcontract review. The Department does not have a process to ensure that contractors report and obtain approval for subrecipient subcontracts exceeding \$100,000, as required by the contractors' contracts with the Department. The Financial Monitoring Unit and the Quality Management and Compliance Unit also do not verify the population of subrecipient subcontractors during their reviews.

Tracking of monitoring and monitoring results. The Department does not have a method to easily track which contractors it has monitored and the results of its monitoring activities. As discussed previously, the Department has different organizational units that perform different levels of monitoring functions for substance abuse contracts. The results of all monitoring and inspections that have occurred—including financial reviews, quality management and compliance reviews, inspection results, and technical assistance—are not in a central location that can be easily accessed and analyzed.

The results of the Financial Monitoring Unit's reviews and the Quality Management and Compliance Unit's reviews are entered into the Department's Contract Management System. However, because that system does not have the functionality to show all monitoring results for a particular contractor in a central location, it serves primarily as a depository of information. This limits the Department's ability to identify contractors that have not had any monitoring reviews and those with a history of noncompliance. It also limits the Department's ability to track the implementation status of corrective actions from its reviews, which is discussed in more detail below.

Implementation of corrective action. The Department does not have a process to ensure that contractors implement corrective action. The *State of Texas Contract Management Guide* states that agencies should routinely follow up on monitoring reviews to ensure that corrective action has been taken. The Financial Monitoring Unit and the Quality Management and Compliance Unit accept contractors' corrective action plans, but they do not verify that contractors have implemented those plans. (Chapters 1-B and 1-C provide more details on this issue.) Reviewing for contractors' implementation of corrective action helps to ensure that the issues identified during monitoring have been corrected and helps provide assurance that funds are spent as intended.

The Department's experience with one contractor, the Heart of Texas Council of Alcoholism and Drug Abuse, illustrates the importance of ensuring that contractors implement corrective action. Specifically:

- In February 2007, the Financial Monitoring Unit released a revised report that found that one contractor employee “approves, purchases, prepares checks, reconciles bank statements, tracks voided checks, posted transactions to the general ledger, has access and custody of the blank checks, and has access to canceled checks.” The review did not identify evidence that a separate employee approved bank reconciliations and purchases. The Financial Monitoring Unit recommended that the contractor create a corrective action plan to ensure that transactions were properly authorized and that proper segregation of duties existed.

- This contractor stated that it implemented correction action on January 2, 2007. However, there is no evidence showing that the Department verified that the contractor implemented corrective action.
- An independent audit for the year ending August 31, 2007, that was released August 29, 2008, determined that the contractor lacked internal controls over cash and approvals for payments. That audit report's subsequent events discussion also identified misappropriation of assets through August 2008. The contractor employee who prepared checks and bank reconciliations was arrested in December 2008 for allegedly stealing more than \$60,000 from the contractor.

This contractor notified the Department that it would cease operations on August 31, 2010 (see Appendix 5 for a complete time line of events related to this contractor).

Fraud awareness training. Only 9 (23 percent) of 39 substance abuse contract monitoring employees have received fraud awareness training. Fraud awareness training is key to preventing, detecting, and handling instances of fraud. When employees receive fraud awareness training, this enhances the Department's ability to identify red flags and report them to the Office of Inspector General for further investigation. Ensuring that employees receive this training could have helped the Department to identify red flags associated with the Heart of Texas Council on Alcoholism and Drug Abuse discussed above and identify potential fraud sooner.

Communication policies. The Department does not have documented communication policies to ensure that the organizational units involved in monitoring share information. Not all of the monitoring information and communication with the contractors is located in the Department's Contract Management System; therefore, that information may not be made easily accessible to all of the organizational units. Specific examples of weaknesses in communication include the following:

- The Department does not have written policies and procedures requiring that the results of its treatment facility inspections be shared with other organizational units. Department staff asserted that, if an inspection identifies concerns regarding a contractor, that information will be discussed with the appropriate staff. The results of inspections are not available in the Contract Management System.
- During fiscal year 2010, the Quality Management and Compliance Unit ceased determining allowability of questioned costs it identified at contractors, and it asserted that allowability determinations became the responsibility of the Contract Management Unit. However, the Contract Management Unit asserted that the Quality Management and Compliance

Unit still performed that function. As of January 2011, neither unit had a process for determining the allowability of questioned costs.

- The Financial Monitoring Unit does not share its agencywide risk assessment of contractors with other organizational units. Sharing that information could enable other organizational units to use that information in their risk assessments, and it could create efficiencies because other units would not have to replicate efforts to obtain the same information.

Goals for the number of monitoring reviews performed. The Financial Monitoring Unit and the Quality Management and Compliance Unit do not have documented goals for the length of time between their reviews. In fiscal years 2008 through 2010, the Department was able to perform financial reviews for only 72 percent of the contractors that had a contract in each of those fiscal years. In addition, the Department was able to perform Quality Management and Compliance Unit reviews on only 48 percent of those same contractors during fiscal years 2008 through 2010 (see Table 3).

Table 3

Summary of Financial Monitoring Reviews and Quality Management and Compliance Reviews		
	Financial Monitoring Reviews (including limited scope desk reviews)	Quality Management and Compliance Unit Reviews
Information for 124 Contractors with Contracts in Each Year from Fiscal Year 2008 through Fiscal Year 2010		
Number and percent of contractors at which reviews were conducted	89 (72%)	60 (48%)

Source: Auditor review of Department records.

Possible Duplication in Monitoring

Both the Contract Management Unit and Program Staff Unit² review whether substance abuse contractors meet performance measures outlined in the contract. Both the Quality Management and Compliance Unit and the Substance Abuse Compliance Group review substance abuse treatment center contractors for compliance with standards of care in the Texas Administrative Code. Duplicating monitoring activities creates inefficiencies and reduces the resources available for monitoring.

² In this report, the "Program Staff Unit" includes both the Substance Abuse Services Unit and the Child and Adolescent Services Unit.

Reliability of Contract Management System Information

Contract Management System

The Contract Management System houses the results of the Financial Monitoring Unit's reviews and the Quality Management and Compliance Unit's reviews.

For each monitoring review, this system has a summary level screen that contains fields for the review, such as dates and type of the review, and information about the results of the review, such as a summary of findings, amount of disallowed costs, and a risk rating. The system also maintains a copy of the monitoring report from a review that can be downloaded.

The organizational units involved in monitoring cannot rely on the contract monitoring information in the Department's Contract Management System (see text box for additional information about the system). Data is entered into that system using inconsistent definitions. In addition, key information in that system—such as dates of the monitoring reviews, the status of the reviews, and the uploaded review reports—was inaccurate.

In October 2010, the Department created procedures for using the Contract Management System. Having those procedures can help ensure that information is entered using consistent definitions. However, the procedures do not require that all fields—such as disallowed costs, a summary of findings, and risk rating—be entered. By using all the fields in the Contract Management System, the Department could better analyze contract monitoring results. For example, the Department could more easily calculate the amount of disallowed costs identified, and the Financial Monitoring Unit could use in its own risk assessment Quality Management and Compliance Unit's monitoring review risk ratings entered into the Contract Management System.

Recommendations

The Department should:

- Identify and rank the risk in substance abuse contracts, law, and regulations to determine which risks need to be monitored.
- Develop an agencywide monitoring plan that coordinates and specifies which of the organizational units should be responsible for the risks identified as needing monitoring. The Department also should review those units' monitoring activities to prevent duplication of monitoring activities. At a minimum, the agencywide monitoring plan should include:
 - Monitoring activities that each organizational unit will perform, including verification of contractor user access to the Electronic Health Record and Billing System, verification of internal controls over that system, and verification that contractors provide a prevention curriculum where required.
 - A communication plan to ensure that pertinent contract and contractor monitoring information is provided to all stakeholders.
 - Agencywide tracking of monitoring reviews and the corresponding results so that noncompliant contractors can be easily identified.
 - A process to ensure that contractors implement corrective action.

- Implementation of fraud awareness training for employees who perform contract monitoring activities.
- Department review, approval, and verification of subrecipients' subcontracts that exceed \$100,000.
- Written goals for the length of time between monitoring reviews that each organizational unit conducts.
- Instructions for the use of the Contract Management System that will help to ensure that the system contains consistent information.

Management's Response

Management agrees that contract monitoring can be improved. The recommendations for agencywide changes go beyond the scope of Substance Abuse contracts and involve a comprehensive effort by the Department to re-evaluate contract monitoring across the agency's subrecipient programs. Because of the breadth of impact, this will require extensive resources and time to plan and implement.

The Department will implement the following activities by December 31, 2011.

- *Revise existing procedures to further identify and rank the risk for substance abuse contract monitoring.*
- *Implement fraud awareness training for employees who perform contract monitoring activities.*
- *Review procedures to ensure that the Department is reviewing, approving and verifying subrecipient contractors' requests to enter into subrecipient subcontracts that meet or exceed \$100,000; implement changes as needed.*
- *Continue to conduct training and instructions that facilitate consistent use of the Contract Management System.*

The Department will implement the following activities as resources permit.

- *Coordinate among all divisions to develop an agencywide monitoring plan that identifies risks and determines which area is responsible for monitoring the identified risks.*
- *Ensure that pertinent contract and contractor monitoring information (including data from the Division for Regulatory Services) is provided to stakeholders.*
- *Develop a system for tracking monitoring reviews and the corresponding results so that noncompliant contractors can be easily identified.*

- *Develop processes to ensure that fiscal and performance corrective action plans are implemented.*
- *Consider written goals for the length of time between performance and fiscal monitoring reviews while developing the agencywide monitoring plan.*

RESPONSIBLE PERSONS:

- *Chief Operating Officer (COO)*
- *Assistant Commissioner, Division for Mental Health and Substance Abuse*

Chapter 1-B

The Financial Monitoring Unit Should Focus on Substance Abuse Contractors with the Highest Risk of Noncompliance and Improve Procedures for Desk Reviews and Verification of Contractor Corrective Action

When selecting substance abuse contractors for financial reviews, the Financial Monitoring Unit should ensure that it selects contractors with the highest risk of noncompliance by considering results from single audit reports and reviews performed by other organizational units. The procedures the Financial Monitoring Unit uses to conduct on-site and desk reviews are comprehensive. However, this unit should improve its limited scope desk review procedures by ensuring that those procedures cover significant expenditures made by each substance abuse contractor selected for review and varying the time periods tested.

Contractor Selection Process (Risk Assessment)

The Financial Monitoring Unit's contractor risk assessment is not designed to select contractors³ with a high risk of noncompliance; instead, the risk assessment is weighted toward selecting contractors with high-dollar contracts and contractors that have not had a financial monitoring review in the previous three years. For fiscal year 2010, a contractor's historical financial compliance was only 10 percent of the total risk assessment score.

³ The Financial Monitoring Unit performs financial reviews for all Department contractors (not just substance abuse contractors).

Table 4 shows the risk factors and weighting of those factors that the Financial Monitoring Unit used in its contractor risk assessments for fiscal years 2009 and 2010.

Table 4

Financial Monitoring Unit - Contractor Risk Assessment Risk Factors and Associated Weights							
		Risk Factors					
		Total Contract Amount ^a	Whether Contractor Received a Financial Review in the Last Three Years	Whether Contractor Obtained a Single Audit in the Last Three Years	Contractor Historical Financial Compliance	Whether Contractor Has a Cost Allocation Plan	Whether Contractor Received American Recovery and Reinvestment Act Funds
Weight of Risk Factor in Risk Assessment	Fiscal Year 2009	30%	25%	15%	15%	15%	0%
	Fiscal Year 2010	30%	25%	10%	10%	10%	15%

^a The contract amount excludes amounts for unit rate contracts.

Source: The Department's Financial Monitoring Unit.

In addition, the contractor risk assessment:

- Does not effectively consider single audit requirements and results to identify possible risk. For example, a contractor will be assessed as a high-risk contractor if it did not submit a single audit report, regardless of whether that contractor was required to obtain a single audit. A contractor that submitted a single audit report with deficiencies would be assessed as a lower risk contractor.
- Does not consider monitoring results from other organizational units. This is important because a contractor could have a higher risk of financial noncompliance if it has not complied with other requirements of the contract or laws and regulations.

Procedures for Conducting Financial Reviews

The Financial Monitoring Unit has comprehensive procedures for on-site reviews and desk reviews used to evaluate contractor compliance with the financial aspects of the contract and Uniform Grant Management Standards (see text box for additional information on the types of financial reviews). However, auditors identified certain aspects of monitoring that should be strengthened:

Types of Financial Reviews

The Financial Monitoring Unit performs three types of financial reviews:

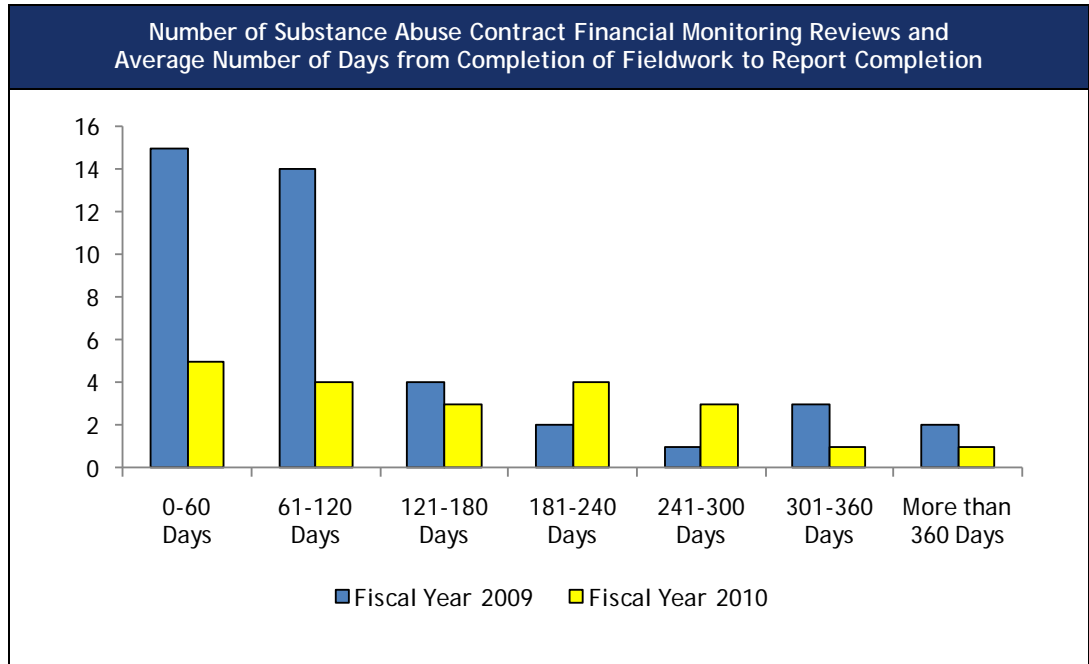
- On-site reviews are comprehensive financial reviews conducted at a contractor's location.
- Desk reviews are similar to on-site reviews, but they are performed at the Department.
- Limited scope desk reviews examine only three line items: salaries, equipment, and amounts paid to subcontractors. The Financial Monitoring Unit and the Contract Management Unit perform these reviews.

- The Financial Monitoring Unit does not have procedures to verify a contractor's subcontractor population; therefore, the Department may be unaware of the existence of subcontractors.
- The limited scope desk reviews are not effective in evaluating a contractor's compliance with contract requirements because these reviews always cover the same three expenditure line items (out of a total of seven line items). None of the 14 limited scope desk reviews that auditors tested had expenditures in all of these three line items. In addition, for 13 (93 percent) limited scope desk reviews that auditors tested, Department staff focused on predetermined times periods rather than on differing time periods. This could allow contractors to anticipate what time period will be tested.

- Reports from the results of the financial monitoring are not always completed in a timely manner. The Financial Monitoring Unit completed 41 substance abuse contractor financial reviews in fiscal year 2009 and 21 substance abuse contractor financial reviews in fiscal year 2010. On average, the reports from those reviews were completed 117 calendar days after the completion of fieldwork⁴ in fiscal year 2009 and 102 calendar days after the completion of fieldwork in fiscal year 2010. In both fiscal years, at least one report was completed more than 360 calendar days after the completion of fieldwork. Figure 1 on the next page provides more details on the timeliness of report completion after the completion of fieldwork in fiscal years 2009 and 2010.

⁴ For purposes of this audit, the "completion of fieldwork" date was either (1) the date on which monitoring staff left the contractor's location after conducting an on-site monitoring review or (2) the date on which monitoring staff completed work on a desk review for a contractor.

Figure 1



Source: Prepared by auditors based on Department records.

Corrective Action Implementation

The Financial Monitoring Unit does not have a policy to verify that contractors have implemented corrective action until it performs the next review. It attempts to perform reviews every three years. See Table 3 in Chapter 1-A for more information about the frequency of reviews.

Recommendations

The Department should:

- Ensure that the Financial Monitoring Unit includes the results of single audit reports, single audit requirements, and monitoring results from other organizational units in its risk assessment to ensure that it selects substance abuse contractors with the highest risk of noncompliance for review. The Financial Monitoring Unit also should consider adding a risk factor for subcontractors.
- Ensure that limited scope desk review procedures cover significant expenditures made by each substance abuse contractor selected for review.
- Ensure that it varies the time period tested during limited scope desk reviews of substance abuse contractors so that the contractor cannot determine the scope of the review.

- Ensure that the Financial Monitoring Unit verifies each contractor's subcontractor population during financial reviews.
- Ensure that the Financial Monitoring Unit completes financial monitoring review reports on substance abuse contractors in a timely manner.
- Ensure that contractors implement corrective action from Financial Monitoring Unit reviews within the time periods that contractors specify.

Management's Response

Management agrees that contract monitoring can be improved. The Financial Monitoring Unit completes an agencywide fiscal risk assessment and conducts fiscal monitoring of the agency's subrecipient contractors. The Substance Abuse contracts represent about 25 percent of the agency's subrecipient contracts. The recommendations will have agencywide impact and involve a comprehensive effort by the Department to re-evaluate contract monitoring across the agency's subrecipient programs. Because of the breadth of impact, this will require extensive resources and time to plan and implement.

The Department will implement the following activities by December 31, 2011.

- *Change procedures for the limited scope desk reviews to include a review of the three largest cost categories of expenditures and ensure the time period tested varies among contractors.*
- *Review fiscal monitoring procedures to ensure that the Department is reviewing and verifying subrecipient contractors' subrecipient subcontracts that meet or exceed \$100,000; implement changes as needed.*
- *Generate final fiscal monitoring review reports in a more timely manner.*

The Department will implement the following activities as resources permit.

- *Include the single audit reports, single audit requirements, and monitoring results from the divisions in the agencywide fiscal risk assessment as described in the recommendations for Chapter 1A. Include a risk factor to capture the subrecipient contractors' subrecipient subcontracts.*
- *Develop a tracking of monitoring reviews and the corresponding results so that noncompliant contractors can be easily identified.*
- *Develop processes to ensure that fiscal corrective action plans are implemented within the time period specified by the contractor.*

RESPONSIBLE PERSON:

- *Chief Operating Officer (COO)*

Chapter 1-C

The Quality Management and Compliance Unit Should Use a Risk Assessment Process to Select Substance Abuse Contractors to Review, Perform Standard Review Procedures, and Generate Reports Containing All Pertinent Information

The Quality Management and Compliance Unit should use a risk assessment process to select the substance abuse contractors it reviews and the types of reviews it will conduct (see text box for information about the unit's mission). In fiscal year 2010, the Quality Management and Compliance Unit changed the focus of its reviews from comprehensive, on-site reviews and desk reviews to focused, subject matter reviews for which there are no standard procedures.

Mission of the Quality Management and Compliance Unit

The December 2010 version of the Department's Quality Management Plan for fiscal year 2011 states that the mission of the Quality Management and Compliance Unit is to "lead and support our contractors and service providers in developing effective Quality Management processes that promote hope, support recovery and build resilience."

Contractor Selection Process (Risk Assessment)

The Quality Management and Compliance Unit does not have a risk assessment process that uses available information to (1) select the highest risk contractors to review or (2) determine the types of reviews to conduct. The *State of Texas Contract Management Guide* states that an effective risk assessment model will help focus monitoring resources on the contractors with the highest risk of noncompliance. An effective risk assessment includes risk factors, weights for the risk factors to identify significance, and a final risk score. The contractors with the highest risk score should be monitored more closely.

The Quality Management and Compliance Unit conducts quarterly risk assessment meetings. Two (9 percent) of 22 on-site or desk reviews completed in fiscal years 2009 or 2010 were discussed at those meetings in fiscal years 2009 and 2010. The Department stated that the selection process for the Quality Management and Compliance Unit's reviews may not be documented unless the process occurred in a meeting for which it had recorded the meeting minutes.

Without an effective, documented risk assessment, the Department cannot ensure that the Quality Management and Compliance Unit reviews contractors with the highest risk of non-compliance.

Procedures for Conducting Quality Management and Compliance Unit Reviews

In fiscal years 2008 and 2009, the Quality Management and Compliance Unit had documented procedures that specified criteria for testing contractor compliance with contract requirements, laws, and regulations. Although those

procedures covered reviewing information to substantiate the number of units for which a contractor had billed for providing treatment services, they did not contain sufficient instruction on how to determine compliance.

In fiscal year 2010, the Quality Management and Compliance Unit began performing focused, subject matter reviews. As a result of that change, the Quality Management and Compliance Unit no longer examines financial eligibility, treatment plans, and performance measure reporting in each of its reviews. Auditors identified issues in each of those areas at the four contractors that auditors visited. Those issues included:

- Lack of supporting documentation for client income information used to determine eligibility.
- Financial eligibility forms and treatment plans that were not signed by the client as required.
- Lack of supporting documentation for performance measure information that contractors submitted to the Department.

During fiscal year 2010, the Quality Management and Compliance Unit ceased determining allowability of questioned costs it identified at contractors, and it asserted that allowability determinations became the responsibility of the Contract Management Unit. However, the Contract Management Unit asserted that the Quality Management and Compliance Unit still performed that function. As of January 2011, neither unit had a process for determining the allowability of questioned costs. As a result, neither unit determined the allowability of \$6,168 in questioned costs noted in one contractor review. In fiscal year 2010, the Quality Management and Compliance Unit identified questioned costs in only two of its contractor reviews totaling \$15,207.

See Table 5 for the amount of disallowed and questioned costs identified in fiscal years 2008 through 2010.

Table 5

Disallowed and Questioned Costs Identified at Substance Abuse Contractors			
Fiscal Year	Disallowed Costs ^a	Questioned Costs ^a	Totals
2008	\$ 1,674	\$235,674	\$237,348
2009	98,033	0	98,033
2010	0	15,207	15,207
Totals	\$99,707	\$250,881	\$350,561

^a Disallowed costs and questioned costs are two distinct categories that the Quality Management and Compliance Unit identifies when making its final determinations.

Source: Prepared by auditors based on Department records.

In addition, in fiscal years 2008 through 2010, the Quality Management and Compliance Unit did not have procedures to verify contractors' subcontractor populations during its reviews; therefore, the Department may be unaware of the existence of subcontractors.

The Quality Management and Compliance Unit's fiscal years 2009 and 2010 monitoring reports also did not include basic identifying information such as report number and report date, and those reports did not clearly explain the scope and methodology. This unit also does not always generate a monitoring report if it does not identify any findings; instead, it may send an e-mail to the contractor. Under this process, however, the review results are not readily accessible to internal and external stakeholders.

The monitoring reports the Quality Management and Compliance Unit generate also do not contain enough information to determine exactly how the contractor failed to comply with requirements. The reports state only that there is "evidence to indicate" that a contractor is not in compliance; therefore, readers of the reports may not be able to determine the actual issue and the severity of noncompliance. The *State of Texas Contract Management Guide* states that a monitoring report should stand by itself and serve as a record of the monitoring work.

In fiscal year 2009, the Quality Management and Compliance Unit conducted a focused, subject matter review that covered 29 contractors; in fiscal year 2010, it conducted a focused, subject matter review that covered 16 contractors.⁵ Each of those reviews identified contractors that were not in compliance with certain requirements; however, each monitoring report contained only corrective action recommendations directed toward the Department and did not specify the contractors involved in the reviews.

Corrective Action Implementation

The Quality Management and Compliance Unit does not have a policy to verify that contractors implement corrective action.

Recommendations

The Department should:

- Ensure that the Quality Management and Compliance Unit develops and uses a risk assessment to select substance abuse contractors to be reviewed and the types of reviews it will conduct. The risk assessment should contain risk factors that assess the risk of the contract requirements not

⁵ Although the Quality Management and Compliance Unit officially began performing focused, subject matter reviews in fiscal year 2010, it had previously conducted a focused, subject matter review in fiscal year 2009.

being achieved. The risk assessment should assign weights to each factor used in the final risk score.

- Ensure that the Quality Management and Compliance Unit develops and performs standard procedures for high-risk compliance areas at each substance abuse contractor selected for review.
- Ensure that the Quality Management and Compliance Unit's substance abuse monitoring reports contain basic identifying information such as the report number, report date, scope, and methodology to help ensure that all stakeholders can understand when a review took place and what procedures were performed.
- Ensure that the Quality Management and Compliance Unit's monitoring reports include enough detail so that readers can identify why the substance abuse contractor was not in compliance with a requirement, as required by the *State of Texas Contract Management Guide*. If contractors are not in compliance with requirements, the reports also should identify corrective action for the contractors.
- Ensure that the Quality Management and Compliance Unit communicate and coordinate significant changes in its substance abuse contract monitoring procedures to other organizational units. This should include communicating which organizational unit will make a determination on the allowability of questioned costs.
- Ensure that the Quality Management and Compliance Unit monitors whether substance abuse contractors implement corrective action.

Management's Response

Management agrees that contract monitoring can be improved. Some recommendations will involve a more comprehensive effort by the MHSA Division to evaluate and implement. These recommendations will require more extensive resources and time.

The Department will implement the following activities by December 31, 2011.

- *Evaluate strengthening its quarterly Substance Abuse contracts' performance assessment and risk review process to ensure it contain risk factors that assess the risk of the contract requirements not being achieved. The data will contains assigned weights for each risk element. This will include data from the Division for Regulatory Services regarding facility compliance with licensing standards found in Chapter 488. Contractors will be ranked by an aggregate of risk elements and clusters.*

Poor performers will be tracked by QM until performance improvement goals are met.

- *Ensure that the Quality Management and Compliance Unit's substance abuse monitoring reports contain basic identifying information such as the report number, report date, scope, and methodology to help ensure that all stakeholders understand when a review took place and what procedures were performed.*
- *Ensure that monitoring reports for substance abuse contracts contain necessary detail to allow a reader to identify issues of noncompliance and required corrective action.*
- *Develop a communication plan to communicate and coordinate with other MHSA organizational units. This plan will specifically address responsibility for determination of allowance of questioned costs.*

The Department will implement the following activities as resources permit.

- *Develop procedures that require Quality Management (QM) specialists to identify specific findings and remedies for each Substance Abuse contractor reviewed as an individual review. QM specialists will be required to follow-up on the remedies until the issues are resolved. If performance and risk assessment reviews indicate that the areas of non-compliance exist among a significant number of contractors, QM specialists will develop procedures to conduct statewide reviews focusing on the areas of no-compliance and track improvements for each contractor falling below expected baselines in the review.*
- *Develop procedures that require QM specialists to identify specific findings and remedies for substance abuse contracts. QM specialists will be required to follow-up on the remedies until the issues are resolved.*

RESPONSIBLE PERSON:

Assistant Commissioner, Division for Mental Health and Substance Abuse

The Contract Management Unit Should Strengthen Its Substance Abuse Contract Monitoring and Use All Available Information in Its Monitoring Activities

The Contract Management Unit should implement a comprehensive approach to analyze and monitor substance abuse contractor compliance. The contract managers in the Contract Management Unit have procedures that require them to review on a monthly basis only limited, self-reported contractor data or data generated by a Department system. Based on the results of those reviews, contract managers assign each contractor a performance oversight rating of “routine oversight,” “intensive oversight,” or “high-risk status.” However, there is no difference in the monitoring procedures performed for those different ratings.

According to an overview of contract manager duties that the Department provided, a contract manager is the Department’s primary person responsible for managing all aspects of the contracting process, from contract planning through final contract close-out. A contract manager’s core responsibility involves the continual monitoring of a contractor’s performance to ensure its compliance with terms and conditions of a contract.

To monitor substance abuse contracts, the Contract Management Unit’s procedures require contract managers to review a contractor’s performance measure data and the amount of contractor expenditures to determine whether the contractor met established goals and whether expenditures were within an acceptable range. (Appendix 2 presents more detailed information on contract award amounts.) Information for monitoring comes from varying sources. For example:

Financial Status Reports

Contractors that have cost-reimbursement contracts are required to submit monthly *Financial Status Reports* to the Department. Most cost-reimbursement contracts are for prevention and intervention services.

Financial Status Reports contain information on budgeted and expended amounts for eight expenditure line items, such as personnel, travel, equipment, and contractual expenditures.

- Contractors that provide prevention and intervention services are paid primarily through cost-reimbursement contracts, and these contractors are required to self-report monthly performance measure data and submit a *Financial Status Report* to the Department each month (see text box for additional details).
- Contractors that provide treatment services are primarily paid on a unit rate basis. For these contractors, the Department’s Electronic Health Record and Billing System calculates performance measure data based on the number of treatment services that a contractor submitted for billing.

Contract managers document the results of their reviews in a summary report. Auditors verified that contract managers in the Contract Management Unit received training required by Texas Government Code, Section 2262.053.

To strengthen its monitoring of substance abuse contractors, the Contract Management Unit should improve certain aspects of its monitoring and use all available information.

Risk assessment. The contract managers in the Contract Management Unit do not conduct a risk assessment to focus their work on the contractors with the highest risk of noncompliance with requirements. The *State of Texas Contract Management Guide* states that an effective risk assessment model will help focus monitoring resources on contractors with the highest risk of noncompliance.

As discussed above, the Contract Management Unit's draft procedures state that the contract manager will assign each contractor a performance oversight rating of "routine oversight," "intensive oversight," or "high-risk status." However, there is no difference in the types of monitoring procedures performed for these different levels of oversight. Therefore, a contractor that is assigned "routine oversight" may receive the same level of monitoring as a contractor that is rated as "high-risk status." Additional monitoring the Contract Management Unit should consider for contractors assigned "intensive oversight" or "high-risk status" ratings could include verifying the accuracy of a sample of performance measure data the contractor reported and reviewing a sample of contractor expenditure documentation.

In addition, the contractor rating for each contractor is placed on a summary sheet in each contractor's binder. Therefore, the Department cannot easily determine which contractors are rated "intensive oversight" or "high-risk status" without reviewing each contractor's binder.

Review of available information. The Contract Management Unit does not have procedures to review all available information, such as reports from contractors' single audits, Financial Monitoring Unit reviews, and Quality Management and Compliance Unit reviews. If it does not review that information, the Contract Management Unit may not be able to (1) appropriately monitor issues to help ensure future compliance or (2) forward information to the appropriate parties within the Department. Reviewing that information also could enable contract managers to verify that contractors have implemented corrective action and to track the status of the corrective action.

Additional areas for verification. The monitoring that the Contract Management Unit conducts should be expanded to include verifying that:

- Contractors that provide prevention services provide those services at the required locations.
- Contractors monitor their subcontractors as required.

- User access and user system rights at the contractor level to the Department's Electronic Health Record and Billing System are appropriate.

Contract close-out. Contract managers in the Contract Management Unit close out contracts according to documented policies and procedures.

Recommendations

The Department should:

- Ensure that the Contract Management Unit conducts a risk assessment to determine the level of monitoring required based on information from all sources. Those sources could include reviews conducted by other organizational units, Office of Inspector General reviews, and single audit reports.
- Ensure that the Contract Management Unit updates its policies and procedures to better define the steps necessary to perform each level of monitoring. For each level of monitoring, the Contract Management Unit should develop specific procedures that it will periodically perform.
- Ensure that the Contract Management Unit implements a comprehensive approach to analyze and monitor substance abuse contractor compliance. This should include:
 - Analyzing all available information, including, but not limited to, contractors' single audit reports, Financial Monitoring Unit reviews, Quality Management and Compliance Unit reviews, and contractor inspections to verify that contractors have implemented corrective action and to track the status of corrective action.
 - Verifying that contractors provide prevention services at required locations.
 - Verifying that contractors monitor subcontracts as required.
 - Verifying that user access and user system rights at the contractor level to the Department's Electronic Health Record and Billing System are appropriate.

Management's Response

Management agrees that contract monitoring can be improved. The recommendations apply more broadly than the MHSA Contract Management Unit, impacting monitoring of all the agency's subrecipient contractors. The recommendations will involve a comprehensive effort by the Department to re-evaluate contract monitoring across the agency's subrecipient programs.

Because of the breadth of impact, this will require extensive resources and time to plan and implement.

The Department will implement the following activities by December 31, 2011.

- *Amend the contract with Substance Abuse providers as it relates to provision of prevention curriculum services to accurately reflect the Department's service expectations.*
- *Coordinate across the agency to review procedures to ensure that subrecipient contractors' subrecipient subcontracts are monitored. Changes will be made to these processes, as needed, to implement this recommendation.*
- *Develop a policy to verify security administrator and back-up security administrator information at the contractor level for the Electronic Health Record and Billing System.*

The Department will implement the following activities as resources permit.

- *Coordinate among divisions as described in the recommendations for Chapter 1A so that sources such as reviews conducted by other divisions (including data from the Division for Regulatory Services), Office of Inspector General reviews, and single audit reports are included in divisions' performance risk assessments. Each division will assess the breadth of information and consider this information in determining contractor's oversight status.*
- *Revise existing contract monitoring procedures to include additional information and better define levels of monitoring associated with contractor risk status and to define specific steps necessary to perform each level of monitoring.*

RESPONSIBLE PERSONS:

- *Chief Operating Officer (COO)*
- *Assistant Commissioner, Division for Mental Health and Substance Abuse*

The Department Should Improve Its Processes for Awarding and Renewing Substance Abuse Contracts

Texas Health and Safety Code Requirement for Determining Best Value

Texas Health and Safety Code, Section 461.0141(c)(5), states that the following must be considered in determining the best value bid for a contract:

- The applicant's history of contract performance.
- The applicant's history of compliance with the laws pertaining to the applicant's business operations and the affected services.

The Department should consider past monitoring results when awarding and renewing substance abuse contracts, as required by the Texas Health and Safety Code (see text box for additional details).

Awarding of new contracts. The Departments used 36 different evaluation forms to evaluate potential contractors for adult treatment, youth treatment, and prevention services in fiscal year 2011. None of those 36 evaluation forms considered past monitoring results associated with potential contractors. By not considering past monitoring results, the Department risks awarding new contracts to contractors with poor performance or a history of non-compliance.

Renewal of existing contracts. The Department does not have a process to verify that contractors have implemented corrective action prior to renewing contracts. Therefore, contractors that have a history of noncompliance can continue to have contracts without correcting significant internal control weaknesses. The Department asserted that, if a contractor had not had its contract terminated, then the contractor is able to obtain renewal of its contract.

Recommendations

The Department should:

- Incorporate past monitoring results and performance in the evaluation tools it uses when awarding new substance abuse contracts.
- Incorporate past monitoring results when renewing substance abuse contracts.
- Ensure that a contractor has implemented significant corrective action before it renews a substance abuse contract.

Management's Response

Management agrees that the use of prior contract monitoring results when renewing contracts can be improved. The recommendations apply more broadly than renewal of Substance Abuse contracts and impact the renewal process for all the agency's subrecipient contracts. The recommendations will involve a comprehensive effort by the Department to re-evaluate the use of contract monitoring results when renewing any of the agency's subrecipient

programs' contracts. Because of the breadth of impact, this will require extensive resources and time to plan and implement.

The Department will implement the following activities by December 31, 2011.

- *When awarding new or renewing contracts, consider compliance with laws and regulations (including licensing) of the applicant or contractor. Using this criterion in the award and renewal process satisfies the Health and Safety Code.*

The Department will implement the following activities as resources permit.

- *Coordinate among all divisions as described in the recommendation for Chapter 1A to develop a tracking of monitoring reviews and the corresponding results so that noncompliant contractors can be easily identified prior to contract execution.*
- *Develop processes to ensure that fiscal and performance corrective action plans are implemented prior to contract renewal*

RESPONSIBLE PERSONS:

- *Chief Operating Officer (COO)*
- *Assistant Commissioner, Division for Mental Health and Substance Abuse*

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine:

- Whether the Department of State Health Services (Department) monitors substance abuse contractors by verifying that payments were appropriate, ensuring compliance with contract terms, requiring appropriate corrective actions and ensuring actions are taken, and verifying the accuracy of reported data.
- Whether the Department considers monitoring results when awarding and renewing contracts.

Scope

The scope of this audit covered September 1, 2006, through August 31, 2010.

Methodology

The audit methodology included reviewing monitoring reports from the Department, collecting information and documentation related to contract monitoring, obtaining contract award and contract renewal information, performing selected tests and other procedures, analyzing and evaluating the results of tests, and interviewing Department management and staff.

Auditors also visited four substance abuse contractors to test for selected monitoring procedures. Those contractors were the Hays-Caldwell Council on Alcohol and Drug Abuse, the Patrician Movement, Phoenix Houses of Texas Inc., and the Serenity Foundation of Texas. Those contractors were selected based on characteristics such as contract amount, location, whether the contractors had received monitoring by the Department in the past, and the results of monitoring. Due to the uniqueness of each contractor's operations, the results of the observation and analysis of those four contractors cannot be generalized to the entire population of the Department's substance abuse contractors.

Information collected and reviewed included the following:

- Information from interviews with Department management and staff.
- Fiscal year 2008 through fiscal year 2010 contracts between the Department and substance abuse contractors.

- Contract information from the Department's Contract Management System, including contractor information, contract award, and type of contract.
- Contract monitoring information from the Department's Contract Management System, including the Financial Monitoring Unit's reviews, the Quality Management and Compliance Unit's reviews, the Program Service Unit's technical assistance, and limited scoped desk reviews conducted by the Health and Human Services Commission's Office of the Inspector General.
- Contract monitoring information from the Department's Financial Monitoring Unit, Quality Management and Compliance Unit, and Contract Management Unit.
- Substance abuse treatment facility inspection information.
- Substance abuse client treatment data.
- Department vendor payment information for fiscal years 2009 and 2010 from the Uniform Statewide Accounting System.
- Performance measure information for contractors.
- Information on training for Department employees involved in monitoring substance abuse contracts.
- Agencywide policies and procedures for managing and monitoring contracts.
- Financial Monitoring Unit, Quality Management and Compliance Unit, and Contract Management Unit policies and procedures for managing and monitoring substance abuse contractors.
- Fiscal year 2011 evaluation forms used to select substance abuse contractors.
- User access lists and password policies and procedures for the Electronic Health Record and Billing System and the Contract Management System.
- Change management policies for the Electronic Health Record and Billing System.
- Contractor policies and procedures, contractor client files, contractor performance measures documentation, and contractor expenditure documentation.

Procedures and tests conducted included the following:

- Conducted interviews with Department staff to determine how the Department monitors substance abuse contractors.
- Analyzed Department substance abuse monitoring processes to identify gaps and duplication of work.
- Analyzed Department monitoring reviews to determine the frequency of contractor reviews.
- Reviewed policies and procedures related to monitoring to identify (1) monitoring steps related to contractor payments and compliance with contract terms and (2) monitoring steps for following up on contractor corrective action.
- Tested a sample of substance abuse contracts to determine whether the Department entered correct information into the Contract Management System.
- Analyzed client data to determine whether clients received services at different locations at the same time.
- Analyzed contractor invoice amounts and payment information to determine whether payment amounts exceeded invoice amounts.
- Tested 10 substance abuse contractors with prevention contracts to determine whether they provided services at all required community sites and/or schools.
- Reviewed contract manager training to ensure compliance with Texas Government Code, Section 2262.053.
- Determined whether Department employees directly responsible for substance abuse contract monitoring had received fraud awareness training.
- Tested a sample of reviews conducted by the Financial Monitoring Unit and the Contract Management Unit to determine whether those units followed their procedures.
- Tested a sample of fiscal year 2009 contract close-outs to determine whether the Department followed its policies and procedures for contract close-out.
- Determined whether the Department collected disallowed costs identified in its monitoring reviews.

- Reviewed Department requests for proposal and scoring and evaluation tools to identify the items reviewed when the Department awards a contract and whether the Department considers prior monitoring results when renewing contracts.
- At four selected substance abuse contractors, reviewed client eligibility documentation, selected expenditure documentation, selected payroll information, user access documentation, policies and procedures related to substance abuse contract monitoring, and documentation related to corrective action taken in response to Department monitoring reports.
- Reviewed Department user access policies and procedures for selected systems to determine whether users with access were current employees and had appropriate access levels.
- Reviewed Department password policies and procedures and tested compliance with those policies and procedures for the Electronic Health Record and Billing System and the Contract Management System.
- Reviewed monthly status reports regarding the testing of key information prior to implementing the Electronic Health Record and Billing System.
- Reviewed Department change management policies and procedures and tested compliance with those policies and procedures for the Electronic Health Record and Billing System.
- Tested key application controls in the Electronic Health Record and Billing System.

Criteria used included the following:

- Contract administrative requirements in Title 25, Texas Administrative Code, Chapter 444, and standards of care in Title 25, Texas Administrative Code, Chapter 448.
- *State of Texas Contract Management Guide.*
- *Uniform Grant Management Standards* from the Office of the Governor.
- Texas Government Code, Chapter 2262.
- Texas Health and Safety Code, Chapter 461.
- The Department's *Contractor's Financial Procedures Manual.*
- Contracts between the Department and substance abuse providers.
- The Department's policies and procedures.

- Title 1, Texas Administrative Code, Chapter 202.

Project Information

Audit fieldwork was conducted from June 2010 through March 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Becky Beachy, CIA, CGAP (Project Manager)
- Isaac Barajas (Assistant Project Manager)
- Shelby Cherian, MBA, CISA
- Catherine K. Fallon, MPAff, CGAP
- Jeff Grymkoski, MA
- Juan Sanchez, MPA, CIA, CGAP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Background Information on the Substance Abuse Program

Sources of Funds for the Substance Abuse Program

The substance abuse program at the Department of State Health Services (Department) is funded primarily by the federal Substance Abuse Prevention and Treatment Block Grant (SAPT grant). The Department's legislative appropriations request for the 2012-2013 biennium indicated that approximately 78 percent of the funding for the substance abuse program was provided by the SAPT grant. Other funding sources include General Revenue and the federal Substance Abuse and Mental Health Services – Access to Recovery Grant. SAPT grant requirements include the following:

- The SAPT grant has a maintenance of effort requirement that state expenditures for authorized activities must be at a level that is not less than the average level of such expenditures maintained by a state for the two-year period preceding the fiscal year for which the state is applying for the grant. The State of Texas uses General Revenue to comply with this requirement.
- States must spend at least 20 percent of SAPT grant funds on programs for individuals who do not require treatment for substance abuse (for example, for prevention programs).
- States must spend at least 5 percent of SAPT grant funds to increase, from 1994 levels, the availability of treatment services designed for pregnant women and women with dependent children.
- States whose populations have a certain rate of acquired immune deficiency syndrome must expend a certain percentage of SAPT grant funds for HIV early intervention services. The Department's *Legislative Appropriations Request* for the 2012-2013 biennium specified that the Department will spend not less than 5 percent on those services.
- States must not spend more than 5 percent of SAPT grant funds to pay for the costs of administering the SAPT grant.
- States must not expend more than an amount equal to the amount expended in fiscal year 1991 for providing treatment services in state penal or correctional institutions. The General Appropriations Acts for the 2008-2009 and 2010-2011 biennia required the transfer of \$3.25 million in funds each fiscal year to the Department of Criminal Justice to provide outpatient substance abuse treatment service for probationers through the Treatment Alternative to Incarceration Program.

Substance Abuse Contract Types and Contract Award Amounts

The Department awards substance abuse contracts for three primary types of services: prevention, intervention, and treatment. Texas Health and Safety Code, Chapter 461, defines those services as follows:

- Prevention means the reduction of a person's risk of abusing alcohol or a controlled substance or becoming chemically dependent.
- Intervention means the interruption of the onset or progression of chemical dependency in the early stages.
- Treatment means the initiation and promotion, in a planned, structured, and organized manner, of a person's chemical-free status or the maintenance of a person free of illegal drugs.

In fiscal years 2007 through 2010, the Department awarded prevention, intervention, and treatment contracts using three different contract payment types: cost-reimbursement, unit rate, and deliverable. The *State of Texas Contract Management Guide* defines those contract payment types as follows:

- Cost-reimbursement contracts: A contractor is reimbursed for expenditures made for allowable costs in accordance with a budget.
- Unit rate contracts: A contractor receives a specific rate for a unit of service. Payments are made for each unit of service completed.
- Deliverable contracts: Contractor payment is based on pre-established deliverables. Deliverables must be measureable.

Table 6 shows the Department's contract award amounts by service type and contract type for fiscal years 2007 through 2010.

Table 6

Summary of Substance Abuse Contracts Awarded								
Type of Contract	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Contract Award Amount	Number of Contracts ^a	Contract Award Amount	Number of Contracts ^a	Contract Award Amount	Number of Contracts ^a	Contract Award Amount	Number of Contracts ^a
Contracts for Treatment Services								
Cost-reimbursement	\$13,805,195	45	\$12,434,185	27	\$10,248,311	30	\$ 5,261,833	16
Unit Rate	74,673,717	144	74,777,650	129	75,215,657	127	77,620,457	131
Deliverable	205,181	2	1,678,176	8	566,814	7	548,392	3
Lump Sum ^b	0	0	0	0	0	0	3,250,000	1
Totals	\$88,684,093	191	\$88,890,011	164	\$86,030,782	164	\$86,680,682	151
Contracts for Prevention Services								
Cost-reimbursement	\$44,438,284	215	\$44,367,901	199	\$42,864,548	251	\$41,476,709	238
Unit Rate	0	0	0	0	0	0	0	0
Deliverable	0	0	821,654	3	1,663,790	4	1,426,260	3
Totals	\$44,438,284	215	\$45,189,555	202	\$44,528,338	255	\$42,902,969	241
Contracts for Intervention Services								
Cost-reimbursement	\$17,149,255	60	\$16,530,685	58	\$16,613,368	59	\$17,570,315	63
Unit Rate	0	0	0	0	0	0	558,115	1
Deliverable	0	0	558,072	1	558,115	1	0	0
Totals	\$17,149,255	60	\$17,088,757	59	\$17,171,483	60	\$18,128,430	64
Contracts for Tobacco Program Services^c								
Cost-reimbursement	\$2,366,284	14	\$4,984,675	26	\$7,579,945	21	\$6,949,982	27
Unit Rate	0	0	0	0	0	0	0	0
Deliverable	0	0	431,230	3	383,613	3	2,054,024	9
Totals	\$2,366,284	14	\$5,415,905	29	\$7,963,558	24	\$9,004,006	36
Totals for All Contracts Awarded								
Total Awarded	\$152,637,916	480	\$156,584,228	454	\$155,694,161	503	\$156,716,087	492

^a An individual contractor can have multiple substance abuse contracts. The Departments contracted with 164, 161, 153, and 148 contractors in fiscal years 2007, 2008, 2009, and 2010, respectively.

^b Until fiscal year 2010, the Department used a cost-reimbursement contract to comply with a requirement to transfer funds to the Department of Criminal Justice; in fiscal year 2010, the Department began using a lump sum contract to comply with that requirement.

^c Contracts for Tobacco Program services represented less than 6 percent of the total dollar amount contracted in fiscal year 2010 and were not covered by this audit.

Source: The Department.

Table 7 shows the Department's substance abuse contract expenditures for fiscal years 2007 through 2010 and compares expenditures with contract award amounts.

Table 7

Summary of Substance Abuse Contract Expenditures				
Source of Funds	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Contract Expenditures				
Federal Funds	\$118,942,878	\$119,550,458	\$119,764,118	\$120,002,444
General Revenue	21,288,938	21,918,277	22,148,856	21,908,261
General Revenue-Dedicated	3,214,504	5,214,340	7,423,016	6,391,866
Other Funds	147,029	328,193	232	0
Totals ^a	\$143,593,348	\$147,011,268	\$149,336,221	\$148,302,571
Contract Amounts Awarded				
	\$152,637,916	\$156,584,228	\$155,694,161	\$156,716,087
Difference between Contract Amounts Awarded and Contract Expenditures				
	\$ 9,044,568	\$ 9,572,960	\$ 6,357,940	\$ 8,413,516
^a Not all totals sum precisely due to rounding.				

Source: The Department.

Eligibility for Substance Abuse Treatment Services

An individual is eligible to receive subsidized substance abuse treatment services if he or she is assessed as having a substance abuse problem and meets the income requirements, which are based on the federal poverty level. Table 8 shows the income requirement for fiscal year 2010.

Table 8

Income Levels Required to Be Eligible for Subsidized Substance Abuse Treatment Services								
Family Size	Percent of Federal Poverty Level							
	200%	To 225%	To 250%	To 275%	To 300%	To 325%	To 350%	More than 350%
1	\$21,660	\$24,368	\$27,075	\$29,783	\$32,490	\$35,198	\$37,905	\$37,906
2	\$29,140	\$32,783	\$36,425	\$40,068	\$43,710	\$47,353	\$50,995	\$50,996
3	\$36,620	\$41,198	\$45,775	\$50,353	\$54,930	\$59,508	\$64,085	\$64,086
4	\$44,100	\$49,613	\$55,125	\$60,638	\$66,150	\$71,663	\$77,175	\$77,176
Percent of Cost Individual Must Pay	0%	10%	20%	35%	50%	65%	80%	100%

Source: The Department.

Substance Abuse Treatment Services and Payment Amounts for Fiscal Year 2011

In fiscal year 2011, the Department contracted for the following substance abuse treatment services:

- Adult residential detoxification services.
- Adult ambulatory detoxification services.
- Adult intensive residential services.
- Adult supportive residential services.
- Adult outpatient services.
- Human immunodeficiency virus residential services.
- Opioid substitution therapy.
- Youth intensive residential services.
- Youth supportive residential services.
- Youth outpatient services.
- Adult specialized female residential detoxification services.
- Adult specialized female ambulatory detoxification services.
- Adult specialized female intensive residential services.
- Adult specialized female supportive residential services.
- Adult specialized female outpatient services.
- Adult women and children intensive residential services.
- Adult women and children supportive residential services.
- Youth specialized female intensive residential services.
- Youth specialized female supportive residential services.
- Youth specialized female outpatient services.
- Co-occurring psychiatric and substance use disorders.

The Department pays contractors for providing treatment services based on the type of service and the number of units. Table 9 shows the unit rates that were included in the Department's fiscal year 2011 request for proposals.

Table 9

Unit Rates for Substance Abuse Treatment Contracts in Fiscal Year 2011		
	Unit Rate	Per
Adult Treatment Services (TRA)		
Adult intensive residential	\$74	day
Adult supportive residential	\$41	day
Adult residential detoxification	\$150	day
Adult ambulatory detoxification	\$85	day
Adult HIV residential	\$108	day
Adult Outpatient Services		
Adult outpatient - group	\$17	hour
Adult outpatient - individual	\$54	hour
Opioid substitution therapy (OST):		
Buprenorphine	\$18	day
Methadone	\$11	day
Youth Treatment Services (TRY)		
Youth intensive residential	\$150	day
Youth supportive residential	\$102	day
Youth outpatient:		
Youth outpatient - group	\$17	hour
Youth outpatient - individual	\$54	hour
Youth adolescent support	\$60	hour
Youth family counseling	\$75	hour
Youth family support	\$75	hour
Youth psychiatrist consultation	\$125	hour
Specialized Female Treatment Services (TRF)		
Adult specialized female ambulatory detoxification	\$85	day
Adult specialized female residential detoxification	\$140	day
Adult specialized female intensive residential	\$79	day
Adult specialized female supportive residential	\$79	day
Adult specialized female outpatient:		
Adult specialized female outpatient - group	\$17	hour
Adult specialized female outpatient - individual	\$54	hour
Youth specialized female intensive residential	\$140	day
Youth specialized female supportive residential	\$95	day

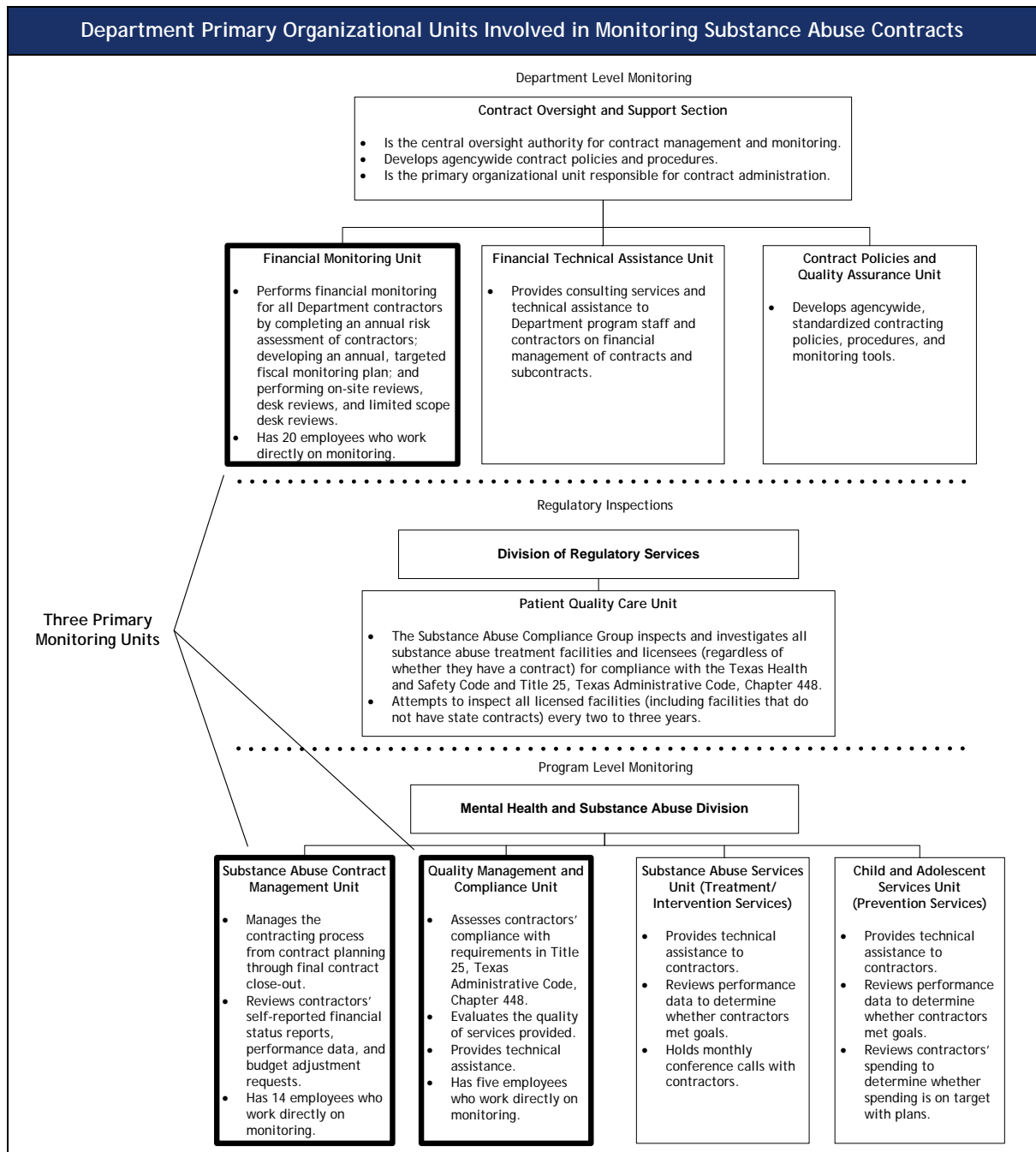
Unit Rates for Substance Abuse Treatment Contracts in Fiscal Year 2011		
	Unit Rate	Per
Youth specialized female outpatient - group	\$16	hour
Youth specialized female outpatient - individual	\$50	hour
Youth adolescent support	\$60	hour
Youth family counseling	\$75	hour
Youth family support	\$75	hour
Youth psychiatrist consultation	\$125	hour
Adult specialized female - women and children intensive residential	\$177	day
Adult specialized female - women and children supportive residential	\$177	day
Treatment - Co-occurring (TCO)		
Co-occurring psychiatric and substance abuse disorders (COPSD)	\$64	hour

Source: The Department.

Organizational Structure

Figure 2 shows the primary organizational units involved in monitoring substance abuse contracts at the Department of State Health Services (Department). The other organizational units in Figure 2 perform functions related to the functions of the primary organizational units.

Figure 2



Source: Developed by auditors based on information the Department provided.

Payments to Substance Abuse Contractors for Treatment Services in Fiscal Years 2009 and 2010

In fiscal year 2009, the Department of State Health Services (Department) paid substance abuse contractors located in 10 Texas Health Service Regions more than \$76 million to provide treatment services. In fiscal year 2010, those payments exceeded \$80 million. Table 10 presents those payments by region.

Region 5 is not included in Table 10 because the Department contracts for substance abuse services differently in that region.

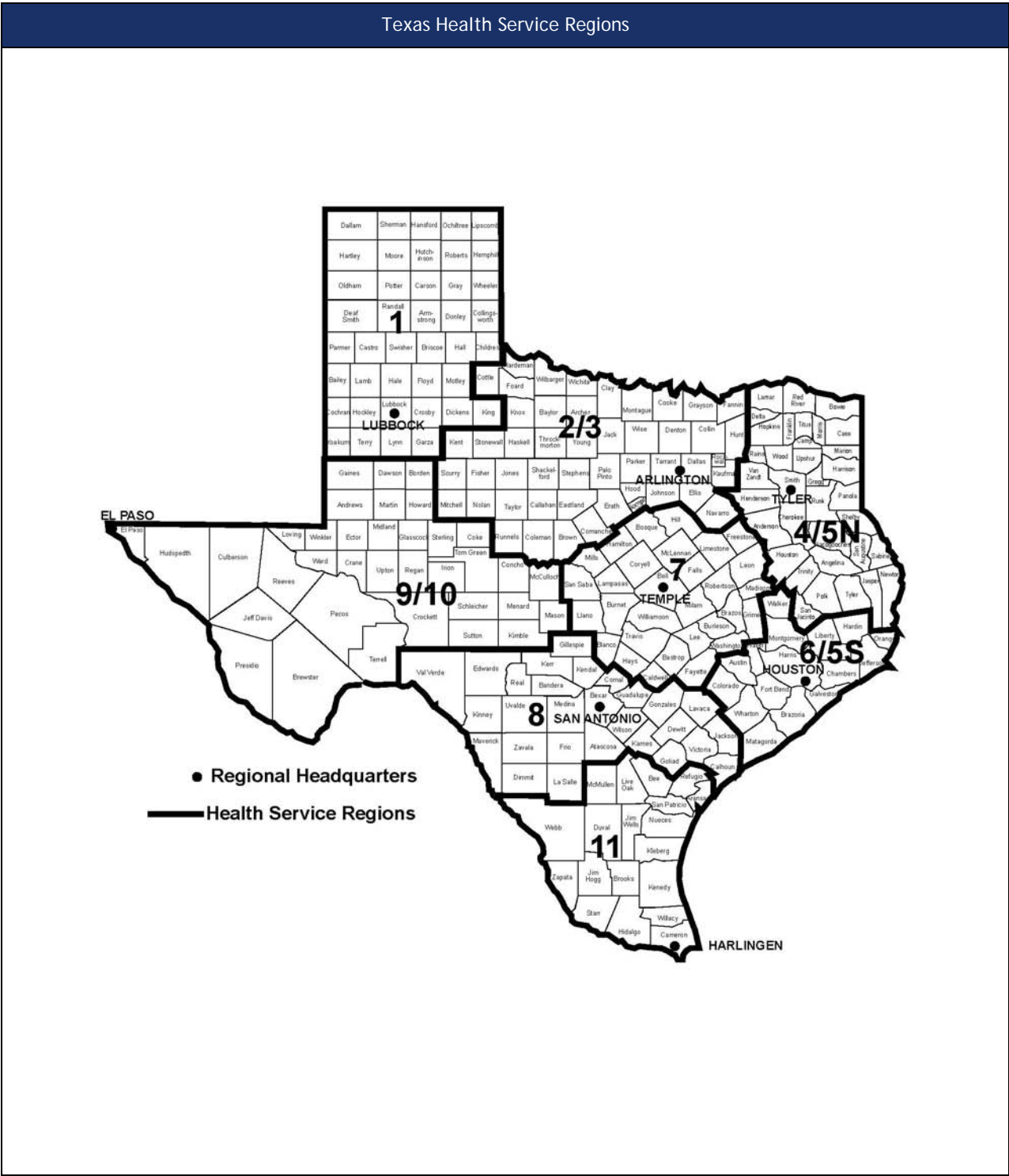
Table 10

Payments to Substance Abuse Contractors for Treatment Services Fiscal Years 2009 and 2010		
Texas Health Service Region	Payments	
	Fiscal Year 2009	Fiscal Year 2010
1	\$ 3,959,622.47	\$ 4,316,245.38
2	2,583,121.50	2,681,448.25
3	14,370,572.08	13,114,615.52
4	4,341,067.05	4,338,851.00
6	23,325,314.57	26,414,831.93
7	7,297,446.98	7,750,913.90
8	7,471,849.67	8,145,359.40
9	1,600,665.20	2,010,404.00
10	3,848,348.02	3,816,390.65
11	7,222,585.36	7,587,510.26
Totals	\$76,020,592.90	\$80,176,570.29

Source: The Department.

Figure 3 shows the location of each Texas Health Service Region across the state.

Figure 3



Source: The Department.

Time Line of Events Related to Substance Abuse Contractor Heart of Texas Council on Alcoholism and Drug Abuse

Table 11 presents a time line of events associated with the Heart of Texas Council on Alcoholism and Drug Abuse (Council), which had a contract with the Department of State Health Services (Department) to provide substance abuse services.

Table 11

Time Line of Events Associated with the Heart of Texas Council on Alcoholism and Drug Abuse	
Date(s)	Event
August 28, 2006, through September 6, 2006	The Department's Financial Monitoring Unit performed an on-site review at the Council. That review covered the time period from September 1, 2005, through August 31, 2006.
September 29, 2006	An independent audit that the Council obtained for fiscal years 2004 and 2005 determined that the Department had reimbursed the Council for \$78,162 in retirement plan contributions even though the Council did not have a retirement plan.
December 11, 2006, through December 15, 2006	The Department's Financial Monitoring Unit performed additional work at the Council.
January 22, 2007	<p>The Department's Financial Monitoring Unit released a final report that documented \$79,008 in total disallowed costs. The report specified the following:</p> <ul style="list-style-type: none"> ▪ The Council's payroll files did not contain certain payroll authorizations and employee Internal Revenue Service I-9 forms and contained inaccurate payroll authorizations and employee Internal Revenue Service I-9 forms. ▪ The Council did not document additional pay for certain employees on time sheets, and it did not have a policy regarding additional pay. This resulted in disallowed costs of \$400. ▪ The Council charged 22 hours listed on one time sheet to the wrong contract. This resulted in \$330 in disallowed costs. ▪ The Council's procedures for purchases and subcontractors were inadequate. The Council did not have proper documentation for 11 of 14 expenditures tested. This did not result in any disallowed costs. ▪ The Council did not have adequate segregation of duties. The Council's quality improvement manager approved purchases, prepared checks, reconciled bank statements, tracked voided checks, posted transactions to the general ledger, and had access to and custody of blank checks and canceled checks. The executive director was supposed to approve and review the bank reconciliations and all purchases; however, the Financial Monitoring Unit did not find evidence of this. ▪ The independent audit the Council obtained for the fiscal year ended August 31, 2005, identified a \$78,162 liability to the Department because the Council had received reimbursement for expenditures related to a retirement plan that did not exist. This resulted in disallowed costs of \$78,162. ▪ The Council charged an expenditure for pizza to office supplies in the general ledger. This resulted in disallowed costs of \$116.
January 31, 2007	The Department held a contract oversight team meeting as a result of its Financial Monitoring Unit's review.

**Time Line of Events Associated with the
Heart of Texas Council on Alcoholism and Drug Abuse**

Date(s)	Event
February 22, 2007	The Department's Financial Monitoring Unit released a revised final report that, with one exception, contained the same findings that its January 22, 2007, report contained. However, the revised final report reduced total disallowed costs to the \$78,162 related to the retirement plan expenditures. Other disallowed costs originally identified in the January 22, 2007, report were resolved based on the Financial Monitoring Unit's acceptance of the Council's corrective action plan.
February 22, 2007	The Department's Contract Oversight Team recommended that the Council be placed on "high-risk" status and be required to: <ul style="list-style-type: none"> ▪ Submit monthly general ledgers that the Department's contract manager would reconcile to the financial status reports the Council submitted. ▪ Have a licensed accountant perform the Council's accounting services. ▪ Submit an adequate corrective action plan to address issues in internal controls.
March 8, 2007	Department executive management approved the Contract Oversight Team's recommendations.
October 22, 2007	The Health and Human Services Commission's Office of the Inspector General rejected the report from the single audit for the year ended August 31, 2006, that the Council had obtained.
November 21, 2007	The Health and Human Services Commission's Office of the Inspector General accepted the report from the single audit for the year ended August 31, 2006, that the Council had obtained.
August 29, 2008	An independent audit of the Council's financial statements for the year ended August 31, 2007, identified the following: <ul style="list-style-type: none"> ▪ Two former Council employees made unreimbursed personal charges. The Council estimated that the unreimbursed charges totaled \$33,300 and \$18,000 for the years ended August 31, 2007, and August 31, 2006, respectively. ▪ In a discussion of subsequent events, the independent auditor's report noted that the misappropriation of assets continued into the fiscal year ended August 31, 2008. ▪ Checks were not properly reviewed, rendering controls ineffectual. ▪ Lack of documentation for expenditures, specifically checks were made out to a bank for an employee to purchase money orders. ▪ Bank reconciliations were not always performed during the year of the audit. The reconciliations consistently contained reconciling items that went uninvestigated.
September 8, 2008	The Council notified the Department that it had terminated the employment of the Council's executive director and fiscal manager (who had formerly been the Council's quality improvement manager).
December 2008	The Council's former fiscal manager (who had formerly been the Council's quality improvement manager) was arrested for the alleged theft of more than \$60,000 from the Council.
February 20, 2009	The Health and Human Services Commission's Office of the Inspector General notified the Department's Financial Monitoring Unit of findings in the Council's independent audit for the year ended August 31, 2007.
April 14, 2009	The Contract Oversight and Support Section sent a letter to the Council requesting payment for disallowed costs identified in the Council's independent audit for the year ended August 31, 2007.
May 12, 2009	The Health and Human Services Commission's Office of the Inspector General accepted the report from the single audit for the year ended August 31, 2007, that the Council had obtained.
October 12, 2009	The Council's fiscal manager (who had formerly been the Council's quality improvement manager) pleaded guilty to theft of more than \$20,000 but less than \$100,000 from the Council.

**Time Line of Events Associated with the
Heart of Texas Council on Alcoholism and Drug Abuse**

Date(s)	Event
December 7, 2009	The Council's fiscal manager (who had formerly been the Council's quality improvement manager) was sentenced to 10 years in a Department of Criminal Justice institution and was required to pay \$41,394.50 in restitution to the Council. The State recommended that the sentence be probated.
June 2, 2010	The Council notified the Department that it would end operations on August 31, 2010.

Sources: Compiled by auditors based on Department records, including contractor notebooks, e-mails, and correspondence.

Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
11-001	An Audit Report on the Department of State Health Services' Public Health Laboratories	September 2010
10-011	An Audit Report on the Department of State Health Services' Issuance of Birth Certificates	November 2009

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