

A Report on

Management Controls at the Texas Department on Aging



DIS. REFERENCE LIBRARY
JAN 10 1996

Office of the State Auditor
Lawrence F. Alwin, CPA

December 1995

Report No. 96-030

Key Points Of Report

A Report on Management Controls at the Texas Department on Aging

December 1995

Overall Conclusion

The Department does not have traditional, formal contracts in place with those who actually provide program services and has not adequately monitored the Area Agencies on Aging (AAAs) to ensure that high-quality services have been delivered to the appropriate people at a fair price. Developing contracts, implementing efficient and risk-based monitoring practices, and fully analyzing available performance data would better enable the Department to ensure the safe, efficient delivery of quality services.

Key Facts And Findings

- The Department has not developed traditional, formal contracts with the 28 AAAs. These AAAs are responsible for administering the \$52 million program for the Department. As a result, the Department has little recourse should performance problems occur.
- The Department has not adequately used available information to measure and manage AAA performance. For example, the Department has not analyzed the cash rates it approves to determine if rates are reasonable. In reviewing reimbursement rates for meals served in a group setting, we found that the Department reimbursement rates ranged from no reimbursement to \$4.00 per meal.
- The Department has not adequately monitored some AAAs, and, in turn, some AAAs have not adequately monitored their providers. For example, we found that as of April 1995, one AAA had not conducted a program monitoring visit since March 1994. AAA providers offer nutrition, transportation, and in-home services to elderly individuals. Therefore, it is important that the AAAs monitor providers to ensure that vehicles are properly maintained, drivers are trained in the safe use of wheelchair lifts and other special equipment, that the possibility of food-borne illness is minimized, and that in-home workers are qualified to perform their duties.
- The rates developed by the Department are not aligned with the actual cash cost to provide services. Volunteer and in-kind contributions are given a value and included in the rates paid to AAAs, clouding the true cash cost of providing services. Changes to the current rate-setting process could improve accountability by making rates comparable among AAAs and with the contracted rates providers have with other agencies.

Contact

Kay Wright Kotowski, Audit Manager, (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

This management control audit was conducted in accordance with Government Code, § 321.0133.

Table of Contents

Executive Summary	1
Section 1:	
Develop and Manage Contracts with the Area Agencies on Aging	5
The Department's Contracts with the AAAs Cannot Ensure Accountability	7
The Area Plan Approval Process Does Not Result in Defined Quantities, Quality, and Price	8
The Department Has Not Developed Guidelines for AAAs' Selection of Providers	8
AAA Contracts Are Not Standard Across the Aging Network	9
Section 2:	
Use Available Information to Manage Performance	12
Cash Rates Have Not Been Sufficiently Evaluated for Potential Inefficiencies	12
Overhead Expenditures Have Not Been Adequately Evaluated to Identify Potential Problems	14
The Department Has Not Fully Analyzed the Results of AAA Outreach Efforts	17
Section 3:	
Monitor AAAs to Ensure Fiscal Accountability and Program Quality	21
The Department Does Not Adequately Review and Document AAA Monitoring of Provider Quality and Safety	22
The Department Does Not Select AAAs for Review Based on Risk	24

Table of Contents, concluded

Section 4:

Establish Guidelines and Provide Training to Improve AAAs' Monitoring of Providers	26
Providers Are Not Selected for Monitoring Based on Risk	27
Providers Are Not Sufficiently Monitored, and All Visits Are Not Documented	27
Provider Financial Operations Are Not Adequately Reviewed	28

Section 5:

Set Rates to Align with Provider Costs	29
Current Unit Rates Include Non-Cash Items Which Cloud the True Cost of Services	30
The Cost of Equipment Purchased for Some Providers Is Not Included in Rate Calculations	32
Controls over Program Income Do Not Ensure Reliable Income Estimates	32
Inconsistent and Unrealistic Budget Figures Hinder Rate Evaluation ...	33

Section 6:

Enhance Department Information System Controls	36
The Department's Data Processing Environment Requires Compensating Controls to Minimize Risk	36
Data Processing Procedures Are Not Sufficient to Ensure Accurate Information	37

Appendices

1 - Objective, Scope, and Methodology	41
2 - Background Information	44
3 - Supplemental Information	
3.1 - Organizational Chart, through September 30, 1995	46
3.2 - Organizational Chart, effective October 1, 1995	47

Executive Summary

Although all of the Texas Department on Aging's (Department) services are provided by others, the Department does not have traditional, formal contracts in place and has not adequately monitored the Area Agencies on Aging (AAAs) to ensure that high-quality services have been delivered to the appropriate people at a fair price. Developing contracts, implementing efficient and risk-based monitoring practices, and establishing methods for analyzing available performance data would better enable the Department to ensure that providers serve elderly Texans with the most urgent needs, that services are fairly priced, and that services delivered are safe. Because approximately 95 percent of the Department's \$55 million fiscal year 1995 budget was spent on purchased services, we focused our review on the controls in place to plan, contract, monitor, and evaluate the acquisition of these services.

To accomplish its mission, the Department administers Older Americans Act programs through AAAs. Unlike agencies with satellite offices, the Department does not manage the operations of the AAAs or their providers. The AAAs are separate, independent organizations established by the Older Americans Act of 1965 to facilitate local delivery of services to the aging. AAAs plan, coordinate, and deliver services in 28 regions statewide and have created a statewide service network of over 900 senior centers and nutrition sites. AAAs subcontract with over 300 providers annually for the direct delivery of services to clients.

Develop and Manage Contracts with the Area Agencies on Aging

Using a grants management approach, the Department has not developed traditional, formal contracts with the 28 AAAs that are responsible for administering programs on the

Department's behalf. In the past, the Department has considered the approximately \$52 million in funding that it provides to the 28 AAAs to be grants and, as such, has not developed adequate controls to ensure program and fiscal accountability. The Department also has not developed guidelines to aid AAAs in objectively selecting their providers or in developing and managing provider contracts that have all necessary clauses to ensure provider performance. As a result, the Department has little recourse should performance problems occur.

Instead of a contract, each AAA provides the Department with an area plan and proposed budget as a basis for funding (as required by the Older Americans Act). The Department also requires compliance with its administrative rules in its notification of grant award sent to the AAA. While taken together these documents provide some of the elements found in a traditional contract, they do not include all of the provisions necessary for contractor accountability. In addition, they do not meet the requirements for purchased service contracts as stipulated in the 1996-1997 biennium General Appropriations Act (Article II, Rider 15).

Use Available Information to Manage Performance

The Department has not adequately used available information to measure and manage AAA performance. The budgeted and actual performance data maintained by the Department provides an opportunity to ensure that service dollars are maximized and to establish benchmarks for AAA performance. Rates, overhead expenditures, services to targeted populations, and other aspects of performance could be better analyzed for efficiency and effectiveness. Using available information, the Department could better

Executive Summary

identify potential performance problems and areas for improvement.

The Department has not adequately analyzed the rates it approves to determine if cash rates are reasonable. In reviewing reimbursement rates for meals served in a group setting, we found that Department reimbursement rates (from federal Title III funds) ranged from no reimbursement to \$4.00 per meal. If the 50 congregate meal providers who were budgeted to receive more than \$2.00 per meal were able to find alternatives that would allow the Department to lower their reimbursement rate to \$2.00, then an additional \$877,610 in federal Title III money would be made available for meals or other services.

Although funds for the elderly flow through many layers of overhead before becoming "service" dollars, the Department has not analyzed AAAs' budgeted overhead costs in detail or provided comparative information to the AAAs to help them develop performance standards. Our review of administrative expenses found that total AAA administrative overhead per \$1,000 of services ranged from \$23 to \$101. The inefficient or ineffective use of funds for overhead could reduce the funds available for direct client services or for improving service delivery. Therefore, it is important that the Department analyze total overhead for reasonableness and ensure that AAA operations are as efficient as possible.

The Department has not ensured that AAAs self-reported data on the results of targeting efforts is quantified, complete, and comparable. As a result, the Department has not been able to comparatively analyze the outcomes of AAAs' targeting and outreach efforts. Analysis of information required in the annual self-assessment instrument could help the Department determine what kind of outreach activities the different AAAs should emphasize and help the AAAs develop goals.

Monitor AAAs to Ensure Fiscal Accountability and Program Quality

The Department has not adequately monitored AAAs' oversight of provider performance, and, in turn, some AAAs have not adequately monitored their providers. The Department does not monitor providers directly, but relies on monitoring performed by the AAAs to ensure the quality and safety of services provided by subcontractors. The Department's monitoring has not ensured that AAAs monitor providers' programs and that providers are providing quality services at reasonable rates. The Department also has not ensured that AAAs/providers report and appropriately use all income voluntarily contributed by elderly Texans for services.

Without adequately evaluating the quality of AAAs' oversight of provider performance, substandard services could be delivered that might endanger the health of older Texans. In addition, provider inefficiency could reduce the amount of services available to older Texans. AAA providers offer nutrition, transportation, and in-home services to elderly individuals. Therefore, it is important that the AAAs monitor providers to ensure that vehicles are properly maintained, drivers are trained in the safe use of wheelchair lifts and other special equipment, that the possibility of food-borne illness is minimized, and that in-home workers are qualified to perform their duties.

AAAs should ensure that all providers receive a minimum level of oversight. However, we found that as of April 1995, one AAA had not conducted a monitoring visit since March, 1994. Another AAA had conducted seven monitoring visits, but five of these visits had been conducted by individuals on the AAA's advisory council who were not trained as monitors.

Executive Summary

The Department has not provided AAAs with training specific to the process of monitoring providers. This is true even though monitors in at least 6 of the 28 AAAs have two years or less program monitoring experience. At one AAA, the fiscal staff (which conducts financial monitoring of providers) has not had any training for two to three years.

Set Rates to Align with Provider Costs

The rates developed by the Department are not aligned with the actual cash cost to provide services. Volunteer and in-kind contributions are valued and included in the rates paid to AAAs, clouding the true cash cost of providing services. For example, we calculated the average cash rate for congregate meals for all AAAs (backing out values assigned to volunteer and in-kind services) and found that one AAA had a cash rate of \$4.11 per meal while its "total rate" -- which includes values for volunteer and in-kind contributions -- was \$5.82 per meal. The high value allocated to the volunteer and in-kind services that this AAA received did not prevent the AAA's cash rate from being the highest in the State. The following practices further prevent the Department from ensuring that rates it pays are fair:

- AAAs are allowed to buy and maintain equipment for selected providers but the value of this equipment is not included in rate calculations. As a result, selected providers receive kitchen equipment, vans, or other items for which they are not obligated to provide additional services. By allocating the value of equipment purchases to the unit rate of rides, we found that the amount spent on equipment was enough to raise the average unit rate for one provider by \$.54 per ride.

- Controls over program income are weak. (Program income is income earned by a provider as a result of providing contracted services. For example, recipients of meals often voluntarily contribute money to pay for their meal.) No one tests to ensure that providers report all program income collected. For example, at one AAA several transportation providers reported little or no program income for several months, although in other months they reported sizeable income (one provider reported \$4,700 in program income in one month). Neither the Department nor the AAA questioned the variations in reported income, and no one tests to ensure providers spend this income to enhance services.

Summary of Audit Objective

The objective of our audit was to evaluate the existing management control systems within the Texas Department on Aging and to identify strengths and opportunities for improvement.

Our work focused on the controls related to accountability and contracting processes on two levels:

- the Department's relationship with the AAAs
- the oversight and guidance provided by the Department over the contracts between AAAs and service providers

Summary of Management's Responses

The Department concurs with the recommendations included in this report and has begun implementation of many of the recommendations.

This page intentionally left blank.

Develop and Manage Contracts with the Area Agencies on Aging

The Texas Department on Aging (Department) has not actively managed its contracts with the Area Agencies on Aging (AAAs). In the past, the Department has considered the approximate \$52 million in funding that it provides to the 28 AAAs to be grants and, as such, has not developed adequate controls to ensure program and fiscal accountability. However, the Department does:

- Require that AAAs submit area plans and budgets.
- Require compliance with its administrative rules.
- Provide AAAs with notifications of grant awards.

While taken together these documents provide some of the elements found in a traditional contract, they do not include all of the provisions necessary to ensure contractor accountability. Additionally, they do not meet the requirements for

purchased service contracts as stipulated in the 1996-1997 biennium General Appropriations Act (Article II, Rider 15). The Department has not developed guidelines to aid AAAs in objectively selecting providers and has not set standards for contracts between AAAs and their providers. As a result, the Department has not had sufficient assurance that providers serve elderly Texans with the most urgent needs, that services are fairly priced, and that services delivered are safe.

To accomplish its mission, the Department administers Older Americans Act programs through Area Agencies on Aging (AAAs). During fiscal year 1995, the Department provided AAAs with approximately 95 percent of its total appropriation of \$55 million in federal and state funds. AAAs plan, coordinate, and deliver services in 28 regions statewide. The AAAs have created a statewide service network of over 900 senior centers and nutrition sites and subcontract with over 300 providers annually for the direct delivery of services to clients.

The Older Americans Act of 1965 defines the nature of the Department's service delivery system. The Act created an "Aging Network" characterized by local determination of needs, service priorities, and expenditure allocations. The Department is responsible for developing and administering a state plan which details how the Act's programs will be implemented. The Department also distributes federal

What Is the Aging Network?

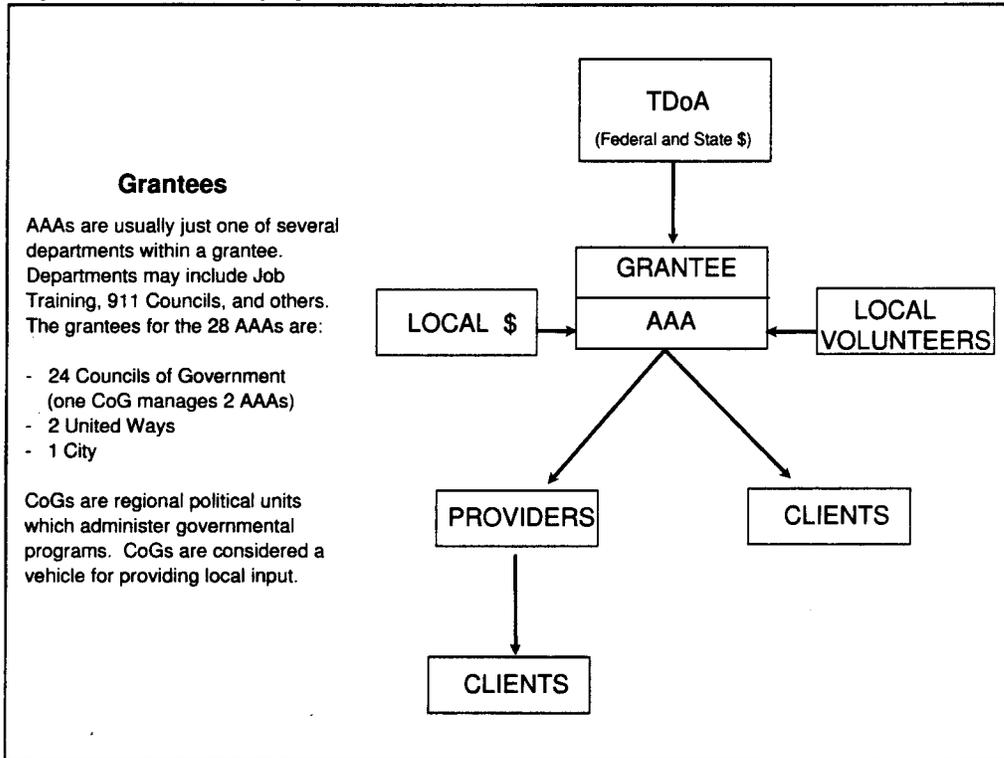
The Aging Network is a partnership of state and local agencies and individuals working together to provide a continuum of services and opportunities so that Texans age 60 and older can live dignified, independent, and productive lives.

The majority of the network's funding is from the Federal Government. Fiscal year 1995 Older Americans Act federal funding for Texas was approximately \$50 million. This federal program funds community-based programs such as congregate and in-home meals, transportation, information and referral, and housekeeping services for elderly Texans. Local support for programs, both financial and volunteer, is a strong point of the network. A ten percent local match is required for most programs, and in fiscal year 1995, local cash contributions were budgeted at approximately \$16.7 million. Adding the value of volunteer and in-kind contributions increased local funding to approximately \$26 million.

Unlike agencies with satellite offices, the Department does not manage the operations of the AAAs or the providers. The 28 AAAs are separate, independent organizations established by the Older Americans Act of 1965 to facilitate local delivery of aging services. The AAAs contract with service providers to provide aging services not directly provided by the AAAs.

and state funds. However, AAAs are ultimately responsible for determining how these funds will be spent. Figure 1 shows the organizational structure of the Aging Network.

Figure 1
Organization of the Aging Network



The current organizational structure of the Aging Network is intended to promote local decision-making and encourage contribution of local resources. However, the structure also makes contract enforcement difficult and eliminates some traditional forms of control. Although the Department provides funds, set standards, collects performance information, and is responsible

for outcomes, the Department cannot readily change its grantees or control how funds are spent at the local level. (Grantees are the administrative unit through which the Department funds AAA activities. The AAA is usually one of several departments within the grantee organization.) Additionally, the Department has little control over the AAA Directors who are responsible for ensuring that the agency's programs are effectively implemented.

The organizational structure of the Aging Network also increases the potential for transactions to occur at less than an "arms-length." For example, the same representatives often serve on grantee governing boards (which approve policies, contracts, and contract rates) as provide contracted services. The Department does not have a policy requiring board members who have political or financial interest in an organization to recuse themselves from both voting on and discussing issues related to that organization.

Section I-A:

The Department's Contracts with the AAAs Cannot Ensure Accountability

Although the Department currently requires that AAAs submit area plans and budgets and comply with the Department's administrative rules, the lack of a formal contract limits the Department's recourse to recover funds should performance problems occur. Additionally, while current requirements provide some of the elements found in a traditional contract, they do not meet the requirements for purchased service contracts as stipulated in the 1996-1997 biennium General Appropriations Act (Article II, Rider 15). The Department funds the AAAs and is responsible for ensuring that these funds are spent appropriately and that providers are held accountable, both programmatically and fiscally. Developing formal contracts will clarify expectations and responsibilities and will protect the interests of the Department, the AAAs, providers, and clients.

The Department Plans from a Network Perspective

The Department has done a good job ensuring that its federally required state plan also meets state planning requirements and Department needs. To do so, the Department designed its strategic planning process to encompass all 28 AAAs and tailored the formats of the state plan and area plans required by the Older Americans Act. The formats require development of state plan actions and area plan local strategies which link directly to the Department's strategic plan strategies. Additionally, the Department has integrated divisional and staff work plans into the planning process.

Instead of a traditional contract, each AAA provides the Department an "area plan" as a basis for funding as required by the Older Americans Act. This plan is the only document that defines the services to be provided by the AAAs, but it does not include all of the provisions necessary for contractor accountability. Other documents that the Department considers to be part of its contract with AAAs include the notification of grant award (which tell the AAAs how much money they can budget for the coming year) and the rules promulgated by the Department.

Area plans are developed at the local level to satisfy federal and state requirements and are basically broad statements of strategies and activities spanning several years. The Department currently requires a three-year plan which is amended in the second and third years.

The plan includes an estimated budget of expected funding, but does not contain a firm contract price or units of service.

The expected AAA budget is amended once the Department finalizes its actual funding decisions. As a result, area plans and final budgets are not approved until well after the effective date of the plan. For example, for fiscal year 1995, the AAAs' budget amendments were due to the Department on April 7, 1995. Approvals were not sent out until May, June, and July 1995, with the fiscal year ending on August 31, 1995.

The Older Americans Act leaves the format of the area plan open to the Department's discretion. We compared the area plans with elements of a traditional contract and found that they did not include:

- performance standards and workload measures
- statements on how performance will be evaluated (including statements of what is and is not acceptable)
- a range of sanctions available should performance be unsatisfactory

- agreements on how terms can be modified
- the period for which the agreement is in effect
- evidence of legal review

In addition, we found that only certain parts of the area plans contained AAA signatures, and the plans were not signed at all by the Department. The notice of grant award is signed only by the Department. Without a traditional contract that includes signatures from all parties, there is no assurance that the services described in the plan are accepted and agreed to by all parties.

Section 1-B:

The Area Plan Approval Process Does Not Result in Defined Quantities, Quality, and Price

The Department's review of area plans has not been rigorous or designed to result in an approved contract. Our examination of the Department's review of fiscal year 1995 area plans indicated that review procedures were not standardized and that:

- The Department does not track or analyze how much cash providers receive for a unit of service. The rates reviewed were "total" rates which included estimated in-kind and volunteer amounts. Actual cash paid was not reviewed.
- The Department did not adequately review AAA overhead expenditures. The Department considers the cap on overhead expenses (as a percent of an AAA's total allotment) sufficient to control these costs.

The lack of adequate cost data in the plan makes it difficult for the Department to ensure that the services it purchases are cost-effective. The Department also cannot develop benchmark rates for providers or determine what areas might need help developing a provider base. (Section 5 of this report discusses contract rates in more detail.)

Section 1-C:

The Department Has Not Developed Guidelines for AAAs' Selection of Providers

The Department has provided little guidance to AAAs on best practices for provider selection. As a result, AAAs do not have sufficient controls to ensure that the best provider is objectively selected. While the Department cannot readily change its grantees, it can establish standards to guide the grantees' selection of providers and ensure that the most qualified provider is objectively selected.

Our review of five AAAs found the following weaknesses in the AAAs' provider selection process:

- None of the AAAs had established guidelines for rating proposals and selecting providers. Without guidelines, the scoring of each evaluation

criterion is subjective and increases the risk that proposals will be improperly scored.

- Three AAAs did not use scoring sheets for proposal evaluation. Scoring sheets are key in documenting selection committee members' evaluation of proposals. Keeping scoring sheets on file provides documentation of proposal scoring and provider selection.
- Written and oral representations of potential providers were not verified. Four AAAs relied only on the information reported by the provider in the proposal and oral presentation to determine how responsible a new provider is. Verifying vendor qualifications and past history provides the necessary assurance that the provider will successfully fulfill the requirements of the contract.
- One AAA distributed funds based only on historical distributions. The same providers received contracts every year, and the AAA distributed funds to these providers based on how much the Department distributed to the AAA. Without putting contracts out for bid, the AAA cannot be certain that the services being provided are useful and are being provided at a fair rate.

Section 1-D:

AAA Contracts Are Not Standard Across the Aging Network

Contracts between the AAAs and providers do not always include the provisions necessary to hold providers accountable for providing quality services at the contracted rate. Because the Department has not set standards for contracts, each of the 28 AAAs has developed its own contract. Our review of contracts at five AAAs found the following deficiencies with their provider contracts:

- Other than minimum workload measures, none of the AAAs' contracts contained performance measures to evaluate contractor performance. Without clearly defined expectations of the quality and quantity of work covered by the contract, substandard services could be delivered and accepted.
- Two fiscal year 1994 contracts did not hold the provider responsible for reimbursing the AAA for unallowable expenditures. Without such a clause, it is unlikely that a provider will reimburse the AAA for contract funds which were spent on unallowable expenditures.
- One AAA's contract did not include specific requirements for an independent financial audit of provider operations. Specifying requirements such as the deadline for audit submission and requiring disallowed costs to be reimbursed would help hold providers responsible for obtaining a timely independent audit and correcting deficiencies.

Additionally, at one of the two providers visited we found conflicting requirements in the contract between the provider and the AAA. The fiscal year 1994 contract required

the AAA to pay the provider no more than \$1.17 million. The contract also required the AAA to pay \$2.82 per unit for 655,609 units. This would mean that the AAA would pay \$1,848,817, or approximately \$678,000 over the specified maximum amount. The fiscal year 1995 contract was also structured in this manner (although the disparity between the maximum amount and the unit rate times the units was not as great).

Finally, four of the five AAAs tested had contracts that were signed after the starting date of the contract. In total, 23 of the 25 contracts we reviewed had been signed after the date the contract was to begin. (The other two contracts were not dated.) During the months when no contract was in effect, payments totaling approximately \$1.16 million were made to providers.

Recommendations:

Although the Department cannot directly control its grantees, it can and should provide standards and guidelines to ensure that providers offer quality services for a fair price. To this end, the Department should:

- Implement a contracting system that will include performance standards, workload measures, criteria for performance evaluation, firm unit rates which identify the amount of cash contributed by each source of funding, ranges of sanctions, agreements on the process for modifying the terms of the contract, the period for which the agreement is in effect, legal review, and signatures from all parties.
- Develop a contract approval process involving analysis of unit rates, units of service, expected program results.
- Provide AAAs with guidelines for ensuring that the best provider is objectively selected.
- Set standards for AAA contracts with providers, including a requirement that AAAs either sign contracts prior to the start of the effective date of the contract, or sign a letter stating an intent to contract at a specified unit rate and anticipated level of service.
- Contractually require a comprehensive conflict of interest policy addressing both financial and political conflicts.

Management's Response:

We agree with the above recommendations. Collectively, they are a key dynamic of our new contracting system. Activities are underway to achieve these recommendations. Specifically, in response to each of the recommendations:

Conducting financial compliance, management, contract and electronic data processing audits in the last year, we are pleased that the SAO found no negative outcomes in the items reviewed. We believe this is because we were following the management and accountability standards in place at the time of the audit.

Auditor Follow-Up Comment:

During the course of our work at the Department, we did not test outcomes and, therefore, found neither positive nor negative outcomes. Our work was designed to evaluate risks and assess the adequacy of controls to minimize those risks. This audit report details significant risks and control weaknesses which the Department must address to ensure positive program outcomes.

The recommendations in this audit point the Department in a new direction for managing contracts. The Department grants management approach of the past, with its many federal and state requirements for performance and accountability is being modified and enhanced to comply with the new SAO recommendations and Article II contract management provisions. We began implementation of many of these recommendations as early as the summer of 1995 in response to the new legislative requirements and preliminary indications of SAO recommendations. With the assistance of the State Auditor's Office and the Health and Human Services Commission, we expect substantial, if not complete implementation by FY 97. While much analysis of data and extensive oversight of grantee organizations currently occurs, the new approaches outlined in this audit will further serve to assure effective and efficient quality services and programs for older persons in this state.

We want to reiterate that we agree with the recommendations to put more agency focus on contract management. To this end;

- We have re-structured our agency with a large percentage of our staff forming a new contract management division. Teams of our staff, HHSC staff, AAA representatives, SAO representatives and other experts are working to develop a new contract document and processes for 1997. A contract approved by the Attorney General is being used in FY 1996. Our staff are also working on various HHSC teams related to contracting.*
- We have provided initial training to the AAAs and the the Department Board regarding the increased focus on contract management and plan additional training on the new processes.*
- We have met with the AAAs to discuss sanctioning and for developing a rule change for consideration at the February the Department Board meeting to strengthen the process.*

It is important to note that due to the ambiguities in federal and state statutes, rules and regulations, no amount of data gathering and analysis will allow the Department to provide administrative guidance or to successfully address certain areas of program management or expense identified in this audit. We have unsuccessfully requested guidance and technical assistance from oversight bodies in such areas as targeting

and indirect cost. We will seek guidance from the SAO in these unresolved areas in December 1995. Guidance from SAO will also be sought in any area where the cost effectiveness of a recommendation becomes a concern.

Regarding implementation of a contracting system and development of a contract approval process: Teams of staff and others are addressing various aspects of the contracting process outlined in these recommendations. The Department will continue to work with established HHSC workgroups that are currently setting standards for use by all human services agencies. Workgroups include: risk assessment, coordination of monitoring, payment methods, performance measures, sanctions and remedies, procurement, and contract language. Once completed, the work produced by these workgroups will be used to refine the processes initiated by the Department. We expect substantial, if not complete implementation, by FY 1997.

Regarding guidelines for objectively selecting providers: The Department will continue its work to develop guidelines the AAAs can use to objectively select the best service providers.

Regarding standards for AAA contracts with providers: An HHSC workgroup is developing common contract elements that AAAs will use with subcontractors; other standards will be developed as necessary to assure implementation by FY 1997.

Regarding the recommendation to require a comprehensive conflict of interest policy: The Department has adopted a conflict of interest policy that addresses this recommendation. It will be included in all future contracts.

Section 2:

Use Available Information to Manage Performance

The Department has not used all available information to measure and manage AAA performance, either individually or collectively. The budgeted and actual performance data maintained by the Department provides an opportunity to establish benchmarks for AAA performance. Rates, administrative expenditures, services to targeted populations, and other aspects of performance could be analyzed for both efficiency and effectiveness.

Section 2-A:

Cash Rates Have Not Been Sufficiently Evaluated for Potential Inefficiencies

The Department has not fully analyzed cash rates for meals, transportation, and in-home services to determine if rates are reasonable. Our analysis of budgeted fiscal year 1995 reimbursement rates found that rates for congregate meals ranged from no reimbursement to \$4.00 per meal. (A congregate meal is a meal served in a group setting.) We found no correlation between the Title III reimbursement and factors that might have explained these rate variations, such as the geographic location of a

provider, the number of meals to be supplied by that provider, or whether the provider operated in an urban or rural area.

The Department has not investigated the variations in its rates. Because the Department approves only a "total rate" (which considers all resources, including volunteer and in-kind contributions), the Department does not review the percentage of each meal that is funded by Title III dollars. By evaluating the cash rates AAAs pay providers and controlling the Title III reimbursement rate, the Department could perform an analysis that would allow the agency to more effectively:

- Identify potential inefficiencies or excessive rates paid to providers.
- Develop strategies to control the Title III reimbursement rates.
- Reduce funding to inefficient AAAs/providers and increase funding to AAAs/providers who are efficient and need to expand their services.
- Increase funding to AAAs/providers who are meeting specific statewide objectives.

Figure 2 shows the various funding sources and amounts provided by each source for an average congregate meal. Because the Department controls only the Title III portion of the total cash rate, we focused our analysis on that portion. The Title III unit rate is the amount paid for each congregate meal from federal money appropriated under Title III of the Older Americans Act.

Figure 2
Components of Congregate Meal Cash Unit Rate

Average Amount Budgeted For One Meal (by Component)	
<u>Federal/State Components:</u>	
U.S. Department of Agriculture	\$0.55
U.S. Department of Health and Human Services (Title III)	\$1.67
Other Federal & State	\$0.07
<u>Local Components:</u>	
Program Income	\$0.59
Local Cash	<u>\$0.49</u>
Total Budgeted Cash Unit Rate	<u>\$3.37</u>
Source: SAO Analysis of the Department 1994 Approved Budget Amendment One for all AAAs	

As indicated in Figure 2, this does not represent the total amount of cash paid to a provider. Providers also receive reimbursement for each meal from the U.S. Department of Agriculture, the recipients of the services, and other federal, state, and local sources. Local contributions pay for approximately 32 percent of each meal. In addition, many providers receive the benefits of volunteer and in-kind contributions. (For a discussion of the Department's current rate-setting process, see Section 5 of this report.)

To assess the impact of not analyzing rates, we developed estimates of the additional congregate meals that could be purchased if the Title III rate were controlled at different levels. This kind of analysis could suggest areas for further investigation and possible adjustments.

For example, 50 congregate meal providers were budgeted to receive more than \$2.00 per meal in Title III funds in fiscal year 1995. If the Department or the AAAs were able to help these providers find alternatives to lower the Title III component of their reimbursement to \$2.00, then \$877,610 in Title III money could be made available for additional services. Assuming that some local communities could provide the needed supplementary funds, this money could fund the Title III component for an additional 400,000 meals. During fiscal year 1995, providers planned to serve approximately

eight million meals, so 400,000 additional meals represents a five percent increase in the number of meals that could be served.

The Department could perform this kind of analysis for all services. Before approving rates, the Department should consider whether there is a reason for high Title III reimbursement rates and should only approve high rates for good reasons and on a temporary basis. For example, in an area where providers are scarce, it may be necessary to reimburse providers at a higher level for several years to encourage the development of a provider base. In these cases, the Department could arrange to pay a higher rate while working with the AAA to eliminate the need for the subsidy.

Section 2-B:

Overhead Expenditures Have Not Been Adequately Evaluated to Identify Potential Problems

The Department has not analyzed budgeted overhead costs in detail or provided AAAs with comparative information to help them develop performance standards. Funds for aging programs flow through three layers of overhead before becoming "service" dollars:

- the Department
- grantees and their associated AAAs
- service providers

Each of these layers uses a portion of the funds received for overhead. The inefficient or ineffective use of these funds could reduce the funds available for direct client services or for improving service delivery. In January 1993, the Department's internal auditor recommended that the Department "use its existing authority to provide more

assurance that indirect charges are reasonable and necessary costs of doing business with grantees." Without analyzing overhead for reasonableness, the Department cannot ensure that AAA operations are as efficient as possible.

The Department allocates funds for administrative and indirect costs from an "aging administration pool." This pool is composed of 10 percent of the total federal Title III allocation of funds. The Department rules describe the pool's allocation and require that each AAA be allocated no less than \$85,000 per fiscal year for administration. Each AAA is required to provide a minimum 25 percent match to their administrative allotment. Any administrative expenditures exceeding the Department's allocation and minimum match must be made from local funds. If administrative expenditures are less than the allocation and

Overhead

Overhead includes indirect and administrative expenditures which are not directly related to providing services but which are necessary to manage service provision. For the purposes of this report:

- **Indirect costs** are grantee costs which have been incurred for a common or joint objective and cannot be readily identified with any one program within the Council of Government (CoG). An example of an indirect cost is the salary of the CoG director.
- **Administrative costs** are incurred by the grantee, AAA, or provider to administer services. Examples include training, accounting, and auditing.

minimum match, the remaining funding can be carried forward to the next fiscal year or converted into funding for services.

We attempted to analyze overhead at the provider, AAA, and grantee levels. However, we could not analyze provider overhead because 10 of the 28 AAA budgets for fiscal year 1994 did not separate provider overhead from service costs. Without specific overhead cost information on providers, the Department cannot effectively monitor these costs or assist AAAs to develop efficient practices. Data from the 18 AAAs that did separate provider overhead showed that provider overhead is often the largest category of overhead. Therefore, it is important that the Department collect and analyze information on how much providers spend on overhead.

In looking at total AAA overhead costs, we found that these costs vary greatly. Figure 3 shows that there are wide fluctuations in budgeted overhead between AAAs. In performing our analysis, we grouped the AAAs based on the "weighted population factor" calculated by the Department as a basis for allocating administrative funds.

The Department calculates the weighted population factor using census data -- an AAA's total population age 60 and over is weighted at 40 percent, the total population age 60 and over who are minority is weighted at 10 percent, and the total population age 60 and over who live on incomes below the poverty level is weighted at 50 percent. The weighted population factor represents an AAA's share of the total administration pool, but final amounts are adjusted to ensure all AAAs receive at least \$85,000. The reasonableness of budgeted costs were analyzed within each group and across all AAAs. Figures 3 through 6 depict our results by AAA grouping.

Figure 3
Budgeted Overhead - Total and by AAA Group for \$1,000 of Service

Overhead		Ranges Per \$1,000 Of Service	
Grantees	Total Amount	All AAAs	Ranges by Group*
24 CoGs	\$1,128,836	\$6 - \$24 Average: \$15	Group 1 \$ 7 - \$23 Group 2 \$ 6 - \$20 Group 3 \$ 7 - \$24 Group 4 \$10 - \$23
AAAs	\$4,717,110	\$23 - \$101 Average: \$43	Group 1 \$27 - \$72 Group 2 \$25 - \$45 Group 3 \$26 - \$59 Group 4 \$23 - \$101
* AAAs are grouped according to the weighted population factor calculated by the Department as a basis for allocating administrative funds			
Source: Texas Department on Aging Fiscal Year 1994 Budget Data			

The wide variance among AAAs' total administrative overhead costs raises questions about AAA efficiency and/or the accuracy of reported information. For example, total overhead per \$1,000 of services delivered by the AAAs shown as group 4 in Figure 3 ranged from \$23 to \$101. The Department should investigate these types of variations in total overhead to ensure the reasonableness of overhead charges.

Figure 4
Total Overhead Dollars per \$1,000 of Service (by AAA and Grantee)

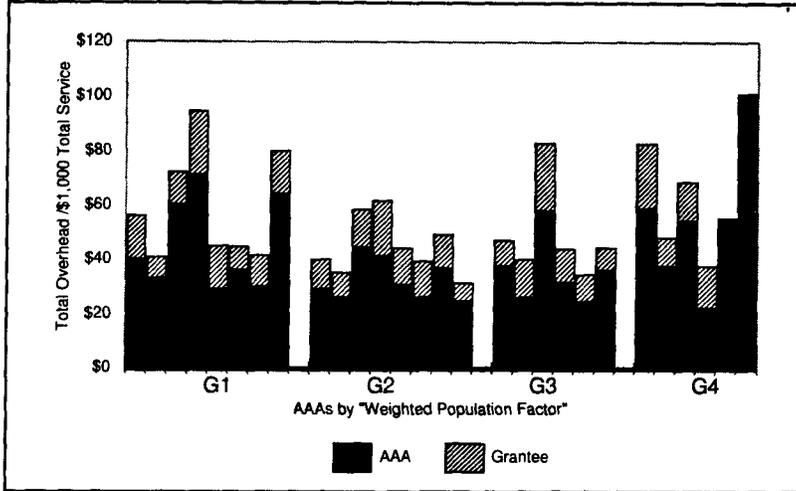


Figure 4 shows total AAA and grantee administrative expenditures by group for each \$1,000 of service funds expended.

Because our analysis of total administrative overhead by AAA group did not indicate any consistent patterns, we also analyzed specific categories of overhead cost to determine what costs might be contributing to the variances among AAAs. Figure 5 shows the results of this analysis for travel.

In reviewing travel expenses, we found significant variances

between high and low travel expenditures in each AAA group. We also noted that at least one AAA had \$0 in travel expenditures for each type of travel expense (local or out-of-town). Because both the monitoring and training responsibilities of AAA staff require travel, it appears that either the detailed data is incorrect or travel expenditures have been misclassified. Travel expenditures might have been reported in another expenditure category.

Finally, we attempted to review grantee overhead. The grantee receives a lump sum from the Department to cover both grantee and AAA overhead. (AAAs are only one of

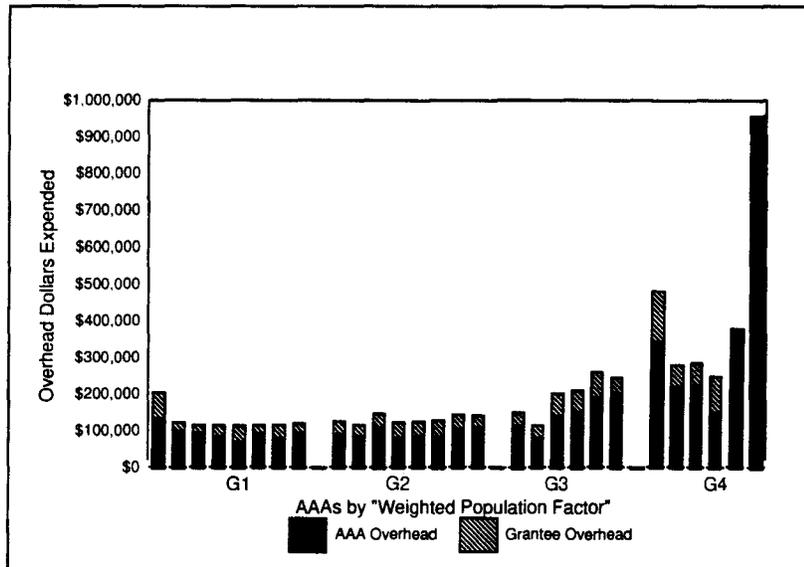
the grantee organization's departments and usually share in the payment of grantee administrative expenditures.) Contract management, program and fiscal monitoring, automation support, and other functions can be performed by either the grantee or AAA. Allocation of overhead funds does not always align with the division of these responsibilities.

Figure 5
Analysis of Selected Overhead Costs

		AAA Groups	Ranges
Travel	Local	Group 1	\$ 0 - \$ 3,500
		Group 2	\$ 0 - \$ 5,406
		Group 3	\$ 244 - \$ 13,425
		Group 4	\$ 0 - \$ 25,000
	Out-of-Town	Group 1	\$ 0 - \$ 11,920
		Group 2	\$ 0 - \$ 8,207
		Group 3	\$ 0 - \$ 9,837
		Group 4	\$ 1,200 - \$ 22,500

Source: SAO Analysis of the Department Fiscal Year 1994 Budget Data

Figure 6
Grantee and AAA Budgeted Total Administrative Expenditures by Group



For example, the information for the AAAs shown as group 4 in Figure 6 seems to indicate that the first and fourth AAAs allocate a larger proportion of their administrative funds to the grantee. However, the first of the grantees pays for contract management, an automation specialist, and all monitoring. The fourth provides none of these services except for fiscal monitoring.

Section 2-C:
The Department Has Not Fully Analyzed the Results of AAA Outreach Efforts

Although the targeting self-assessment instrument that AAAs must complete each year requests data on services to targeted populations, the Department has not ensured that the data is quantified, complete, and comparable. As a result, the Department has not been able to comparatively analyze the outcomes of AAAs' targeting and outreach efforts. Analysis of information required in the annual self-assessment instrument could help the Department determine what kind of outreach activities the different AAAs should emphasize and help the AAAs develop goals. The Department's rules require that the greatest unmet needs in the targeted populations be the principal criteria for prioritization when funding is insufficient to serve everyone seeking services. Therefore, the data that the Department requests must be readily available for statewide and local analysis.

Targeting and Outreach

The Older Americans Act requires that preference be given to "providing services to older individuals with greatest economic need, and older individuals with greatest social need, with particular attention to low-income minority individuals."

For the purposes of this report, we considered targeting efforts as those efforts designed to ensure that priority is given to defined populations. Outreach efforts are efforts designed to alert priority populations that services are available.

The Older Americans Act requires that the State "set specific objectives . . . for each planning and service area for providing services funded under this title to low-income minority older individuals" [Older Americans Act, § 305, (a)(2)(G)(i)]. The Act also specifies that outreach efforts will emphasize older individuals:

- residing in rural areas
- with greatest economic need (with particular attention to low-income minority individuals)

- with greatest social need (with particular attention to low-income minority individuals)
- with severe disabilities
- with limited English-speaking ability
- with Alzheimer's disease or related disorders with neurological and organic brain dysfunction (and the caretakers of such individuals)

The Department requires that each AAA submit a self-evaluation instrument annually that describes outreach efforts for each population mentioned in the Older American's Act. Although the instrument is reviewed at the Department, there is no requirement for the results to be quantified. Some of the AAAs do not quantify the presence of target groups in their areas and simply describe their results as "effective." The Department has not tied the services delivered to targeted groups to the AAA evaluation of success.

Figure 7
AAAs Targeting of Meals to Minorities

Meals	Congregate*	Home Delivered
AAAs serving a greater percent of meals to minorities than represented in the over 60 population in their area	14 of 28	28 of 28
AAAs serving the same percent of meals to minorities as is represented in the over 60 population	1 of 28	0 of 28
AAAs serving a lower percent of meals to minorities represented in the over 60 population.	13 of 28	0 of 28

* Congregate meals are meals served in a group setting.

The Department requires that AAAs' area plans and amendments describe plans for outreach efforts to targeted groups. These efforts are usually phrased as outputs -- "to provide training" or "to provide outreach." A better measure would be "outcomes" that are achieved as a result of their efforts. For instance, an outcome might be "increasing the number of low-income Hispanic elderly clients by five percent." The Department monitors whether or not the AAA has implemented its strategies for outreach but does not evaluate the effectiveness of targeting efforts.

As an example of the type of analysis the Department could perform on some

targeting efforts, we compared the percentage of meals served to members of minority groups with the percentage of minority group representation in each AAA for the period from September 1994 through March 1995. (The Department did not start gathering unique client information until September 1994. Minority population data consists of census data from 1992.)

Figure 7 shows that all AAAs served a higher percentage of their home-delivered meals to minority group members than was represented in its over-60 population. However, that only 50 percent of the AAAs had minority participation in congregational meals that exceeded the proportion present in their populations. Our analysis assumed that, if no targeting was done, then the percentage of minority representation in Department programs should equal the percentage of minority representation in the over-60 population. Therefore, evidence of successful targeting would exist if minority participation were greater than the representation in the population.

Recommendations:

The Department should use available information to analyze AAA and provider performance. To do so, the Department should:

- Compare cash rates among providers to determine whether rates are reasonable. Variations in the rates should also be explored to determine if there are sound reasons for unusual rates. For example, the Department may choose to approve higher rates to establish a provider base or to provide additional needed outreach.
- Review grantee, AAA, and provider overhead expenses to ensure that administrative expenditures are minimized and the greatest possible level of direct service is being provided. The Department should consider developing guidelines to limit the amounts of certain categories of expenses, such as travel.
- Analyze the degree to which services offered by the AAAs are successfully targeted. This information could lead to guidance from the Department on becoming successful in areas of current weakness. Specific goals should be included in the Department's contract with each AAA, and the degree to which those goals are achieved could be monitored. The Department should then devise monitoring procedures to track the outcomes of targeting efforts.

Management's Response:

We agree in principle that we should use available information to analyze AAA and provider performance. Activities are underway to achieve this goal. The specific recommendations require some discussion as follows:

Regarding comparison of cash rates: *Historically, the Department has used a total cost approach to reviewing rates instead of a cash rate approach. We agree this must change. All FY 1997 planning and budgeting will use cash rates. We have established a rate-setting team to develop benchmarks for service delivery. These benchmarks will allow a range of acceptable rates to account for regional variances across the state. Additionally, we will evaluate AAA administrative costs and establish benchmarks for acceptable costs. Any work produced by the HHSC workgroups will be considered in the establishment of these benchmark ranges.*

The establishment of these rate parameters and the associated rate-setting methodology will be fully developed throughout FY 1996 for full implementation in FY 1997 contracts. Due to ambiguity as to what is a "reasonable" rate, we will seek guidance from the SAO in this area.

Regarding review of grantee, AAA and provider overhead expenses: *We agree that more could be done in this area. However, due to ambiguity in current law and in the State Uniform Grant and Contract Management Standards, past efforts in the area have not been successful. We concur with this recommendation, and in implementing*

it, we will seek guidance from the SAO and further specificity in future changes in the State Uniform Grant and Contract Management Standards.

One issue related to this recommendation needs clarification: This audit report apparently considers "overhead" as any costs not associated with direct services to clients. This use of overhead is inappropriate in this context because it fails to consider the planning, contract management, monitoring and other accountability tasks required to assure quality and safety. It is incorrect to imply that costs not associated with client services are overhead.

The following definitions are helpful in understanding the distinctions between different types of costs:

Indirect costs: Are those incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

Administrative costs: As defined by the Older Americans Act and its rules, administrative activities and their associated costs include: needs assessment, plan development, procurement and contract management, program and financial reporting, Americans with Disabilities Act compliance, disaster and emergency response, required advisory committee activities, and monitoring.

Overhead costs: Are not defined or referred to in state or federal management circulars. However, private businesses normally refer to their "general and administrative (G & A) costs" as overhead. These frequently include costs not directly associated with revenue production or service provision. Many of the activities termed "overhead" by the report-- such as contract procurement, information and assistance, and advocacy--directly effect services and should not be considered extraneous. The Department, as well as other cognizant agencies periodically review these expenses.

The Department, AAA grantees and service providers each perform discrete and defined responsibilities:

LEVEL	AGENCY	FUNCTION
State	the Department	<u>State Plan & rules; Advocacy; statewide financial management.</u>
Region	AAA Grantee	<u>Area Plan & procedures; information and advocacy; case management; monitoring financial reports and audits.</u>
Local	Service Providers	<u>Local programs: Senior center activities; home-delivered and congregate meals, client assessment; local fund-raising; financial management and reporting</u>

This separation of functions assures that each activity, and the accountability for it, is placed at the lowest practical level. The focus, compliance requirements and methods of reporting are different at each level and, taken as a whole, constitute an effective system for compliance and accountability.

Regarding analyzing targeting reviews: *We agree with the recommendation that the individual efforts of AAAs could be better evaluated, assuming targeting provisions remain in the soon-to-be-reauthorized Older Americans Act. As noted by the SAO, the Department has requirements in place to evaluate the efforts of individual AAA's targeting efforts.*

The Department established outcome measures -- reported to the executive and legislative leadership offices -- that indicate the success of the AAA targeting efforts (see FY 1994 and FY 1995 fourth quarter Legislative Budget Board Performance Reports). Like the reported statewide outcome measures, the data analyzed by the SAO in Figure 7 indicates the success of AAA targeting efforts. It is worth noting that for home-delivered meals, in which AAAs can control targeting, 100 percent of the AAAs met the SAO's criteria for successful targeting. A congregate meal site must serve anyone over 60 who comes to the site and services are much more difficult to target.

The Department will proceed very carefully in implementing changes in evaluations of meeting targeting requirements. The issue is complicated by the multiple targeting requirements of the Older Americans Act, including greatest economic need, greatest social need, victims of Alzheimers' disease, low income minorities and others. Complex local situations require complex analysis of targeting in order to be fair to AAAs. Caution must be used in considering one type of numeric evaluation as a total indicator of compliance. We will seek SAO guidance in implementing this recommendation.

Section 3:

Monitor AAAs to Ensure Fiscal Accountability and Program Quality

The Department does not adequately monitor AAAs' oversight of provider performance. In the past, the Department's monitoring of AAAs has focused primarily on the degree to which AAAs achieve the "local strategies" stated in their area plans. The Department has not fully monitored statewide high-risk areas such as data integrity, fiscal accountability, and safety. As a result, the Department does not have sufficient assurances that:

- The information on which it bases funding decisions, sets policy, or identifies AAAs requiring technical assistance is accurate.
- AAAs and providers are using Department funds to provide the most services possible.
- Services are not placing elderly Texans at-risk for such things as food-borne illnesses or injury from faulty equipment.

The Department monitors all AAAs the same regardless of the AAA's level of experience or past performance. As a result, limited monitoring resources have not been focused on areas of highest risk. Department staff does not monitor providers directly, but relies on monitoring performed by the AAAs to ensure the quality and safety of services provided by subcontractors. Without adequately evaluating the quality of AAAs' oversight of provider performance, substandard services could be delivered that might endanger the health of older Texans. In addition, provider inefficiency could reduce the amount of services available to older Texans. (Section 4 details problems found in the monitoring conducted by AAAs.)

Section 3-A:

The Department Does Not Adequately Review and Document AAA Monitoring of Provider Quality and Safety

The Department has not adequately monitored and/or documented AAAs' oversight of providers. Achievement review findings focus on whether or not local strategies have been achieved, rather than focusing on issues such as service quality, pricing, and data integrity at both the AAA and provider levels. Additionally, Department staff does not routinely document any review performed of AAAs' monitoring except for a review of the monitoring schedule of nutrition providers.

Annual approval of AAAs' area plans and biennial achievement reviews are the two primary mechanisms used by the Department to ensure that AAAs provide or contract for quality services. Achievement reviews entail on-site fiscal and program monitoring of each AAA and focus on AAAs' compliance with approved area plans and standard assurances as specified by the Older Americans Act. During the review, Department staff administer a self-assessment instrument for AAAs to evaluate their progress on meeting nutrition requirements, assistance and access goals, and targeting priority populations. Additionally, Department fiscal staff review AAAs' fiscal monitoring of providers, test selected disbursement and expenditures, and reconcile federal cost reports to AAA accounting records.

In addition, the Department conducts desk reviews of area plans, quarterly status reports, self-evaluation questionnaires, budget amendments, grantee independent financial audits, and indirect cost plans throughout the year. Desk reviews of material provided by the AAAs can alert the Department staff to emerging problems, but do not eliminate those problems.

Neither the program nor the fiscal component of the achievement review is sufficient to ensure that AAAs address issues of statewide importance. We found numerous problems with the Department's current program monitoring process:

- The Department does not provide sample program monitoring instruments to the AAAs. As a result, each AAA must develop its own methods for reviewing provider programs. These individual efforts may not be sufficient to detect problems and do not capitalize on best practices developed by other AAAs. In addition, the Department cannot control for inconsistencies among monitors.

- The Department's review of most services is not adequately documented. Department field representatives report checking to see that an AAA has monitored all of its providers. However, all that is documented in achievement review working papers is whether or not nutrition providers have been scheduled for review. The depth of coverage and the findings from the nutrition review are not documented, and working papers do not generally contain any documentation relating to other services such as transportation and in-home services.
- Department staff does not test the quality of provider reviews conducted by AAAs. Department staff never visit provider sites to check the quality and thoroughness of AAA reviews.
- Achievement review findings do not generally address how well AAAs monitor to ensure quality and safety. Because the Department does not consider the content of the AAA's reviews, substandard services -- which could result in clients contracting food-borne illnesses or being injured from poorly maintained vehicles or equipment -- could go undetected. We reviewed one AAA monitoring instrument of a provider that indicated that hot foods were served at too low a temperature to ensure that bacteria were killed. There was no indication that the AAA had done anything about this, and, because the Department did not review the instrument, the Department never learned about it or ensured that the deficiency was corrected.

Of the 64 findings in the sample of five fiscal year 1994 achievement reviews analyzed, only one finding pertained to the quality of the services that providers offered. This finding -- that the AAA did not ensure that provider menus met required dietary guidelines -- was closed when the AAA agreed to mail the Department's memo on the finding to all providers. Mailing a letter to providers detailing dietary guidelines does not ensure that providers will comply with those guidelines.

Forty-two of the findings were based on AAAs not having achieved local strategies. Local strategies include specific tasks that an AAA will complete -- for example, providing orientation for volunteers, negotiating a specific contract, or recruiting interns from local colleges. These local strategies can be legitimate ways for the AAAs to implement the Department's mission. However, the Department should focus its monitoring on high-level strategies (such as AAAs working with their communities) rather than on specific tasks planned to accomplish the higher goal (such as recruiting eight interns from the local college). We found one case where a AAA was written up because a meeting planned for one month later had not occurred at the time of the achievement review. Because the meeting was a local strategy, the fact that the meeting had not occurred was a failure to achieve a local strategy.

While the Department's program monitoring has not been very effective, its fiscal monitoring efforts have better ensured efficient use of Department funds. The Department's fiscal monitors provide AAAs with a sample monitoring instrument to use for fiscal reviews of providers. During biennial achievement reviews, the Department reviews the tailored monitoring instrument actually used by the AAAs. However, the Department staff does not:

- Test the quality of fiscal monitoring conducted by the AAAs. For example, the Department would not question the thoroughness of provider reviews unless a significant portion of the monitoring instrument were blank. Therefore, the Department does not have sufficient assurances that providers are using Department funds for appropriate purposes.
- Adequately monitor the receipt of program income. As a result, client contributions may be underreported and used inappropriately. (See Section 5-C for more information on program income.)
- Question provider expenditure categories with relatively high dollar amounts if the category appears to be allowable. For example, while travel is an allowable cost category, travel expenses exceeding state travel guidelines could be considered extravagant and should be disallowed. Current procedures would not enable the Department to detect unallowable expenses charged to allowable cost categories.

Section 3-B:

The Department Does Not Select AAAs for Review Based on Risk

AAAs are reviewed according to the biennial schedule of the achievement reviews. The Department does not routinely increase the level or frequency of monitoring for AAAs that have had problems in the past, that have experienced high staff turnover, or that have other known problems. Department review procedures are not expanded if initial review indicates that there are some high-risk areas, and audit programs are not tailored to focus on known problems. The Department does not test AAA monitoring of providers with unusual fluctuations or unexplained gaps in reporting or performance. As a result, limited monitoring resources have not been focused on the areas of highest risk.

The Department performs desk reviews of AAA reports and self-assessment instruments, but does not test unusual numbers or change sample sizes based on the results of these reviews. A desk review is a valuable tool to identify emerging problems in an organization, but once potential problems are identified, they should be followed up. The Department's emphasis on consistency limits monitors' ability to focus on issues of importance.

For example, unsubmitted reports did not lead to an investigation by the Department. During fiscal year 1994, one AAA submitted a budget which showed that the only service offered was case management. The AAA provided other services, but used a procurement mechanism that made it look as if all services were provided through case management. This apparent gap in reporting should have triggered red flags at the Department, and additional information about how the AAA was ensuring fiscal accountability, quality services, fair pricing, and accurate information should have been obtained without waiting until the next scheduled monitoring visit.

Recommendations:

The Department should monitor key areas consistently across the State, including ensuring:

- that AAAs report accurate and consistent data
- fiscal accountability, which includes reviewing both rate setting and administrative expenditures
- client safety, which includes certain elements of food service and vehicle safety relevant to elderly clients

Monitoring efforts on items of exclusively local interest should be limited, and monitoring results and procedures should be adequately documented.

The Department should provide additional guidance to AAAs to ensure that they effectively monitor providers and that the services provided to elderly Texans are high-quality. This guidance might include:

- Participating in AAA monitoring visits to providers. This can be done as training or as quality assurance.
- Providing monitoring tools to assist AAAs in reviewing provider quality and safety issues. Monitoring instruments should be updated as AAAs develop new and more effective methods for monitoring.
- Setting standards for documentation of AAA monitoring visits and results.

Improvements could also be made to fiscal oversight, particularly in the areas of:

- monitoring program income receipts
- reviewing the reasonableness of allowable expenditures

In addition, Department fiscal monitors should occasionally participate in AAA monitoring visits to providers.

The Department should develop a risk-assessment system to select AAAs for monitoring visits and for determining which issues to monitor at each AAA. Possible components for analysis include:

- high personnel turnover
- turnover in key positions
- large amounts of revenues or expenditures
- problems identified by the Department, independent audits, or other agencies
- unusual results of analytical review of budgets and expenditures, such as:
 - high expenditures in specific areas
 - unusual timing or amounts of program income
 - large variances between budgeted and actual
 - significant changes from prior years
 - inconsistency of self-reported information and information obtained from other sources
- implementation of new programs

- development of new funding sources or procurement methods

Management's Response:

We agree with the recommendations. They are a key dynamic of our new contracting system. Activities are underway to achieve these recommendations. The specific recommendations require some discussion as follows:

Regarding consistent monitoring: *The Department will continue current efforts to improve AAA monitoring to assure consistent review of all critical areas across the state. Desk audit procedures will include additional scrutiny of service rates, program income trends, and administrative expenditures. Trend development will assist in ensuring accurate and consistent data submission. On-site monitoring procedures will be used to validate reported data. The Department will monitor health and safety issues by reviewing, whenever available, other agency's certifications and/or monitoring, i.e., acceptable health inspections from county health departments, etc. If unavailable, specific monitoring actions will be developed and used.*

Regarding fiscal monitoring guidance: *The Department is currently revising its standard provider fiscal monitoring instrument that has been used by most AAAs for several years. While various program monitoring instruments have been available for use by AAAs, a standardized program monitoring instrument is now under development. Upon completion of the monitoring instruments, training on their proper use will be held for all AAAs. Training will occur prior to the beginning of the FY 1996 monitoring.*

Regarding improvements to fiscal oversight: *We will continue to improve fiscal oversight capabilities through the new contract management division. Program income receipts will be monitored as part of the updated fiscal monitoring program. Guidance will be sought from SAO to determine the best indicators of reasonableness.*

Regarding risk assessment: *The Department is participating in a HHSC workgroup to develop risk assessment criteria. Additionally, the Department is using an internal risk assessment team to develop a risk assessment instrument for reviewing AAAs. Risk assessment will also be used by AAAs to review providers. Once the risk assessment instruments are developed, the Department and AAA staff will be trained in their use.*

Section 4:

Establish Guidelines and Provide Training to Improve AAAs' Monitoring of Providers

Some AAAs have not adequately monitored their providers. AAA providers offer nutrition, transportation, and in-home services to elderly individuals. Therefore, it is important that AAAs monitor providers to ensure that vehicles are properly maintained, drivers are trained in the safe use of wheelchair lifts and other special

equipment, the possibility of food-borne illness is minimized, and in-home workers are qualified to perform their duties.

Our review of five AAAs found that these AAAs did not monitor providers in the most efficient manner. These AAAs did not use a formal risk assessment to select providers to monitor, did not regularly visit providers and/or did not document the reviews they did perform, and did not always review providers' independent audit reports. As a result, AAAs do not have sufficient information to ensure that providers are furnishing quality services at reasonable rates.

The Department has not provided AAAs with training specific to the process of monitoring providers. This is true even though at least 6 of the 28 AAAs have no one performing program monitoring with more than two years of experience. We spoke with two AAA directors in those areas with inexperienced program monitors, and both indicated that they were having difficulty determining how to monitor their providers. At one AAA, the fiscal staff (which conducts financial monitoring of providers) has not had any training for two to three years.

Section 4-A:

Providers Are Not Selected for Monitoring Based on Risk

None of the five AAAs reviewed uses a risk assessment to determine the nature, timing, and extent of provider visits. Risk assessments can identify providers who are more likely to be experiencing performance difficulties and who would benefit from technical assistance. Two AAAs attempt to use an informal risk assessment process, but the risk factors analyzed varied from provider to provider. Risk assessments help focus limited monitoring resources by determining if a provider requires more than an annual visit and identifying key areas for monitoring.

The five AAAs we reviewed contract with as few providers as nine or as many providers as 44. While the number of monitors at each AAA varied, it is typical that an AAA will have only one full-time-equivalent to conduct monitoring visits. By allocating these resources based on a provider's risk, the AAA will better ensure that all providers are meeting standards and are providing quality services at reasonable rates.

Section 4-B:

Providers Are Not Sufficiently Monitored, And All Visits Are Not Documented

While AAAs should use a risk assessment to determine which providers to monitor and to tailor monitoring procedures, all providers should receive a minimum level of oversight. During the time of our review, the Department did not prescribe the timing or extent of or documentation standards for AAA monitoring. As a result, we found that four of the five AAAs visited did not conduct sufficient monitoring of providers:

- As of April 1995, one AAA had not conducted a program monitoring visit since March 1994.
- Of the seven monitoring visits conducted by another AAA, five were conducted by personnel from the Senior Advisory Council. There is no documentation to show that these individuals were qualified to monitor providers or did not have any conflicts of interest. Moreover, even with these visits, there is little or no documentation of the procedures conducted during the visit or the visit results. In fact, the monitor told us that he verifies some things just by asking the provider if they are in compliance and does not test to verify compliance.
- One AAA did not monitor one of its providers during fiscal year 1994 because the provider was a junior college, and the AAA deemed its operations too complicated. Instead, the AAA decided to let the provider monitor itself.

We visited one AAA that meets quarterly with providers to discuss issues affecting the provider. This provides feedback to the provider and allows the provider to take action in a timely manner.

Additionally, we found problems with AAAs' documentation of the results of their visits. For example, at one AAA, three of the four contract files tested did not contain documentation that the AAA had conducted any program monitoring. At another AAA, we were told that it had performed some technical visits to each of its providers. However, none of these visits were documented.

Section 4-C:

Provider Financial Operations Are Not Adequately Reviewed

Although the procedures used by AAAs to review provider expenditures are generally adequate to determine if providers are spending AAA monies appropriately, financial reviews are not tailored to problems that have been noted in provider claims for reimbursement or independent audit reports. For example, at one provider, an AAA monitor reviewed cash handling procedures for program income. However, no one reviewed the amount of program income reported to ensure that it was reasonable. Several transportation providers reported little or no income for several months, although in other months they reported sizeable income. (One provider reported \$4,700 of program income in one month.) Even though these amounts were reported, they did not result in additional scrutiny by the AAA.

We also found that AAAs did not always review and/or document their review of provider annual audits. For example, at one AAA, of the nine providers sampled which were required to have a desk review of their independent audit report, only two desk reviews were completed. At another AAA, none of the desk reviews of the independent audit reports for the three providers tested could be located. Granting agencies frequently require an independent audit to attest to a provider's financial condition and compliance with grant terms. A desk review of these audit reports is necessary so that reported deficiencies can be addressed.

Recommendations:

The Department should develop guidelines to aid the AAAs in fulfilling their responsibility of monitoring provider performance. Specifically:

- The Department should assist the AAAs in developing a risk assessment process for determining which providers to visit. The risk assessment developed by the Department to select AAAs for review could be a guide for the AAAs to perform their own monitoring. The risk assessment should include financial factors as well as programmatic factors.
- The Department should ensure that AAAs monitor providers in a manner that provides sufficient, documented information on provider performance. Standards for visit documentation should be developed and training provided.

Management's Response:

We agree with this recommendation. Activities are underway to achieve this recommendation. Specific responses to most of these issues were addressed thoroughly in Section 3. Additionally, the Department has provided training to AAAs on new monitoring requirements and will provide further training in early 1996.

Section 5:

Set Rates to Align with Provider Costs

The rates developed by the Department are not aligned with the actual cash cost to provide services. Volunteer and in-kind contributions are given a dollar value and included in the rates paid to AAAs, clouding the true dollar cost of providing services. The following practices further prevent the Department from ensuring that the rates it pays are fair:

- Some AAAs buy and maintain equipment for selected providers but the value of this equipment is not included in rate calculations.
- Controls over program income are weak. No one monitors to ensure that providers report all program income.

The Department's current rate-setting system is based on "total resources." The actual or imputed value of all cash, in-kind, and volunteer resources is aggregated and divided by the total number of service units that will be provided. This becomes the "total rate" that the Department approves during budget amendments. Once the total rate is approved, the Department reimburses the "total rate" for a percentage of the units delivered. The text box on the following page describes the current rate-setting process.

Changes to the current rate-setting process could improve accountability by making rates comparable among AAAs and with the contracted rates providers have with

other agencies. Rates which are verifiable and difficult to manipulate will better enable both the Department and the AAAs to monitor performance.

Current Rate-Setting Methodology

- Each AAA determines the number of anticipated units of service (for example, one meal, one ride, or one hour of in-home assistance). This includes all units of service, regardless of source of funding.
- Service and capital costs to supply the units are also determined.
- Total available resources are determined. This includes Title III funds; any other local, state, or federal money; anticipated program income (for example, voluntary client contributions); volunteer and in-kind resources; and payments for units promised under other contracts. Available resources must balance with service costs.
- The "Title III percent of resources" is developed by dividing the Title III request by total resources required. This is the percentage share of the unit that Title III funding represents, including anticipated cash and non-cash resources. (The Department prefers to see it as the percent of the total units purchased that will be wholly purchased with Title III resources.)
- The "average unit cost (service only)" is developed by dividing total resources for services by total units. The average unit cost includes anticipated cash and non-cash resources from all sources and does not include anticipated capital expenditures.
- If the Department approves the rate, the AAA pays providers an amount equal to the "Title III percentage" of the "average unit cost" for each unit. Thus, if the average unit cost were \$5, and the Title III percentage was 20 percent, the Department would pay \$1 for each unit. The Department describes the process as paying \$5 each for 20 percent of the eligible units.

Section 5-A:

Current Unit Rates Include Non-Cash Items Which Cloud the True Cost of Services

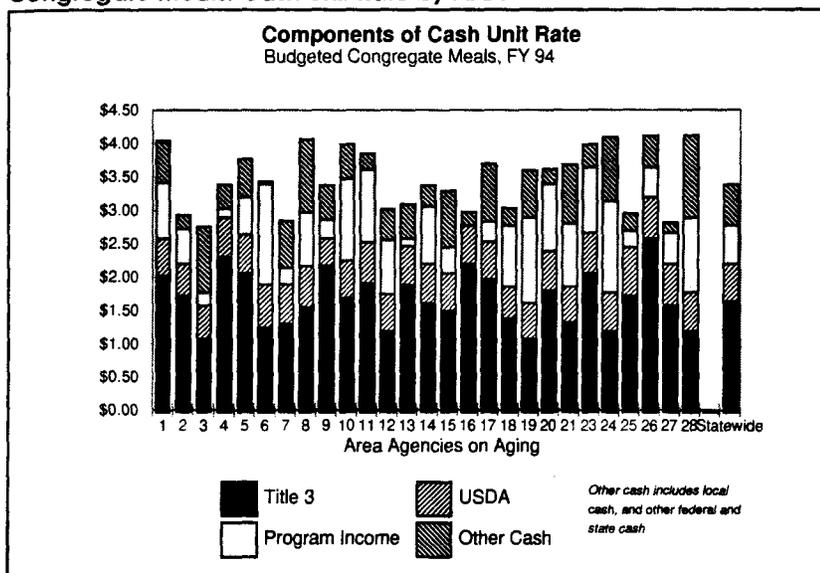
The current rates approved by the Department include the imputed value of volunteer and in-kind contributions, but do not include capital equipment purchased for providers. Because the "total rates" currently developed by the Department do not relate to the amount of cash paid for a unit of service, it is difficult to determine whether money received by providers represents efficient service delivery. Additionally, the Department cannot compare the rate it pays providers to rates paid to the same providers by other agencies.

For example, the Texas Department of Human Services (DHS) also provides home-delivered meals to elderly clients and sometimes uses the same providers as the Department.

However, because DHS calculates their rates based on the cash spent to obtain a single meal (after all client eligibility assessments have been performed), and the Department includes other components in its rate, the two rates cannot be compared. One AAA visited served home-delivered meals to both Department and DHS clients. This AAA's Department-approved *total rate* was \$3.94 per meal. The AAA's budgeted *cash rate* for the Department -- the amount of actual cash paid to the AAA from various sources -- was \$3.47 per meal. The DHS *cash rate* was \$3.70 per meal. Because the DHS *cash rate* was higher than the Department *cash rate*, this AAA told us that they felt like they were making money on the DHS rate.

To analyze the Department's rates, we computed the amount of cash that an average provider in each AAA was budgeted to receive for a single congregate meal in fiscal year 1994. This "cash rate" included federal Title III and U.S. Department of Agriculture funds, local cash and budgeted program income (such as voluntary

Figure 8
Congregate Meals: Cash Unit Rate by AAA



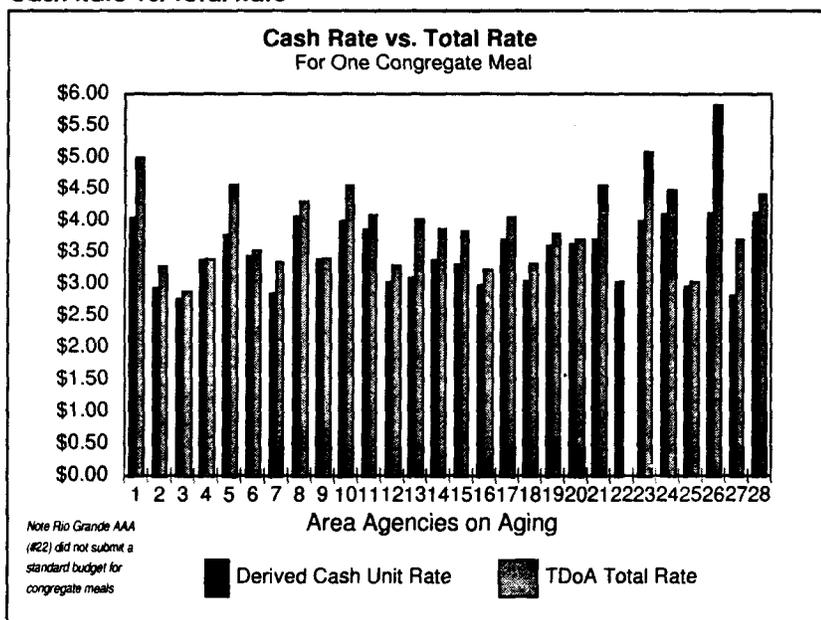
contributions from clients), and congregate meal equipment purchased from Title III money. As shown in Figure 2 in Section 2-A of this report, the statewide average budgeted cash rate for a congregate meal is \$3.37. It is important to note that in our development of cash unit rates, we assumed that the amount of program income budgeted would be received. If program income is underreported, however, these cash unit rates will be understated. (Section 5-C of this report discusses the issues surrounding collection of program income.) Figure 8 provides information on components of the cash rate by AAA and statewide.

We found very little relationship between the cash rates and the approved total rates. The differences between cash rates and total rates varied up to \$1.71. Figure 9 shows the results of this comparison for all AAAs.

Volunteer time and in-kind donations are difficult to value. In comparing the total rates and cash rates, we expected to find that a high level of non-cash local

contributions would reduce the cash rate. However, we found that this was not always the case. This suggests that the non-cash donations are not being valued similarly among AAAs and that these items are easily manipulated.

Figure 9
Cash Rate vs. Total Rate



For example, one AAA (number 26 on Figure 9) had an average cash rate of \$4.11 per meal and a total rate of \$5.82 per meal. The \$1.71 assigned to the volunteer and in-kind services that this AAA received did not prevent the AAA's cash rate from being the highest in the State. In comparison, a neighboring AAA (number 9 on Figure 9) had an average cash

rate of \$3.41 and a total rate of \$3.39, both of which are very close to the statewide average cash rate of \$3.37.

Section 5-B:

The Cost of Equipment Purchased for Some Providers Is Not Included in Rate Calculations

Although AAAs are permitted to purchase equipment for providers, the cost of the equipment is not included in rate calculations and is not considered as part of the overall cost of obtaining provider services. In addition, because AAAs do not have open processes with known criteria for distributing funds for equipment purchases, equipment may not be distributed equitably among providers. As a result, selected service providers receive kitchen equipment, vans, or other items for which they are not expressly obligated to provide additional services.

For example, of the 37 providers used by one AAA, only 6 were budgeted to receive any funds for capital equipment from Title III resources. One of these was budgeted to receive an additional \$100,000 in transportation equipment. When service costs alone are considered, the Department's total rate for the provider worked out to \$1.28 per ride. Adding the value of the capital equipment raises the unit rate to \$1.82.

There are no agencywide guidelines for the purchase of equipment for providers. As of February 28, 1995, \$285,230 of the \$55 million in Title III money has been used to buy equipment in fiscal year 1995. This includes \$71,728 for congregate meal equipment, \$36,321 in home-delivered meals equipment, and \$60,195 in transportation equipment. This money has gone directly to providers and is not reflected in any of the rates. While it is part of the cost to provide meals, it is not reported in the efficiency measures that are reported to the Legislative Budget Board.

In addition, those providers who receive capital equipment could have an unfair competitive edge over those who meet their capital obligations from other sources. Not all present or potential providers may be aware that AAAs sometimes buy equipment for providers which may affect providers' ability and willingness to compete for services contracts.

Section 5-C:

Controls over Program Income Do Not Ensure Reliable Income Estimates

Weak controls over program income collection and reporting make approved rates less reliable. Program income is income earned by a provider as a result of providing contracted services. For example, recipients of meals often voluntarily contribute money to pay for their meal. Provider contracts generally require that the full amount of program income received be reported to the Department and allow the provider to keep the cash and use it to expand the programs. Because budgeted program income is one of the resources considered in the development of rates, underreporting program income could lead to excessive reimbursement by the Department.

Neither the Department nor the AAAs have analyzed program income to determine if the timing and amounts of income reported are reasonable. For example, at one AAA some providers reported \$0 in program income in several months even though one provider had reported up to \$4,700 in program income in another month. No one asked for an explanation for this fluctuation.

At another provider, we found that the provider reported \$330 in program income to the AAA for September 1994. However, the provider actually withheld \$22,759 from its reimbursements to its subcontractors (or sites) for that month's projected program income collections. Neither the AAA nor the provider could determine the actual amount of program income collected by the sites.

To determine the reasonableness of reported program income, we estimated the average amount of program income reported per congregate meal at each AAA. The amount ranged from three cents per meal to \$1.50 per meal. Seven of the AAAs reported program income from congregate meals at less than 25 cents per meal. If these seven AAAs had actually received the average amount of program income received by an AAA during fiscal year 1994 (\$.70 per meal), approximately \$2 million in contributions would have been collected but not reported to the Department.

While there are many possible explanations for low levels of contributions, the Department has not analyzed program income data to determine if low collections are problematic. The Department should ensure that the AAAs test providers with unusually low program income to ensure that all donations are being reported and used for intended purposes.

Section 5-D:

Inconsistent and Unrealistic Budget Figures Hinder Rate Evaluation

AAAs do not always report the same budgeted costs, and the Department has not compared proposed rate components to historical data. As a result, approved rates may not be reasonable or comparable among AAAs.

The Department does not require all AAAs to report the same budgeted costs, which makes it even more difficult to evaluate and compare rates. We reviewed the budgets for fiscal year 1994 and the first approved budget amendments for congregate meals. We found that, of the 28 AAAs, seven had not included any volunteer services for congregate meals. Of these, three had not included volunteers for any of its services, and three had included volunteers for only one of the services it offered. The approved budget amendment for one AAA did not list any congregate meal services at all, even though the service was offered. The inconsistency of the information makes it less reliable and less useful and suggests that it is not currently used for comparative purposes.

In addition, the Department has not evaluated proposed budgeted rates to determine if the proposed resources are reasonable in light of historical collections. For instance, during our visits to AAAs we found that 8 out of 14 providers' actual program income

receipts were greater than what was budgeted. However, in the following year, these providers budgeted even less for program income. (One provider was budgeted to receive \$35,710 in program income during fiscal year 1994 and actually collected \$46,873. In fiscal year 1995, the provider budgeted program income receipts at \$12,332.) As a result, the approved total rates for these AAAs were higher than the rates would have been if more reasonable estimates had been used in the rate-calculation process. We also found some providers who budgeted more program income than was reportedly received. Without comparing budgeting figures to past performance, the Department cannot determine if its rates are rational.

Recommendations:

Rates should be developed based on actual costs, including the cost of any equipment purchased or maintained for the provider. In developing rates, the Department should ensure that budgeted information is consistent among AAAs. Since the data on volunteer and in-kind contributions is easily manipulated and prevents the Department from comparing its rates to other agencies' rates, the Department should develop rates independent of these non-cash contributions.

The components of the unit rate should be verified and based on accurate historical data. This would require analysis of variances from established standards such as budgets and other benchmarks. During its monitoring visits, the Department should ensure that AAAs monitor provider expenditures and verify that providers' rates mirror actual costs.

Finally, the Department should improve controls over program income. Both Department and AAA monitors should develop procedures to verify that all collections are reported and used for intended purposes.

The decision to develop a particular provider by contracting with it at a higher rate should be based on criteria established and approved by the Department as part of the contract approval process. The development period should be limited (as defined by the Department) and documented in the AAA's contract with the provider.

Management's Response:

We agree with the recommendations. Actions are underway to achieve these recommendations. However, due to inherent difficulties in defining and calculating "cash rates", we will seek SAO and Legislative Budget Board guidance in implementing these recommendations. The specific recommendations require some discussion as follows:

Regarding developing rates on a cash basis: *The Department agrees that use of cash rates is preferable and is refining its process to better comparatively analyze cash rates beginning in FY 1997. We believe the approach of using cash rates, eliminating cost-shifting between agencies buying similar services from the same local providers, and insisting on fair and reasonable rates, is an excellent assurance of value in*

service delivery. We further believe that setting fair cash rate targets at a statewide and AAA level will keep monitoring and cost-accounting from becoming overly burdensome at the local level. Monthly reports, and annual audits provide continuous information about the service and financial activities of the system. Comparison against target rates will aid in evaluating actual performance.

Historically, the Department has established target rates for certain services readily reimbursed on a unit basis, such as congregate and home delivered meals. the Department evaluates rate information before approving area plans, receives price information for all local providers, and has requested that rates be reduced when deemed excessive or unjustified.

The discussion in the SAO report could lead to the conclusion that the Department is not currently able to compute or use cash rates. This is not the case. the Department currently collects adequate data to readily compute cash rates. Using the Department-collected data, the SAO computed what it described in its report as "cash rates" and the Department provided comparative cash meal rate information to the House Appropriations Committee with less than 24 hours notice.

Auditor Follow-Up Comment:

The Department-collected data was sufficient to calculate cash rates for congregate meals only. Data for other services included too many other variables for us to calculate cash rates. For example, for home-delivered meals, we could not develop a cash rate without knowing how many units a provider delivered using Title XX funds.

The concern that equipment purchases may distort actual costs is a very minor concern. Using data cited by SAO in its discussion, equipment purchases normally comprise about \$250,000 (0.45%) of the Department's \$55 million funding and would not be a significant factor in rate determination. It is unlikely that equipment purchases will increase in the future. We will include equipment costs in unit rates only when it is appropriate to do so. For example, including equipment costs may not be appropriate in situations where unit rates are developed by or compared to other health and human service agencies as the Texas Legislature is requiring.

Auditor Follow-Up Comment:

Our concern is for fairness in the contractor selection process, not for the relative amount of money used for equipment purchases. The Department has not set guidelines for the use of these funds and has not ensured that all providers are aware that funds may be available for equipment purchases. As a result, providers who know about these possibilities may underbid providers who have included amounts for equipment in their proposal.

Regarding improving controls over program income: *The HHSC is developing a process to be used by agencies that collect program income. Program income will be used as a method of finance and clearly accounted for in agency budgets during the negotiation and finalization of contracts.*

Due to the potential loss of millions of 1929B Frail Elderly Program dollars that had been supporting meals to home-bound elderly, a hard freeze has been placed on these programs throughout the state. This could negatively affect small providers in rural areas.

Section 6:

Enhance Department Information System Controls

The Department recognizes the importance of accurate client information, but current policies and procedures do not ensure consistent and accurate information processing. The organization of the Aging Network necessitates that data input and processing be disbursed among both the AAAs and providers. This situation increases the risk that unreliable client and service information can be entered into the Department's information system. In fact, a recent review by the State Auditor's Office found numerous inaccuracies of information reported by providers (*Performance Measures at 18 State Agencies*, SAO Report No. 95-055, February 1995).

The Data Services Division is responsible for the Department's Client Information System (CIS). This system collects all data on services provided to every client for federal and state reporting. Improving data entry standards and procedures, compensating controls for data verification and review, and automated controls will decrease the risk that the Department bases management decisions on incomplete or inaccurate data.

Section 6-A:

The Department's Data Processing Environment Requires Compensating Controls to Minimize Risk

The Department has not designed controls to compensate for the increased opportunities for data errors created by its distributed system of data input and processing. Information in CIS is used to meet federal and state reporting requirements, and the Department could use this information (if accurate) to analyze AAA and provider performance. In the worst case scenario, inaccurate data could impact Texas' ability to draw down federal funds.

High risks are inherent in an automated information system controlled at the provider level. Factors contributing to this environment are:

- CIS data is not maintained and managed in one central location. Over 300 providers use stand-alone personal computers to enter client and service unit data. Twenty-eight different AAAs then compile (and correct) the information for submission to the Department.
- Access to CIS data on the provider and AAA stand-alone computers is not always restricted.
- Computer expertise of CIS users at provider and AAA levels varies. Training and communication from the Department to CIS users has been technical and not tailored to varying levels of provider/AAA expertise and equipment.

- Computer hardware varies across the network.

To capture the data needed for federal and state reporting, detailed data entry occurs at both the provider and AAA levels. The AAAs receive detailed CIS data from their respective providers and then merge and summarize the data before electronically sending it to the Department.

Section 6-B:

Data Processing Procedures Are Not Sufficient to Ensure Accurate Information

Current controls over data processing do not provide reasonable assurance that data is correctly entered, properly processed, and fairly reported. Additional processing controls, improved documentation of data entry standards and procedures, and increased user support would improve data processing and better ensure the integrity of data. The following areas require the Department's attention:

- Currently, each AAA and provider is responsible for selecting and configuring its own computer hardware. As a result, different configurations are in place throughout the network. Also, the level of expertise varies at the provider level. Providers are primarily responsible for solving problems related to their processing activities. As a result, inaccurate and untimely information has been sent to the Department resulting in the Data Services Division spending significant time in detecting and correcting problems.
- As mentioned previously, CIS data entry occurs at 300-plus service providers and 28 AAAs. According to Data Services management, except for a recently added edit to ensure that all service data entered is identified with a client, the current version of the CIS software does not have adequate editing routines to provide automated controls over the accuracy and completeness of data. Automated editing controls in software could detect incomplete or invalid data resulting from human error at the point of entry.
- The CIS User Guide does not document policies and procedures to ensure the integrity of data. The User Guide does not have written procedures for completing supporting documents for data entry or for verifying and reviewing data prior to final posting. As a result, users do not have to create supporting documents. Although providers prepare supporting documents in the form of client intake and data verification reports, verifying the accuracy of data occurs only after the fact. Verifying data entered against supporting documents prior to final posting would better ensure data accuracy.

Additionally, the CIS User Guide does not define backup retention and storage standards or procedures for software virus protection. Even though the guide mentions some of these controls, procedures are not detailed. For example, the guide mentions that backup is the responsibility of the user but fails to give criteria such as how often to do backups and how long to keep them. Also, specific types of virus protection software are not defined.

Standards and procedures for these controls should be included in the CIS User Guide to make them consistent across the network.

- The Department has not documented policies against changing or tailoring CIS software codes by network users. Any necessary changes to CIS software should be approved and performed only by the Department's Data Services Division. Unauthorized modification attempts to the software can result in total corruption of CIS data. This situation occurred at one AAA during fiscal year 1994.

Recommendations:

The Department should update its Client Information System User Guide by incorporating standards and policies for:

- generation of supporting documents for data entry
- mandatory data entry verification prior to final posting
- backup retention and storage of data files
- virus protection procedures
- CIS software changes

The Department should also establish controls to compensate for the nature of its "distributed" system by:

- communicating the importance of CIS data and report requirements to users
- providing operational CIS training in a non-technical environment
- assessing the level of computer expertise of CIS users for use in planning
- ensuring that recommended computer hardware is configured properly
- maintaining an inventory of the computer hardware at use in the network

Additional work is needed to ensure that the sporadic data errors reported by AAAs are not caused by the system during the loading, compiling, transmitting, and downloading processes. The Department should consider conducting a comprehensive application audit to formally evaluate critical areas such as security access and data edits.

Management's Response:

We agree with the recommendations. Activities are underway to achieve the recommendations. The specific recommendations require some discussion as follows:

Regarding user guide modifications: *The Data Services Division will make modifications to the user guide to enhance the user's ability to work with the system. These modifications will include:*

- *An Appendix on Maintenance to the Guide to include:*
 - *Backup retention and storage standards*

- *Procedures for virus protection.*
- *Standards for restricting access to data and programs.*
- *Restrictions on the use of the system's data files.*
- *The need for end-user commitment to ensuring valid data.*
- *Prohibitions against the modification of the system.*

Modifications to the information system software are not possible without access to its source code. The Data Services Division has not shared the source code with network users. All required modifications to the software are completed by Data Services staff.

- *An Additional Chapter to include:*
 - *Procedures to use in verifying data integrity. These will include how to check data entry before final posting and how to use the data verification report, the client statement of services, the services report, and program performance reports to verify information prior to submitting data to the AAA.*
 - *The area agency software manual will also be modified to include a chapter on data review prior to submission to the Department.*

Regarding controls related to the distributed nature of the system: The Data Services staff provides technical assistance to AAAs staff in the operation and maintenance of the Department's software. The Department staff also provides technical assistance to service provider staff as needed, especially if the area agency staff is not able to effectively address the technical problem. Every problem that is presented to the Department's technical staff is addressed.

With the exception of the 1995 regional training series, the Department has always provided "hands-on" end-user software training. In the future, the end-user training will be "hands-on" and will take into consideration the computer expertise of the end-user.

The Data Services Division has always encouraged the acquisition of up-to-date computer equipment as an investment in the proper tools to get the job done. AAAs are required to submit proposed computer acquisitions to the Department for approval. Along with approving the acquisition, the data services staff also provide technical advice on alternatives to help ensure that the agency will receive the most return for its expenditure. Service providers are required to submit proposed computer acquisitions to the area agencies for approval. Data Services has been approving these acquisitions for years and the equipment has always been compatible and able to run the Department's software.

The CIS User's Guide includes in Appendix A Installation the recommended system required to run this software. In the past, service providers have been reluctant to pull funds away from services to purchase computer equipment. If the provider is able, it will acquire state-of-the-art equipment. If not, it will usually inherit the "hand-me-downs" from the AAA or other source.

In July 1994, the Department conducted a survey of the AAAs to collect information about the agencies' computer hardware and software. An updated survey was conducted in November, 1995. The Department will consider this information when developing and presenting end-user training.

***Regarding editing controls:** While we agree additional edit checks should be included in the software, there are many validity checks included in the client intake data entry, such as the user cannot delete a client who has received at least one service unit, as well as others not listed here.*

To help verify data entered into the monthly service information system, Data Services will soon add a way for the user to compare what he or she entered against what appears in the input document. The Data Services Division is also reviewing the system for the purpose of adding error trapping (edits) to further validate data entry wherever. Finally, we have a users' group known as the Budget and Reporting Workgroup to assist in identifying additional edits and routines.

Objective, Scope, and Methodology

Objective

The objective of our audit was to evaluate the existing management control systems within the Texas Department on Aging and to identify strengths and opportunities for improvement.

Our work focused on the controls related to accountability and contracting processes on two levels:

- the Department's relationship with the AAAs
- the oversight and guidance provided by the Department over the contracts between AAAs and service providers

Scope

The scope of this audit included consideration of the Department's organizational structure and management controls over contracting, human resources, automation, and strategic planning.

Consideration of the Department's organizational structure included a review of:

- the process of monitoring the operating environment to determine when organizational changes are needed
- the current organizational structure's ability to produce expected services

Consideration of the Department's management controls over contracting included a review of:

- contract provisions
- contract monitoring methodologies, policies, and practices
- rate-setting methodology, policies, and practices
- the relationships among contracting parties (the Department, AAAs, and providers)

Consideration of the Department's management controls over human resources included a review of:

- human resource management procedures
- agency turnover
- human resource development system
- employee appraisal system

Consideration of the Department's management controls over automation included a review of:

- the current agency automation system
- data processing controls

Consideration of the Department's management controls over strategic planning included a review of:

- development of the State Plan (as required by the Older Americans Act of 1965) and agency strategic plan
- individual division work plans
- the process of development and review of AAAs' area plans

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against pre-established criteria.

Information collected to accomplish our objectives included the following:

- Interviews with agency staff, management, and board members of the Department
- Interviews with AAA staff, management, and advisory board members
- Interviews with Executive Directors and accounting staff from two of the Department's service providers
- Interviews with other stakeholders such as staff of the Texas Association of Regional Councils
- Documentary evidence such as:
 - Department documents, reports, and publications (including the State Plan, Strategic Plan, and audit reports prepared by the agency's internal auditor)
 - Policies and procedures related to contract administration, rate-setting, funding, targeting, and service provision
 - Applicable federal and state statutes and guidelines
 - Area Plans and budgets
 - Department board minutes
- Survey of all AAA Directors regarding AAA administrative policies, practices, and budgeting

Procedures and tests conducted:

- Review of Area Plans and instructions for plan development
- Review of the Department's program and fiscal monitoring instruments and results
- Tests of randomly selected contract files at five AAAs to determine if contractors had been selected and monitored in accordance with agency policies
- Tests of revenue and expenditure transactions at service providers to determine if funds were spent appropriately

- Analysis of AAA and provider budget information to determine Department cash rates; variations in grantee, AAA, and provider overhead; and results of AAA targeting efforts
- Analysis of budgeted rates and rate approval process

Criteria used:

- Best business practices related to contract administration
- Federal guidelines and costs principles (OMB Circulars A-87, A-122, A-110, and A-102 and Federal Acquisition Regulations, 48 CFR Ch. 1)
- Contract management model developed by the Texas State Auditor's Office
- Department policies and procedures
- Texas State Auditor's Office *Management Control Methodology*
- Texas State Auditor's Office *Report on Contract Monitoring of Purchased Services* (SAO Report No. 95-007)
- Standard audit criteria

Other Information

Fieldwork was conducted from March 1, 1995, to June 30, 1995. We did not verify the accuracy of the data provided by the Department. Other than this exception, the audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Julie L. Cleveland (Project Manager)
- Rachel Cohen, CPA
- David P. Conner, CISA
- Eric B. Corzine
- Robin R. Key, CPA
- Ryan G. Simpson
- Kay Wright Kotowski, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Director)

Background Information

The Older Americans Act and its amendments have created a network of services and programs for older persons with emphasis on local needs assessment, decision-making, and resource development. The relationship between the Department, AAAs, and service providers is intended to provide guidance and proper stewardship of public funds while allowing for local determination.

The Department plans, contracts, and delivers services through 24 regional Councils of Government (political subdivisions established under Chapter 391, Local Government Code), two major metropolitan United Way organizations, and a large city. The AAA organizational unit carries out federally required specific tasks such as plan development, information and assistance, advocacy, and program monitoring related to aging programs. Other portions of the grantee organization provide shared support services such as personnel administration, accounting, facilities management, legal counsel, and other functions.

AAAs develop a federally required area plan which includes a proposed budget for each AAA. The Department has a series of board-adopted rules and standards relating to safety and accountability with which AAAs and their subcontractors must comply. To address major noncompliance, the Department has also adopted rules for de-designation of AAAs, including: cause for de-designation, notice and hearing, selection of new AAAs after de-designation, and interim service arrangements during any transition period.

Each AAA grantee is required to have an annual independent audit, and each AAA subcontractor must have an annual independent audit if it receives more than \$25,000 total in federal funds. Independent auditors must provide a written opinion on AAA and subcontractor compliance with applicable laws and regulations (including program and performance-related), in addition to an audit of financial statements.

Agency Financial Information (FY95 Appropriated Amounts)

Goal A: Locally-Based Services	<u>\$55,669,199</u>
TOTAL APPROPRIATIONS	<u>\$55,669,199</u>

Agency Profile

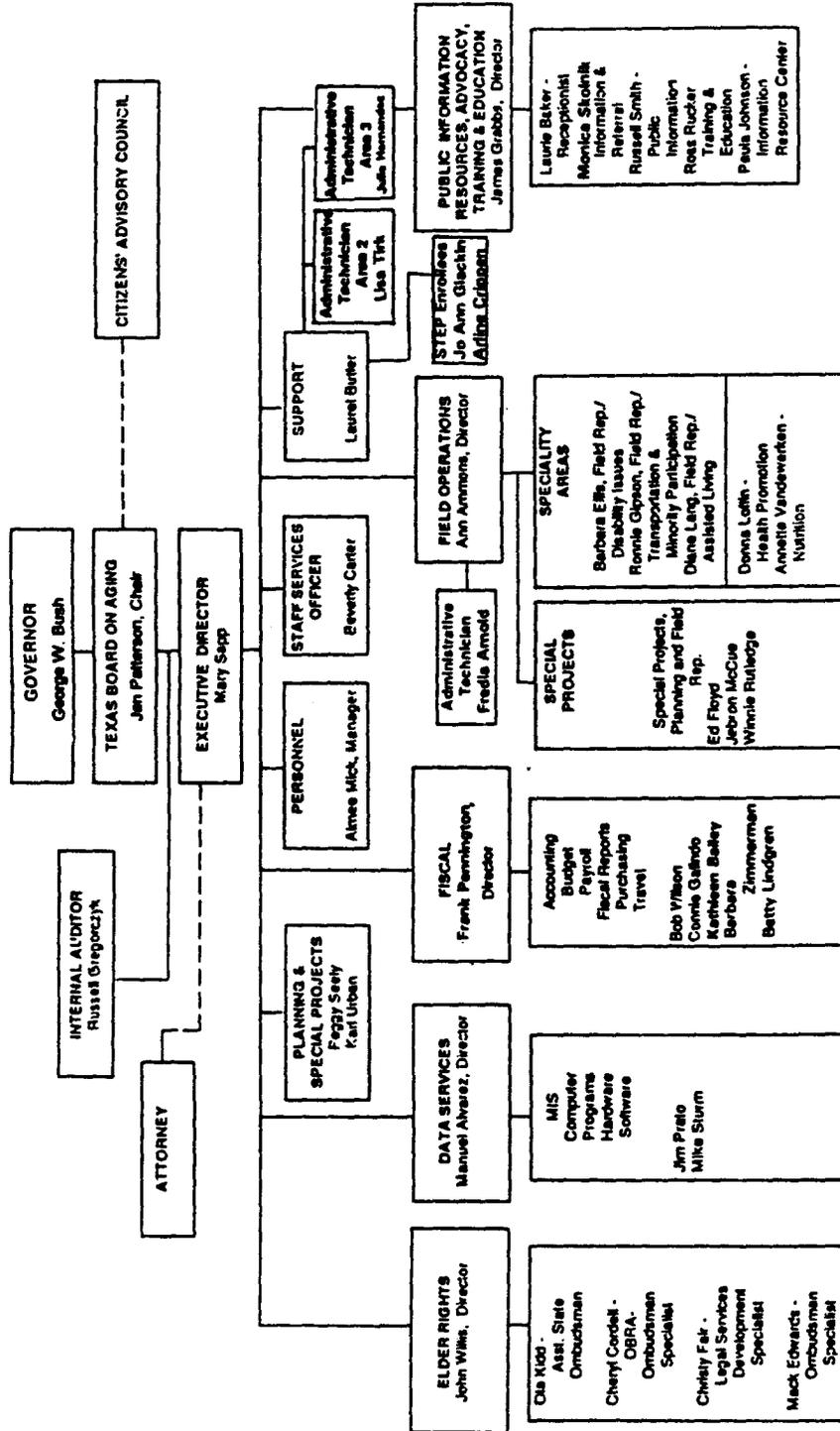
Mission Statement

The Texas Department on Aging is the state's visible advocate and leader in providing for a comprehensive and coordinated continuum of services and opportunities so that older people can live dignified, independent, and productive lives.

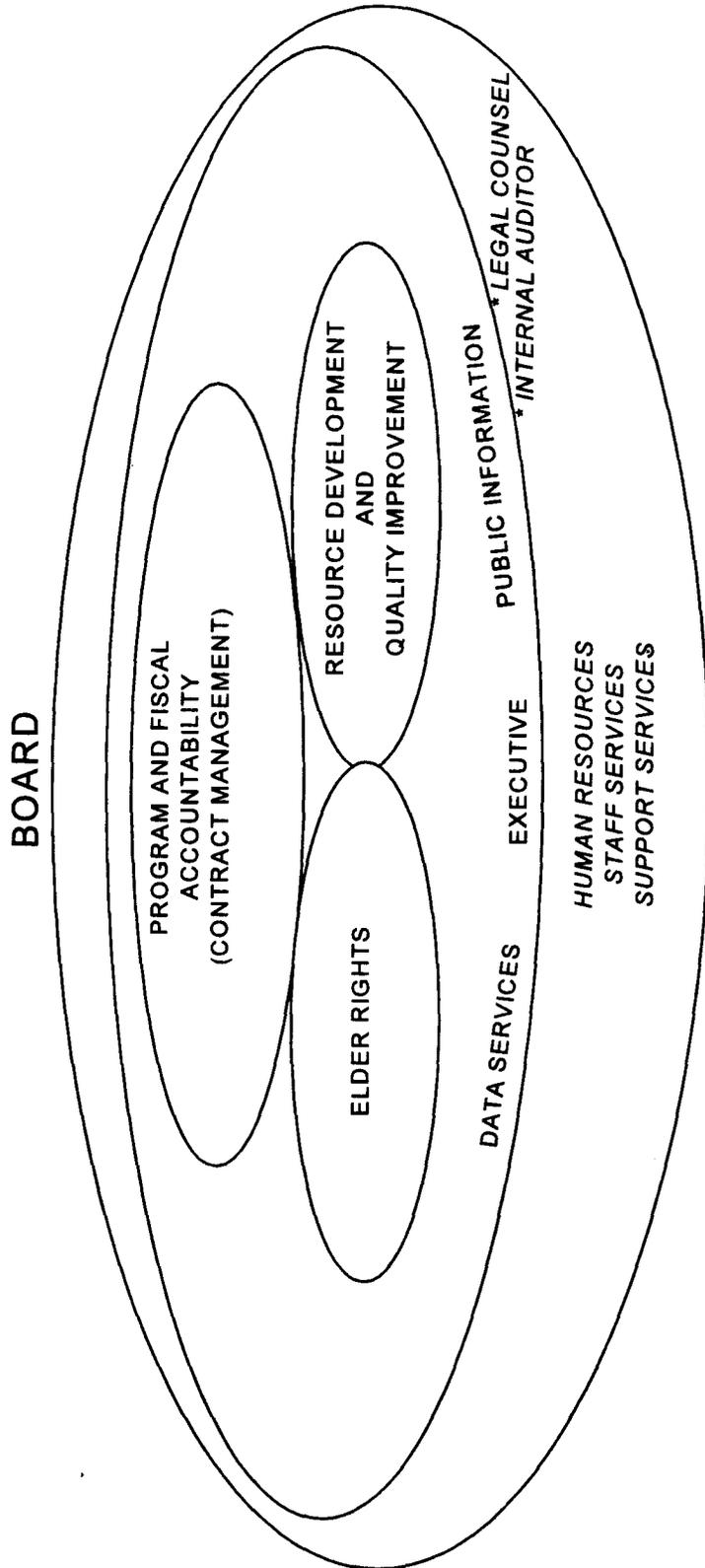
Major Legislative Responsibilities

Human Resource Code, § 101, creates the Department on Aging as the state agency primarily responsible for delivering services for the aged. It is primarily funded by the federal Older Americans Act of 1965. Services are delivered through grants to a network of 28 Area Agencies on Aging (AAA).

Organizational Chart, through September 30, 1995



Organizational Chart, effective October 1, 1995



Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Governor of Texas

Honorable George W. Bush

Legislative Budget Board

Sunset Advisory Commission

Texas Board on Aging

Ms. Jan Patterson, Chair
Ms. Elena Bastida-Gonzalez
Ms. Nancy S. Bohman
Dr. Jack Burton
Mr. Jose E. Camacho
Mr. J. Kenneth Huff, Sr.
Mr. Dan Roberts
Ms. Aliceanne Wallace
Ms. Holly H. Williamson

Texas Department on Aging

Ms. Mary Sapp, Executive Director

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

In compliance with the Americans with Disabilities Act, this document may be requested in alternate formats by contacting Production Services at (512) 479-4700 (Voice), (512) 479-4884 (FAX), or 1-800-RELAY-TX (TDD), or by visiting Two Commodore Plaza, 206 E. Ninth Street, Room 19.100, Austin, Texas 78701. This document is not copyrighted. Readers may make additional copies of this report as needed.