



# A Legislative Summary Document Regarding Department of Human Services

## Contents

Financial Profile  
Key Findings from Previous Audits and Reviews  
Performance Management  
Quality Assurance Team Reviews  
Disaster Preparedness  
Information System Vulnerability Assessment  
Travel Expenditures

## State Auditor's Observations

The Department of Human Services (Department) has established procedures that should assure that its Legislative Appropriation Request (LAR) is reasonably accurate.

The Department is projecting an increase in expenditures of \$135 million in its baseline request (from \$3,528,279,915 in 2002–2003 to \$3,662,994,322 in 2004–2005). The Department is increasing its baseline request to allow for caseload increases in its federally mandated programs.

The Department is also making a request for \$525.1 million in additional appropriations in the form of exceptional items related to the Long-Term Care Program. These requests compose 94 percent of the funding the Department is seeking through exceptional items. Additionally, the Department budgeted \$5 million during 2003 that was not included in the 2002–2003 LAR for new activity in Long-Term Care Quality Assurance. This additional program had not been identified at the time the 2002–2003 LAR was prepared.

The Department does not adequately establish and monitor community service contracts to ensure that client services result in appropriate outcomes and that funds are properly managed.

The Department has not complied with certain federal and state requirements in its processing of Medicaid long-term care claims.

The Quality Assurance Team is currently monitoring five projects at the Department. These projects have a total budget of \$330.8 million. The most significant of these projects is the Texas Integrated Eligibility Reengineering System (TIERS), which has a budget of \$301.3 million. The TIERS project involves the replacement of multiple eligibility applications and the improvement of business processes through the expansion of change centers and fraud prevention tools. This project began in September 1999 and, as of October 21, 2002, current expenditures are \$108,213,062. The estimated project completion date is August 31, 2005.

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

January 2003

SAO No. 03-322

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

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

## Financial Profile

### Revenue Projections

The Department of Human Services (Department) bases revenue projections on estimates of the demand for services (caseload), the cost of service (rate), and the percentage of program costs to be paid by the federal government.

- The method of estimating caseload appears to be reasonable, but we noted at least one program (Community Care) for which the Department plans a \$52.2 million budget increase for 2003 due to an underestimation of caseload. The proposed fiscal year 2003 operating budget addresses the resulting funding shortage by using balances carried forward from 2002 and funds that were proposed to be lapsed in 2003.
- The Health and Human Services Commission (HHSC) sets the rates for services each year, and HHSC multiplies the rate by the caseload projections to determine funding requirements. Each quarter the Department meets with the Department of Health and HHSC to discuss Medicaid caseloads and cost forecasts. When the agencies agree on projections, HHSC posts the information on the HHSC Web site and submits it to the Legislative Budget Board (LBB) and the Governor's Office.
- It appears that the method the Department uses to estimate the federal government's share of Medicaid is reasonably accurate. However, because Medicaid is such a huge program, even very small differences between estimate and actual can have a significant effect. For example, a 0.25 percent overestimate of the federal government's share of Medicaid required the Department to find \$8.1 million in additional state funds to make up the shortfall in 2003.

### Expenditure Projections and Analysis

The Department's method of projecting expenditures appears to be reasonable. The Department uses historical data and time-series analyses to project expenditures.

The Department's fiscal year 2004–2005 LAR will have some funding differences from prior biennia. The projected increase in expenditures of \$135 million in the baseline request (from \$3,528,279,915 in 2002–2003 to \$3,662,994,322 in 2004–2005) is requested to allow for caseload increases in the Department's federally funded programs. The increase is a result of changes to caseload increases for Nursing Facility, Hospice, Primary Home Care, and Frail Elderly.

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

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Public Assistance Payments	\$ 3,169,836,568	\$ 3,426,088,158	\$ 3,948,032,297
Interfund Transfers/Other	2,908,339,592	3,509,438,730	3,451,977,510
Salaries and Wages <sup>a</sup>	435,022,454	450,395,569	466,680,063
Rentals and Leases	50,667,646	49,529,038	43,217,437
Professional Services and Fees	42,797,106	47,348,203	37,182,647
Other Expenditures	37,205,873	43,175,586	50,456,987
Employee Benefits (Note A)	32,118,371	108,047,690	121,486,970

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Supplies and Materials	24,141,985	22,439,753	24,582,919
Capital Outlay (Note B)	17,644,601	10,961,005	21,017,282
Travel	10,690,293	11,191,554	10,095,548
Communications and Utilities	10,519,472	12,086,662	12,759,936
Repairs and Maintenance	7,735,269	9,752,613	9,350,604
Printing and Reproduction	6,683,052	7,666,014	6,299,428
Claims and Judgments	868,950	142,286	615,776
Interest/Prompt Payment Penalties	40,382	28,186	16,684
<b>Total Expenditures</b>	<b>\$ 6,754,311,614</b>	<b>\$ 7,708,291,047</b>	<b>\$ 8,203,772,088</b>
<p><sup>a</sup> The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.</p> <p>Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.</p>			

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

Note B – Higher expenditures for capital outlay in appropriation years 2000 and 2002 relate to increased purchases of computer equipment and computer software, respectively.

## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### ***An Audit of Community Service Contracts at Selected Health and Human Service Agencies***

(Report No. 02-052, June 2002)

The Department of Human Services (Department) does not adequately establish and monitor community service contracts to ensure that client services result in appropriate outcomes and that funds are properly managed. As a result, the Department may be unaware of providers that are providing substandard services and that have weak fiscal operations.

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

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

Key facts and findings were as follows:

- The Department should improve its contract administration to focus on outcomes of community care services. While the Department’s community care contracts contain output and efficiency measures, they lack provisions to assess client outcomes. Additionally, the Department’s monitoring of community care contracts does not adequately assess contractor performance.
- The Department needs to strengthen its fiscal oversight of the Star+Plus managed care program to ensure that program funds are used in the most efficient and effective manner.

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

---

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

(February 2002)

### **Eligibility**

The Department used two incorrect repair prices in its Individual Family Grants from the Federal Emergency Management Agency (FEMA). However, this did not result in questioned costs.

### **Auto-Eligibility Approval by FEMA**

FEMA discovered that overpayments were made to eligible recipients in the Department's Individual Family Grants Program. This was caused by a programming error in FEMA's computer system, and the Department was not responsible for these errors. The questioned costs totaled \$1,835,207.

### **Special Tests and Provisions**

The Department's Long-Term Care Regulatory Facility Enrollment program has insufficient procedures in place to ensure that provider files contain current provider licenses. As a result, the Department may provide Medicaid funds to unlicensed and uncertified health care providers.

### **Earmarking**

It could not be determined whether the Department was in compliance with the Social Services Block Grant program's earmarking compliance requirement during fiscal year 2001. The Department did not have controls in place to facilitate its compliance with the program's earmarking requirement.

<b>Status of Audit Recommendations as of November 30, 2002</b>
--

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.
---

---

## **A Letter to Management on the Processing of Medicaid Long-Term Care Claims at the Department of Human Services**

(Report No. 02-315, December 2001)

The Department of Human Services (Department) has not complied with certain federal and state requirements in its processing of Medicaid long-term care claims.

Key facts and findings were as follows:

- The Department does not ensure that providers submit claims on a timely basis. The Department has not implemented procedures to enforce a federal requirement that providers submit claims within 12 months of the date of service. Although the Department has a rule requiring providers to submit claims within 180 days of the date of service, it has not enforced that rule. We identified 6,681 payments totaling \$5 million in January 2001 for which the claim submission date was more than 365 days after the date of service.
- The Department has paid for services provided on the same date to the same client by two different programs. This violates agency policies and procedures that specify which service group/service code combinations are mutually

<b>Status of Audit Recommendations as of November 30, 2002 (unaudited)</b>
--

The Department has reported the following:	
--	--

Partially implemented	1
Does not plan to take corrective action	1
<b>Total recommendations</b>	<b>2</b>

---

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

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

exclusive. Using the agency policies and procedures as our guide, we identified 240 cases in which the Department paid for mutually exclusive services that led to overlapping claims totaling \$379,114.

Other audit testing to validate Claims Management System (CMS) data identified no significant exceptions.

## **An Audit Report on 19 Agencies' Compliance With Historically Underutilized Business Requirements**

(Report No. 01-035, August 2001)

For fiscal year 2000, the Department of Human Services (Department) did not fully comply with the provisions of historically underutilized business (HUB) requirements as defined in the Texas Administrative Code (TAC), Chapter 111, and Texas Government Code, Chapter 2161. However, we determined that the Department made a "good-faith effort" to comply with TAC and Texas Government Code.

Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000				
Compliance Requirement				Did the Entity Make a "Good-Faith Effort"? <sup>b</sup>
Planning	Outreach <sup>a</sup>	Reporting	Subcontracting	
No material noncompliance	HUB coordinator not equal to procurement director (TAC), Section 111.12).	Over-reported the amount of subcontractor payments (TAC, Section 111.16)  Under-reported the number of bids submitted by HUBs (TAC, Section 111.16)	No material noncompliance	Yes

<sup>a</sup> Most of the agencies had not developed and implemented a mentor protégé program during fiscal year 2000. Of the HUB requirements, the mentor protégé program requirement had the latest effective date (June 2000). The agencies indicated there was not enough time to design and implement the program in the last quarter of the fiscal year.

<sup>b</sup> The State Auditor's Office, in consultation with the General Services Commission, determined that an entity did not make a "good-faith effort" if it had noncompliance in at least three of the four basic HUB areas: planning, outreach, reporting, and subcontracting. (The General Services Commission was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission subsequently assumed most of its responsibilities.)

**Status of Corrective Action:** In December 2002, the Department reported that it had implemented both of the recommendations we made in this audit report. This information has not been audited.

## **An Audit Report on Property Reported as Lost or Stolen**

(Report No. 01-032, June 2001)

The results of our statistical testing at four agencies and universities indicate that state property with a total book value of \$12.8 million may be missing (\$2.2 million for the Department of Human Services). While the percentage of missing items at each of the four entities meets limited available standards for acceptable property loss, improvements in property management procedures could reduce the risk of loss or theft of state assets. The percentage of missing test items varied as follows: 0.0 percent at Texas A&M University, 1.7 percent at the Department of Human Services, and 3.8 percent at both the Department of Mental Health and Mental Retardation and The University of Texas Medical Branch at Galveston.

Status of Audit Recommendations <sup>1</sup> as of November 30, 2002 (unaudited)	
The Department has reported the following:	
Implemented	2
<b>Total recommendations</b>	<b>2</b>
<sup>1</sup> From management letter No. 01-463	

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

## Performance Management

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

The Department of Human Services (Department) uses the Legislative Budget Board (LBB) performance measures to gauge organizational accountability and performance. An internal performance Web page lists the key measures, the performance plan for measures not meeting their targets, and measure certification. This Web page is used to report and track performance measure data. If a measure is red, then it is outside tolerance and deviating in an undesirable direction. The measure owner must submit a performance plan that identifies tasks/activities to move the measure back toward the target.

An executive report is given to the LBB, Governor’s Office of Budget and Planning, the Department’s Executive Director and staff, and the Board members on a monthly basis. This report includes fiscal year 2002–2003 issues, fiscal year 2002 planned and projected amounts (in total) for key performance measures, and other data.

### ***Estimating Performance Targets***

The Department uses statistical software to model historical data to estimate future caseloads. However, at least one program’s actual caseloads have exceeded the Department’s projections. The Community Care strategy is experiencing larger-than-anticipated increases in the number of Medicaid non-waiver clients (Primary Home Care, Frail Elderly, and Medicaid Day Activity and Health Services). In 2001 the average monthly caseload was 83,515, but as of April 2002 the average monthly caseload had reached 90,215. The target for 2002 was 88,868 cases per month, and the projection for 2003 is 100,336 cases per month.

### ***Most Recent Performance Measure Certification***

**Fiscal Year 1998–Fiscal Year 2003**

The results included in *An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities* (Report No. 03-008, November 2002) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2001	A	Long-Term Care Continuum	Percent of Long-Term Care Clients Served in Community Settings	Certified with Qualification
2001	A.1.1	Community Care Services	Average Number of Clients Served per Month: Medicaid Community Based Alternatives (CBA Waiver)	Certified with Qualification
2001	A.1.3	Long-Term Care Eligibility and Service Planning	Average Case Equivalents per Long-Term Care Medicaid Financial Eligibility Worker (Medicaid Assistance Only)	Certified with Qualification
2001	A.1.3	Long-Term Care Eligibility and Service Planning	Average Monthly Cost per Case: Nursing Facilities	Certified with Qualification
2001	A.1.3	Long-Term Care Eligibility and Service Planning	Average Monthly Cost per Case: Community Care	Factors Prevent Certification
2001	B.1.2	CSS Eligibility and Issuance Services	Average Standardized Case Equivalents per CSS Worker	Certified with Qualification
<b>Total Measures Certified Without Qualification<sup>a</sup></b>				<b>0/6 (0%)</b>
<b>Data Reliability Percentage (Certified and Certified with Qualification)</b>				<b>5/6 (83%)</b>

<sup>a</sup> The percentage of unqualified certifications is presented because it is used in determining an entity’s eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

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

## Quality Assurance Team Reviews

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

### **Completed Projects**

**Quality Assurance Team Annual Report – January 2003**

The Department of Human Services (Department) completed the Federal Welfare Reform project at a cost of \$6,272,914 on April 30, 2002. The initial budget was \$5,339,704, and the initial completion date was September 30, 1998.

The Department completed the Integrated Administrative System project at a cost of \$1,215,366 on August 31, 2001. The initial budget was \$10,826,089, and the initial completion date was October 31, 2001.

The Department completed the Post Welfare Reform project at a cost of \$523,926 on August 31, 2002. The initial budget was \$6,034,900, and the initial completion date was March 31, 2002.

### **Completed Projects**

**Quality Assurance Team Annual Report – January 2002**

The Department completed the Claims Management System Enhancements 2 project at a total cost of \$4,152,509.

The Department completed the Electronic Benefits Transfer System project at a total cost of \$18,022,485.

### **Canceled Projects**

**Quality Assurance Team Annual Report – January 2003**

The Department canceled the Generic Compliance Intake and Tracking System project at a total cost of \$0.

The Department canceled the Web-Based Long-Term Care Provider Forms project at a total cost of \$0.

### **Ongoing Projects**

**Quality Assurance Team Annual Report – January 2003**

Automation Infrastructure Improvements (AII) — In September 2000, the Department initiated work to migrate from a mainframe-processing environment to a more flexible and industry-standard system architecture, as well as to implement a data warehouse. The project is 65 percent complete with 490 of 500 sites converted to the new infrastructure. Current expenditures are \$1,091,273.

Long-Term Care Quality Reporting System (LTCORS) — The Department undertook this project in September 1998 to develop a Web-based information system that draws from existing data to produce information on facility rankings, ratings, and measurement of programs designed to improve facility compliance. A scope change to develop an Early Warning System for long-term care facilities affected costs and the time line. Current expenditures are \$1,569,542.

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

Long-Term Care Regulatory Compliance, Assessment, Regulatory and Enforcement System (CARES) — The CARES project, in development since June 1997, is a business-process reengineering initiative focused on licensure, survey/certification, and complaint investigation. Changes in both scope and budget relate to a lack of proper planning and the need to change specifications after the system’s deployment. Current expenditures are \$9,594,317.

Texas Integrated Eligibility Reengineering System (TIERS) — The TIERS project involves the replacement of multiple eligibility applications and the improvement of business processes through the expansion of change centers and fraud prevention tools. The internet self-screener (STARS) and scheduler are fully implemented. Current expenditures are \$108,213,062.

Web Accessible Facility Enrollment (WAFER) — Started in November 2001, the WAFER project is a multi-user intranet application to collect data for long-term care regulatory facility enrollment operations. Long-term care provider application processing is 89 percent complete. Current expenditures are \$1,418,963.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
All	Update system architecture	\$5,863,000	\$2,893,544	(\$2,969,456)	08/31/03	08/31/03	None
LTCQRS	Web-based information system	\$1,543,220	\$3,041,553	\$1,498,333	08/31/01	08/31/05	48 months
CARES	Reengineering initiative	\$3,621,515	\$11,720,035	\$8,098,520	08/31/00	08/31/03	36 months
TIERS	Streamline business processes	\$3,424,420	\$301,398,794	\$297,974,374 <sup>a</sup>	08/31/04	08/31/05	12 months
WAFER	Facilitate data collection	\$11,940,837	\$11,940,837	\$0	08/31/05	08/31/04	(12 months)

<sup>a</sup> Original cost estimate was for project planning. Current costs have actually decreased from earlier estimates of \$352,117,334.

## Disaster Preparedness

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

The Department has a Business Continuity Plan (BCP) that is separate from its Disaster Recovery Plan (DRP). The BCP documents strategies for continuing service delivery and administration in the event of automation problems. While the BCP identifies several potential problems with issuing benefits (especially daily benefits) in the event of extended problems with the network, it does not address business continuity in the event of a major disaster. The plan was last updated in November 2001.

The DRP covers the Department’s central office and is regularly updated, most recently in March 2002. Technical information is updated annually, and contact information is updated every quarter. The current plan focuses on the Department’s mainframe, but the Department is currently developing a plan for client server business activity.

The Department has 11 regions in the state. The regions also have DRPs. Only three of the regions’ plans have been recently updated. (Two of these three regions have a joint plan.)

The State Office of Risk Management reviewed the Department’s Risk Management Office and commended the risk manager for coordinating a uniform, campus-wide approach to identifying risks.

# Department of Human Services

SAO Contact: Joanna Peavy  
(512) 936-9500

## Information System Vulnerability Assessments

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

## Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000*	2001*	2002
In-State Travel	\$ 10,266,642	\$ 10,873,300	\$ 9,815,942
Out-of-State Travel	448,754	317,834	263,559
Foreign Travel	0	0	0
Other Travel Costs	(25,104)	419	16,047
<b>Total Travel Expenditures</b>	<b>\$ 10,690,293</b>	<b>\$ 11,191,554</b>	<b>\$ 10,095,548</b>
Limit on Travel Expenditures (Cap)	10,567,503	10,565,303	448,754 <sup>a</sup>
<b>Expenditures in Excess of Cap</b>	<b>\$ 122,790<sup>b</sup></b>	<b>\$ 626,251<sup>b</sup></b>	<b>\$ 0</b>

<sup>a</sup> Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the Department and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

<sup>b</sup> The excess expenditures may be reduced or eliminated because certain travel is exempt from the travel cap. General Appropriations Act, 77th Legislature, II-67, Rider 40, exempted travel directly associated with long-term care monitoring and auditing visits.

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