

Contract Administration at Selected Health and Human Services Agencies - Phase Three



Office of the State Auditor
Lawrence F. Alwin, CPA

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Key Points Of Report

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Overall Conclusion

Current contract administration practices at the Department of Human Services, Department of Protective and Regulatory Services, Department of Health, and Department of Mental Health and Mental Retardation do not consistently ensure that contractors use public funds prudently and in a manner which provides the most benefits to the citizens of Texas. Weaknesses in contract provisions, rate-setting methodologies, contract budget determination procedures, contractor selection processes, and agency oversight of contractors all increase the risk that public funds will be spent inappropriately. We identified over \$2.7 million in questionable expenditures during our review of 20 contractors who provide services for these four agencies.

Key Facts And Findings

- Service providers paid a *unit rate* are not held accountable for **how** they spend public funds. In total, 18 of the 20 providers reviewed had at least one unit-rate contract. Unit-rate contracts are structured such that once the contractor is paid the fixed rate for each unit of service delivered, there are no restrictions over the use of funds. As a result, the \$2.3 million identified in questionable expenditures are not violations of current contract provisions or agency regulations.
- Although provisions in *cost-reimbursement* contracts generally hold contractors accountable for how they spend public funds, most programs do not have an effective process for determining the reasonableness of cost reimbursement budgets. Inappropriate or inefficient uses of public funds were not consistently detected by the funding agencies during contractor audits. Thirteen of the 20 providers reviewed had at least one cost reimbursement contract, and we identified \$460,947 in questionable expenditures at these providers.
- In some instances, contractors receive compensation which exceeds the cost of providing services, as evidenced by expenditures which are inappropriate, excessive, or do not directly benefit the program. As a result, we concluded that the processes used to establish rates and contract budgets do not provide adequate assurance that the State is paying a fair and reasonable price for the services.
- Overall, there is a lack of central guidance or oversight of contract administration efforts, resulting in duplication of effort and a piecemeal approach on a statewide basis. Although multiple state agencies use the same contractor, agency regulations are inconsistent, and there is no coordination or communication among agencies regarding the contractors' performance.

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This audit was conducted in accordance with Government Code, § 321.05(a) and (b)(1).

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