

**An Audit Report on Rider 15:
Rates Paid by the Texas Youth Commission
for Residential Placements**

October 28, 1998

Members of the Legislative Audit Committee:

The Texas Youth Commission (Commission) needs better data to ensure that it receives the best rates possible for residential placements. Due to the limitations of available data, we could not assess the extent to which the Commission negotiated the most cost-effective rate possible as required by Rider 15 of the General Appropriations Act (75th Legislature). In fiscal year 1997, the Commission expended \$27.4 million on 87 contracts for 890 youths.

Generally, contract rates have increased an average of 7.8 percent over the last three years, based on a sample of 27 contracts representing 75 percent of the Commission's contracted care population. The average rate increase roughly parallels the Consumer Price Index for food, shelter, medical care, and other goods and services.

While marketplace competition helps to ensure procurement of reasonable rates, there appears to be limited bidding for contracts for Commission residential placements. In addition, limited cost data analyzed by an external consultant for the Commission indicates a wide range of costs for similar services. (See table.)

Type of Service	Low	High
Education Costs (In-house)	\$0.24 per service day	\$271.52 per service day
Psychological (In-house)	\$14.66 per hour	\$59.99 per hour
Chemical Dependency (In-house)	\$9.47 per hour	\$26.55 per hour
Medical Services (Emergency Care Shelter)	\$0.01 per day	\$11.85 per day

The limited amount of competition in the marketplace and the significant variation in costs for similar services underscores the need to obtain accurate cost data to evaluate the reasonableness of historic and proposed rates.

The Commission should reevaluate the data it requires providers to submit. We recommend providers be required to submit data that would enable the Commission to:

- More closely associate various overhead costs with direct care services for Commission youth.
- Compare unit costs for general living and special services across different providers.

- Conduct external benchmarking of costs for selected services such as counseling and therapy to determine the reasonableness of such costs.

In fiscal year 1997, the Commission, with the assistance of an external consultant, developed a methodology to capture the cost elements listed above, as well as other related data. We recommend that the Commission pursue implementation of this methodology to help ensure that it negotiates the most cost-effective rates possible.

In addition to improvements in cost reporting data, the Commission should review and assess the technical skills staff members need to adequately analyze cost data.

The Commission should also consider allowing providers with a very small number of Commission placements to submit simplified cost reports to reduce the administrative burden associated with such requirements.

The Commission concurs with all recommendations and will forward a copy of the work plan for implementation to the State Auditor's Office by November 1, 1998.

The Commission's management and staff have been very cooperative during the audit and their assistance is greatly appreciated.

If you require additional information, please contact John Young, MPA, Project Manager, at 479-4700.

Sincerely,



Lawrence F. Alwin, CPA
State Auditor

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cc: Mr. Steve Robinson, Executive Director, Texas Youth Commission

Objective, Scope, and Methodology

This audit was conducted in accordance with Government Auditing Standards. The objective of our review was to assess the actual rates negotiated and paid by the Texas Youth Commission for the provision of residential placements per Rider 15 in the General Appropriations Act (75th Legislature).

The scope of our work included a review of the rate setting methodology and cost reporting documents within the area of contract administration.

The methodology used on this audit included analyses and tests; interviews with management and staff, and a review of pertinent documents and contracts.