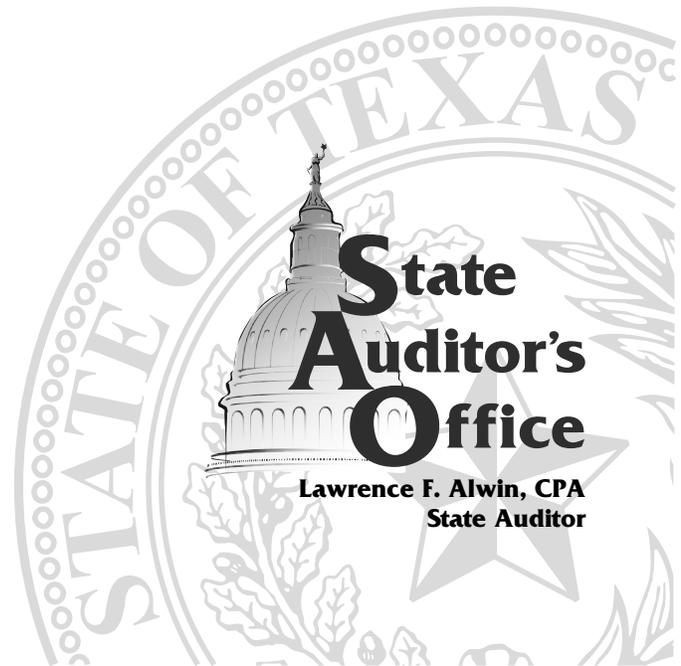


A Financial Review of

# The Department of Family and Protective Services

July 2004

Report No. 04-044



## **Overall Conclusion**

The Department of Family and Protective Services' (Department) accounting systems and processes enable it to report accurate and consistent strategy-level financial statement information to the Legislature and oversight agencies. However, our data analysis identified inconsistencies in the Department's use of its Information Management Protecting Adults and Children in Texas system (IMPACT) that diminish the data's usefulness for making day-to-day management decisions and detecting anomalies in service delivery and related expenditures.

We identified opportunities for the Department to improve its financial processes to better ensure that funds are expended for intended purposes and at contracted rates. Specifically, we found that the Department paid twice for some services, paid some contractors amounts other than the rates stipulated in the contracts, and issued excessive and duplicate payments as a result of processing and programming errors. These problems resulted in overpayments of more than \$1 million. The Department has recovered about \$400,000 of this amount. In general, however, the Department spends funds in accordance with legislative intent.

Additionally, we noted that the Department has addressed prior findings related to calculating and reporting performance measures and is taking steps to improve the accuracy of its forecasts of future foster care needs.

## **Key Points**

**While the Department is able to report accurate and consistent strategy-level financial statement information, it could improve the usefulness of its case management information to better monitor client services and related expenditures.**

- Inconsistencies in the Department's use of IMPACT diminish the data's usefulness for making day-to-day management decisions and detecting anomalies in service delivery and related expenditures. For example, the Department did not know how much it spent on appointments that clients missed in fiscal year 2003 because only 3 of the 11 regions use the appropriate IMPACT code. The three regions spent almost \$300,000 on missed appointments.
- As of May 2004 the Department had \$570,000 of outstanding accounts receivable that it identified through its fiscal contract monitoring of selected providers. Some of these receivables, which date back to fiscal year 2000, are due from current contractors, but the Department has not consistently tried to collect the amounts.



**While the Department generally spends funds in accordance with legislative intent, it must improve its financial processes to ensure that funds are expended for intended purposes and at contract rates.**

- In fiscal year 2003, the Department paid approximately \$650,000 to service providers for services that were the responsibility of a contracted foster care provider. Overpayments occurred when the Department initiated a separate payment in IMPACT for services included in the contracted foster care providers' rates.
- Staff members in one region paid rates for purchased services that differed from the contracted rates for a net overpayment of \$15,000.
- We identified excess and duplicate payments of almost \$100,000 that resulted from payment processing errors.
- A programming error in IMPACT caused payment amounts to differ from invoice amounts. In one case, a provider received \$277,000 rather than the correct amount of \$27,000.

### Information on Scope

The scope of this audit was limited to the Department's accounting records and transactions and did not include programmatic activities. However, it is the auditor's opinion that the problems we identified regarding data consistency (see Chapter 1) may also hinder the Department's efforts to oversee programmatic activities. We recently received a legislative request to conduct an audit of the Department's Child Protective Services division, the objectives of which would include programmatic issues.

Recent SAO Work		
Number	Product Name	Release Date
03-046	A Review of New Foster Care and Adoption Subsidy Rates Proposed by the Department of Protective and Regulatory Services	August 2003
03-040	A Review of Fiscal Year 2002 Encumbrances and Payables at Selected Agencies	June 2003
03-324	A Legislative Summary Document Regarding the Department of Protective and Regulatory Services	January 2003
01-036	An Audit Report on Performance Measures At 12 State Entities - Fiscal Year 2001	August 2001
00-040	An Audit Report on the Department of Protective and Regulatory Services' Administration of Foster Care Contracts	August 2000

# Detailed Results

## Chapter 1

### ***Does the Department provide reliable, accurate, and consistent financial information to oversight entities and Department management?***

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The Department of Family and Protective Services' (Department) accounting systems and processes enable it to report accurate and consistent strategy-level financial statement information to the Legislature and oversight agencies.

#### **CAPS and IMPACT**

The Child and Adult Protective System (CAPS) was implemented in 1996 and functioned as Texas's comprehensive child welfare information system. The Department moved the system to a Web-based application starting September 1, 2003. The new system is known as Information Management Protecting Adults and Children in Texas (IMPACT).

However, a number of inconsistencies in the Department's use of its Information Management Protecting Adults and Children in Texas system (IMPACT) diminish the data's usefulness for making day-to-day management decisions and detecting anomalies in service delivery and related expenditures. The inconsistencies exist primarily because the Department allows regions to choose how they want to code services in IMPACT. For example, the Department does not know how much it spent on appointments that clients missed in fiscal year 2003 because only 3 of the 11 regions use the appropriate IMPACT code. The three regions spent almost \$300,000 on missed appointments.

In addition, as of May 2004 the Department had \$570,000 of outstanding accounts receivable that it identified through its fiscal contract monitoring of selected providers. Some of these receivables, which date back to fiscal year 2000, are due from current contractors, but the Department has not consistently tried to collect the amounts. We also noted an opportunity to improve the process used to set the rates the Department pays to foster care providers.

#### Chapter 1-A

### **The Department Reports Accurate and Consistent Information in *Monthly Financial Reports*, but Accounting Processes Are Not Always Timely**

Our testing verified that summary expenditures the Department documents in its *Monthly Financial Reports* (MFR) are accurate and sufficiently supported. A random sample of transactions was traced to original source documentation with no exceptions noted. Financial data in the MFRs appeared to be consistent with data in supporting schedules and data from other reporting periods. In addition, the MFRs agreed with information in the Automated Budget and Evaluation System of Texas (ABEST) and the Uniform Statewide Accounting System (USAS).

We also tested a random sample of expenditure vouchers and found that all the sampled transactions complied with standards for reasonable support, authorization, and account coding.

However, our testing also identified that 6 percent of transactions did not comply with the Prompt Payment Act (see text box). The Department did not make some

### Prompt Payment Act

Texas Government Code, Section 2251.021(a), specifies that state entities have to pay interest to vendors if their payments are overdue. A payment is considered overdue on the thirty-first day after the entity receives the goods or services or the invoice for the goods or services, whichever is later.

payments in a timely manner according to the act and, as a result, had to pay interest. According to USAS, the Department paid more than \$22,000 in interest for late payments in fiscal year 2003 and more than \$24,000 in interest for the first eight months of fiscal year 2004.

### Recommendation

The Department should ensure that payments comply with the Prompt Payment Act.

### Management's Response

*DFPS strives to meet prompt payment guidelines through employee training that stresses accuracy and the timely processing of payments, and monitoring interest paid on a monthly basis. In FY 2003, DFPS processed approximately 241,000 vouchers, which consisted of more than 382,000 voucher lines amounting to more than \$640 million in expenses. The \$22,000 of interest occurred in about 3.5% of these vouchers lines. These interest calculations were mainly due to delays in receiving supporting documentation, appropriation control issues, and data entry errors (using the wrong date for the invoice date or the service date).*

*In September 2003, DFPS centralized the regional accounts payable function and other business processes. During the transition period of this new organizational structure, supporting documentation (files, contracts, etc) had to be held in the regions for prior year payment processing. This caused a slight increase in interest paid to date for FY 2004. However, due to the centralization, future interest charges due to delays in receiving supporting documentation and data entry errors should be minimized.*

*Responsible Persons: Chief Financial Officer and Accounting Director*

Chapter 1-B

### The Department's Inconsistent Use of IMPACT Diminishes the Data's Usefulness for Decision Making

Our data analysis identified a number of inconsistencies in the Department's use of IMPACT that weaken the detective controls that would allow the Department to better monitor regional and local activities and related expenditures. For example, the Department did not know how much it spent on appointments that clients missed in fiscal year 2003 because only 3 of 11 regions use the "no-show" code in IMPACT. These three regions spent almost \$300,000 on no-shows.

The inconsistencies exist primarily because the Department allows regions to choose how they want to code services in IMPACT. Contributing to the regional coding disparity is the Department's failure to adjust payments recorded in IMPACT when it makes corrections in its accounting system.

Inconsistent use of service codes prevents the Department from adequately monitoring payments for "no-shows" (clients who miss scheduled appointments). As stated

previously, only 3 of 11 regions used the appropriate code to document in IMPACT payments for client no-shows in fiscal year 2003. The other eight regions chose not to use the specific code the Department has designated for no-shows and instead used a variety of techniques to initiate payments to providers when clients missed appointments. The result is that the Department does not know the exact amount it spent on missed appointments for the year.

More than half of the \$300,000 that the three regions spent on no-shows went to only six providers. The Department paid one provider in the Austin region more than \$72,000 for appointments missed by more than 700 clients in fiscal year 2003. Although the Department has policies and procedures in place to prevent excessive payments for no-shows, the Department admits that compliance with these policies was “informal” and mostly undocumented. The Department states that it did not analyze IMPACT data to determine whether these preventive controls were working.

We identified other examples of inconsistent coding in IMPACT, including the following:

- The Department allowed regions to use the same service codes to designate different services.
- The regions did not consistently use the correct service unit codes—such as hour, session, or day—when describing services provided.
- Some regions added administrative costs to certain services, while others did not.

The Department does not correct dollar amounts in IMPACT when it makes adjustments to its accounting system. For example, a programming error in IMPACT caused some overpayments (see Chapter 2) that the Department corrected in its accounting system but not in IMPACT. As a result, the Department cannot easily group expenditures by services, clients, or regions because the service information is not in the accounting system and the expenditure information in IMPACT is not accurate.

## Recommendation

The Department should maintain consistent information in IMPACT by enforcing coding standards across regions and adjusting payment amounts in IMPACT when it makes corrections in its accounting system.

## Management’s Response

*While contract staff are supported through regular training, additional training and assistance will be provided to CPS staff to ensure consistency with service code standards. Additionally, the CPS and contract administration will assess the need to improve service code definitions to reinforce coding standards throughout the state. This process should be completed by September 2005. New contract policy requiring the consistent use of no-show, hourly, and other service unit codes will become effective July 1, 2004.*

*Regarding discrepancies between IMPACT and HHSAS [Health and Human Services Administrative System], we agree that beneficial improvements could be made to the electronic interface from HHSAS to IMPACT. The interface would provide the ability for IMPACT to capture cancelled warrant information and other accounting adjustments made in HHSAS. The Commission will contact HHSAS support staff to discuss additional interface with IMPACT by February 2005.*

*Responsible Persons: Asst. Commissioner for Purchased Services, Asst. Commissioner for Child Protective Services, and Chief Operating Officer*

Chapter 1-C

## **The Department Does Not Always Aggressively Collect Accounts Receivable**

As of May 2004, the Department had more than \$570,000 of outstanding accounts receivable that date back to fiscal year 2000. While this amount is not material in terms of the Department's total expenditures, it could be used to provide needed services to children and families.

The Department identified the amounts owed through its fiscal contract monitoring of selected providers. The Department has not charged interest on these uncollected amounts, and it has continued to do business with most of these contractors. For example, in fiscal year 2000 the Department identified more than \$113,000 owed by a single contractor running two facilities. The Department has not scheduled repayment of \$83,000 from one of the facilities, stating in its documents that the facility closed. The Department has allowed the other facility to delay full payment of the remaining \$30,000 until March 2006.

## **Recommendations**

The Department should:

- Properly account for and more aggressively attempt to collect accounts receivable.
- Ensure that decisions to write off these receivables are made by appropriate staff and for appropriate reasons.

## **Management's Response**

*DFPS has prioritized the collection of accounts receivable by ensuring that all outstanding receivables are tracked, adding management reports and making sure that all processes move as quickly as feasible. When possible, future invoices are adjusted to recover identified accounts receivable. The Department also has procedures to accept a single payment or establish payment plans. Information regarding accounts receivable is forwarded by contract staff to accounting staff to ensure that all appropriate staff are notified. If collections were not made, accounting staff would make the appropriate referral to the Office of the Attorney*

*General. Procedures will be developed by May 2005 to document decision points for writing off receivables deemed uncollectible.*

*Responsible Persons: Chief Financial Officer and Asst. Commissioner for Purchased Services*

Chapter 1-D

## **Opportunities Exist to Improve Information Used in the Rate-Setting Process, which Recently Transferred to the Health and Human Services Commission**

### **Fiscal Impact of Foster Care Rates**

Payments for foster care make up the largest category of the Department's expenditures. Foster care payments in fiscal year 2003 totaled more than \$315 million. Because the rates the Department establishes for foster care are used for at least two years, errors in the rates averaging less than 1 percent could amount to more than \$6 million for the biennium.

While it does not affect the Department's strategy-level financial information, the accuracy of information used to set the rates paid to foster care providers could be improved. The rate-setting process, which recently transferred to the Health and Human Services Commission (Commission), uses providers' reported costs to establish future payment rates. This process is the only opportunity to scrutinize the providers' financial information that is the basis for the amount the State pays for foster care. It could be improved by:

- Statistically sampling providers for on-site cost report audits and projecting any unallowable costs to the population of provider costs.
- Considering the recommendations in *A Review of New Foster Care and Adoption Subsidy Rates Proposed by the Department of Protective and Regulatory Services* (SAO Report No. 03-046, August 2003).

We encourage the Department to work closely with the Commission to ensure that the rate accurately reflects allowable costs.

Chapter 2

## ***Does the Department use state funds in accordance with legislative intent?***

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The Department generally uses funds in accordance with legislative intent. However, we identified a number of control weaknesses related to IMPACT that resulted in overpayments. We also found that controls over the payment process were not sufficient to prevent duplicate and excessive payments.

Some overpayments we identified relate specifically to expenditures under the Department's Child Protective Services (CPS) purchased services strategy. For example, overpayments occurred when caseworkers initiated services in IMPACT that were already the responsibility of a provider under a unit-rate contract. In one region, Department staff routinely paid providers rates other than the current contractual amounts for CPS purchased services. However, other issues we identified could apply to all Department expenditures, such as weaknesses in the manual transaction process, a programming error in IMPACT, and staff errors that were not detected before overpayments were processed.

In effect, the Department paid twice for some CPS services. In fiscal year 2003, the Department paid service providers as much as \$650,000 for services that were the responsibility of a contracted foster care provider. The State pays foster care providers a rate that includes payment for a number of services for each child in their care. Overpayments occur when the Department initiates a separate payment in IMPACT for services that are included in the contracted foster care providers' rates. The Department has not recovered these overpayments.

The Department did not always pay the contracted rate for CPS purchased services. In one region, we found that Department staff paid for purchased services at rates different from those stipulated in the contract nearly 40 percent of the time. Some payments were slightly below the contracted rates, and some were above the contracted rates. The net effect was an overpayment of approximately \$15,000.

Payment processing sometimes resulted in excessive and duplicate payments. We tested 12 canceled warrants and found that two of them canceled duplicate payments and the other two reversed excessive payments. The four overpayments totaled almost \$100,000. The Department learned about each of these overpayments from the providers that received the payments. This suggests that other overpayments may not have been detected.

#### Canceled Warrants

The Department's canceled warrants totaled about \$469,000 in fiscal year 2003. The 12 sample items we tested accounted for almost half of the total.

The duplicate payments were the result of the Department's issuing an automated payment and a manual payment for the same service. (Manual payment processing is used for reasons such as expediting payments to providers.) The Department reports that it failed to stop the automated payments, which had already been initiated in IMPACT when the manual payments were made. The excessive payments were the result of data entry errors.

Programming errors in IMPACT resulted in overpayments. The Department made the transition from CAPS to IMPACT at the start of fiscal year 2004. Some services that the Department arranged through CAPS were not paid at the appropriate rate in the first month of IMPACT implementation due to a programming error. In the worst case, the Department paid a provider \$277,000 instead of the correct invoice amount of \$27,000. In another case, a provider received an extra \$60,000.

The Department detected the programming error after issuing the payments and was able to recover the amounts. However, having the programming error occur at the end of the contract period increased the risk of lost funds, as some of the contracts affected were not renewed. The Department has stated that this problem was limited to only those services that were initiated in CAPS and paid for through IMPACT.

## Recommendations

The Department should:

- Improve caseworker procedures or develop automated controls to ensure that the Department does not pay twice for services that are included in the rates paid to contracted foster care providers.
- Improve oversight and/or use edit checks in IMPACT to ensure that staff pay for services at the current contracted rate.
- Improve controls over the manual payment process to ensure that payments are not duplicated.
- Ensure that staff members responsible for payment processing are properly trained.
- Thoroughly test future changes to automated systems prior to implementation.
- Ensure that staff members verify invoice amounts against payment amounts before authorizing payments.

## Management's Response

*A CPS management report will be developed to analyze the degree of payments made for services that are included in the contracted foster care rates. Analysis will include determining the reasons for such payments and possible patterns of occurrence. Upon completion of the analysis, policy guidance, procedures, and training will be provided to caseworkers and contract staff to address issues identified. This training will include payment processing information and re-emphasis on the need to verify invoice amounts against payments amounts before authorizing payments. This process should be completed by September 2004.*

*Management agrees that controls over the manual payment process to ensure that payments are not duplicated could be improved, and will strengthen procedures and controls designed to detect such duplicate payments by November 2004.*

*There were two situations where a programming error caused overpayments. The programming error was identified within a few days of IMPACT implementation (the first week of September 2003). A fix was coded, tested and rolled into production on September 28, 2003.*

*IMPACT application testing consists of formal structured testing cycles to insure full regression testing of all functionality occurs. Because the CAPS to IMPACT platform upgrade changed a significant number of the two million lines of code, the IMPACT system test consisted of 18 weeks of testing and an additional five weeks of user acceptance testing. The error related to the cost reimbursement contracts was an unusual situation where multiple pages of invoices existed. Testing scripts were updated to prevent recurrence of this situation in September 2003.*

*Responsible Persons: Chief Financial Officer, Asst. Commissioner for Child Protective Services, and Asst. Commissioner for Purchased Services*

Chapter 3

## ***Has the Department used its resources in alignment with stated outcomes?***

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The Department's expenditures reported in USAS generally align with performance measure results reported in ABEST. In addition, the Department has addressed prior performance measure reporting issues.

**Alignment of reported outcomes and expenditures.** Based on information reported by the Department, it appears that expenditures and outcomes are in general alignment with the strategies related to the Department's overall goal of providing protective services.

For the 25 performance measures that had four or more years' worth of data, we compared the Department's expenditures by strategy as reported in USAS with the performance measure results reported in ABEST. The majority of these measures showed a strong relationship between funding and results. For example, between fiscal year 1998 and fiscal year 2002, the Department's expenditures for its Foster Care/Adoption Payments strategy increased 27 percent, and the number of days of foster care provided increased by 23 percent.

**Follow-up on prior performance measure issues.** The Department has addressed the performance measure certification concerns we identified in *An Audit Report on Performance Measures at 12 State Entities – Fiscal Year 2001* (SAO Report No. 01-036, August 2001). The Department has implemented new systems, changed how it calculates the measures, or taken other appropriate action.

Our August 2001 report shows that the results the Department reported for four of its measures were either inaccurate or could not be certified. To follow up on these measures, we tested the results that the Department reported for three of the four measures in fiscal year 2003 and found that the Department had addressed the previous issues by calculating the results correctly and retaining the necessary support. The three measures are:

- CPS Caseload per Worker: Investigation
- Average Cost per Inspection
- Percent of Validated Occurrences Placing Children at Serious Risk

We did not attempt to verify whether the Department was accurately calculating the fourth measure, Percent of CYD Youth with Improved TAAS Scores, because the measure is no longer being used. The Texas Assessment of Academic Skills (TAAS) was replaced by the Texas Assessment of Knowledge and Skills (TAKS) in 2003.

***Does the Department's budget process adequately reflect its service levels and needs?***

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The Department has taken steps to enhance its method for projecting future foster care needs. In February 2004, the Department began using a new methodology to forecast the demand for foster care services. The Department uses these forecasts as one indicator when preparing its Legislative Appropriation Request (LAR). In addition, the forecasts are used to report projected foster care expenditure amounts for the year in the *Monthly Financial Reports* submitted to the Legislative Budget Board and the Governor's Office.

To enhance its methodology, the Department hired a new Chief Forecaster, who reviewed the system and implemented improvements such as considering the number of children at various stages of care. The forecasting function has since transferred to the Health and Human Services Commission.

# Other Information

## Objectives, Scope, and Methodology

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### Objectives

The objectives of this audit were to answer the following questions:

- Does the Department of Family and Protective Services (Department) provide reliable, accurate, and consistent financial information to oversight entities and Department management?
- Is the Department using funds in accordance with applicable state laws and regulations?
- Has the Department used its resources in alignment with stated outcomes?
- Does the Department's budget process adequately reflect its service levels and needs?

### Scope

The scope of this review included the Department's accounting records and transactions, as well as case management information related to Child Protective Services (CPS) purchased services for fiscal year 2003. Additionally, the review considered performance measure results reported for fiscal year 2003 and ongoing changes to the Department's methodology for forecasting foster care demand and budgetary needs. This audit did not include general or application control work over information technology systems.

### Methodology

To achieve these objectives, we tested support for selected fiscal year 2003 *Monthly Financial Reports*, tested expenditures for fiscal year 2003, and analyzed CPS purchased services data. Our expenditure testing was based on statistical sampling of fiscal year 2003 payment vouchers. Our sample size was 72 expenditures. We also audited the accuracy of selected performance measures, interviewed Department administrators and staff, and reviewed policies and procedures.

### Project Information

This audit was conducted in accordance with generally accepted government auditing standards. Fieldwork was conducted from September 2003 to May 2004. The following members of the State Auditor's staff conducted this audit:

- Scott Boston, MPAff (Project Manager)
- Thomas Crigger, MBA (Assistant Project Manager)
- Romeo Diaz
- Bill Hurley, CPA

- Ray McGettrick, FCA
- John Quintanilla, MBA, CIA
- Ray Ruiz
- Juan Sanchez, MPA
- Max Viescas, CPA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Joanna B. Peavy, CPA (Audit Manager)
- Frank N. Vito, CPA (Audit Director)

## ***Distribution Information***

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The Honorable Thomas “Tommy” Williams, Member, Texas Senate

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