



A Legislative Summary Document Regarding Health and Human Services Commission

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State Auditor's Observations

The Health and Human Services Commission (Commission) projects a deficit of almost \$450 million for fiscal year 2003, due primarily to unforeseen increases in Medicaid and Children's Health Insurance Program (CHIP) caseloads. Because Medicaid is an entitlement program, the Commission cannot control the actual need for or enrollment into this program. While CHIP is not an entitlement program, it has maintained an open enrollment to anyone who is eligible.

The Commission indicates that it plans to request that the State Kids Insurance Program (SKIP), created for eligible children of state employees, be transferred to the Employees Retirement System (ERS). According to Commission personnel, ERS was responsible for the fiscal year 2002 and 2003 SKIP forecasts. The Commission indicates that various factors are responsible for a deficit in this strategy, including a legislative increase in the state contribution for state employees participating in SKIP without a corresponding increase in the appropriation of tobacco funds for SKIP.

In February 2001, the State Auditor's Office reviewed the contract between National Heritage Insurance Company (NHIC) and the Department of Health. (As of September 2001, the contract is between the Commission and NHIC.) We expressed concern about the circumstances regarding the award process and a number of the contract's provisions. We are currently conducting additional work on the NHIC contract and plan to release a report on that work in January 2003. In November 2002, the Commission announced the tentative award of a new contract for Medicaid claims and case management services to ACS Healthcare, LLC.

The Office of the Attorney General (OAG) conducted an inquiry into the State's Medicaid Claims Administration contract with NHIC. The results of the inquiry, issued in May 2002, found that NHIC breached the contract in at least four areas. The OAG provided recommendations regarding potential legal remedies and other observations about various issues to assist the State in determining NHIC's compliance or noncompliance with the contract.

The Commission has not fully complied with Texas Government Code, Section 2155.144, which requires it to develop purchasing guidelines and contract management processes for health and human service agencies.

The Commission did not make a "good-faith effort" to comply with historically underutilized business (HUB) requirements.

The Quality Assurance Team is currently monitoring the Health and Human Services Administrative System (PeopleSoft™) project, which has a budget of \$41.4 million. In September 2000, the Commission began working to replace its existing administrative information systems across 12 health and human service agencies with PeopleSoft™. Current expenditures are \$8,229,970 for fiscal years 2002–2003 only. The estimated project completion date is August 31, 2004.

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

Health and Human Services Commission

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Financial Profile

Projected Deficit – Caseload Estimates

The Health and Human Services Commission (Commission) projects a deficit of almost \$450 million (\$375 million in General Revenue funds for Medicaid and \$73.7 million in Tobacco and General Revenue funds for CHIP) for the 2002–2003 biennium, due primarily to low forecasts of Medicaid and CHIP caseloads. While the Commission believes the caseload forecasts to be as accurate as practical given available information, the forecasts were prepared in Spring 2001, prior to the tragic events and resulting economic downturn of September 11, 2001. In addition, as Medicaid is an entitlement program, the Commission cannot control the actual need for or enrollment into the program. Nonetheless, for several years the forecasts for Medicaid caseloads, in which the Commission participated in forecasting, were lower than actual. Many factors contribute to this, including the overall status of the economy and implementation of legislative changes for which benchmarks or experience are unavailable to use as a basis for better forecasts. Although the federal government funds a large portion of the costs, a portion of the cost is borne by the State.

In February 2001, we briefed the House Appropriations Committee on the method and mathematical accuracy of Medicaid budget estimates and cost estimates related to changes in Medicaid eligibility. Our work revealed no significant deficiencies in the methodologies used to forecast caseloads. Recent work performed also reveals no substantial changes in forecasting methods since that time. We noted that a number of groups are involved in forecasting Medicaid caseloads and costs. These groups—including the Department of Health (TDH), the Department of Human Services (DHS), the Commission, the Legislative Budget Board (LBB), independent actuaries, and other State health service agencies—use various statistical models to develop their forecasts. Eventually TDH, DHS, and the Commission collaborate and reach consensus as to which growth rate or model is most appropriate.

Legislative Appropriations Request Preparation

While the Commission has established procedures for estimating caseload and financial information included in its Legislative Appropriations Request (LAR), the processes used to compile the document have resulted in two known errors identified by the LBB and amounting to nearly \$250 million. The Commission indicates that it corrected the errors during the first of three regular LAR updates. Nonetheless, these types of errors reduce the overall confidence that the Commission's LAR is a true depiction of its financial status and needs.

Transfer of Programs from the Texas Department of Health

Medicaid acute care services and the vendor drug program were transferred from TDH to the Commission as of September 1, 2001. These programs are responsible for nearly \$7 billion in appropriations previously reported at TDH. As the Commission indicated that it did not have sufficient staff resources, accounting systems, or time to implement the complete transfer of the Medicaid program by September 1, 2001, and that it wanted to avoid interrupting Medicaid payments, the Commission, TDH, LBB, and the Comptroller of Public Accounts established a process wherein the Commission transferred funds to TDH for reimbursement of Medicaid expenditures. On September 1, 2002, the Commission assumed the responsibilities previously performed by TDH.

Children's Health Insurance Plan (CHIP) Caseload Estimates

The caseload estimates for the Children's Health Insurance Plan were lower than actual caseloads. As a result, CHIP expenditures were higher than projected for 2002, with budget deficits in CHIP Phase II, Spillover, and SKIP strategies. Commission staff indicated that the deficit of \$60 million in June 2002 would have been significantly lower had the Commission not transferred \$33.4 million in 2001 from CHIP strategies to TDH to cover the Medicaid budget shortfall. The Commission indicates that higher caseloads were a reflection of the slower economy. Additionally, caseloads were somewhat higher as a result of the implementation of Senate Bill 43, 77th Legislature, which simplified the Medicaid application process and eliminated requirements for face-to-face interviews. The Commission indicates it has taken these changes into account in estimating the caseloads for the 2004–2005 LAR.

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Reconciliations to USAS

The Commission implemented a new internal accounting system at the beginning of fiscal year 2002—the Health and Human Services Administration System (HHSAS). Although the Commission reconciled its previous accounting system to the Uniform Statewide Accounting System (USAS), it has not been reconciling HHSAS to USAS. Commission staff indicates that it is planning to perform complete reconciliations for fiscal year 2002 during the next fiscal year. The Commission is planning to start performing reconciliations of the expenditures on a monthly basis. Reconciliations are a critical function to ensure that all financial activities have been properly accounted for.

Transfers

While the majority of the Commission’s transfers appear to be reasonable and adequately supported, we noted two transfers in USAS that did not appear to be appropriate.

Transfer From	Transfer To	Amount	Problem
Premiums: Children/ Medically Needy	Rider 85	\$865,000	Duplicate of General Revenue appropriation reduction made 9/1/01 as required by Article 9, Sec. 10.85, HHSC
	Indirect Administration	\$279,741	Prohibits transfers from the Medicaid strategy

The Commission asserts that entries to correct these transfers were made on December 20, 2002. This assertion has not been validated.

Expenditure Analysis

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

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Interfund Transfers/Other (Note A)	\$ 6,948,498,269	\$ 7,530,740,655	\$ 14,055,943,994
Other Expenditures (Note B)	16,240,610	293,601,183	5,969,063
Professional Services and Fees (Note C)	9,268,635	36,797,615	44,887,722
Salaries and Wages ^a	8,050,879	9,259,793	13,070,721
Employee Benefits	1,581,224	1,845,425	2,750,796
Intergovernmental Payments	1,032,063	1,474,015	60,000
Public Assistance Payments (Note D)	389,882	2,329,333	9,685,229,828
Travel	333,297	299,792	404,245
Rentals and Leases	256,119	770,864	857,496
Capital Outlay	148,625	(14,334)	519,521
Printing and Reproduction	143,875	70,584	153,665
Communications and Utilities	94,848	118,957	142,988
Supplies and Materials	81,699	93,335	126,140
Repairs and Maintenance	50,090	235,394	222,400

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Interest/Prompt Payment Penalties	43	9,189	10,968
Total Expenditures	\$ 6,986,170,158	\$ 7,877,631,800	\$23,810,349,547
<small>^a The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards. Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.</small>			

Note A – For appropriation year 2002, Interfund Transfers/Other increased because responsibility for Medicaid and related programs was transferred to the Commission from TDH. In addition, the Commission received \$10,798,750 from the Telecommunications Infrastructure Fund Board for the 211 project. The 211 project will provide direct access to information about community services such as utility bill payment, housing assistance, food pantries, legal aid, mental health services, state agency services and programs, drug and alcohol abuse, and hospice by dialing 211.

Note B – In appropriation year 2001, the Commission coded Children’s Health Insurance Program (CHIP) expenditures to other expenditures. In appropriation year 2002, it recorded CHIP expenditures to public assistance payments.

Note C – Professional services and fees increased in appropriation year 2001 because of payments to an outside contractor for the administration of CHIP.

Note D – The appropriation year 2002 increase in public assistance payments reflects the transfer of Medicaid programs from TDH to the Commission. The Commission is now reporting payments that were previously reported by TDH. CHIP payments were also recorded as public assistance in 2002. (See Note B above.)

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

Ongoing Monitoring of the Health and Human Services Commission’s Implementation of Its Business Improvement Plan

The State Auditor’s Office will release a report in early 2003 regarding the status of the Health and Human Services Commission’s implementation of its business improvement plan.

Ongoing Review of the Children’s Health Insurance Program at the Health and Human Services Commission

The State Auditor’s Office will release a report in early 2003 regarding the Children’s Health Insurance Program at the Health and Human Services Commission.

Ongoing Financial Review of the Contract with National Heritage Insurance Company

The State Auditor’s Office will release a report in early 2003 regarding the financial review of the contract with the National Heritage Insurance Company.

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

(Report No. 02-052, June 2002)

The Health and Human Services Commission (Commission) has not fully complied with Texas Government Code, Section 2155.144, which requires it to develop purchasing guidelines and contract management processes for health and human service agencies. The Commission has not developed a statewide risk analysis procedure, a contract management handbook, and a central contract management database, as required by Texas Government Code, Section 2155.144.

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

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

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

(Report No. 01-035, August 2001)

The Health and Human Services Commission (Commission) did not make a "good-faith effort" to comply with historically underutilized business (HUB) requirements. The Commission did not fully comply with HUB requirements in Texas Administrative Code (TAC) and Chapters 111 and 2161 of the Texas Government Code.

Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000				
Compliance Requirement				Did the Entity Make a "Good-Faith Effort"? ^b
Planning	Outreach ^a	Reporting	Subcontracting	
No agency HUB rules (Texas Government Code, Section 2161.003) No specific HUB programs mentioned in the strategic plan (Texas Government Code, Section 2161.123)	HUB Coordinator is not in a responsive role that reports, communicates, and provides information to the agency's executive director (TAC, Section 111.26)	Reported inaccurate information in reports submitted to Commission (TAC, Section 111.16) Not adjusting information reported to include HUBs certified during the fiscal year (TAC, Section 111.16) No monthly reports (TAC, Section 111.16)	No material noncompliance	No

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

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

Status of Corrective Action: In December 2002, the Commission reported that it had implemented all three of the recommendations in this audit report. This information has not been audited. However, an audit of the Commission's HUB compliance is currently underway. This audit report is expected to be released in February 2003.

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Performance Management

Performance Indicators Used by Management

The Health and Human Services Commission (Commission) identifies performance indicators in its Coordinated Strategic Plan and the Health and Human Services Enterprise Plan. For example, the Medicaid/CHIP division's fiscal year 2003 operating plan identifies performance measures related to management and services operations. The Medicaid/CHIP Division and each of its departments are accountable for the performance measures identified in the operating plan as well as for monitoring and reporting on those measures each quarter.

The Commission also contracts with an external quality review organization (EQRO) to evaluate program operations monthly, quarterly, or annually, depending on the specific program. When there are EQRO findings, the Commission develops corrective action plans. However, we noted that as of May 2002, there had not been any EQRO reviews since November 2001.

In addition, the Commission monitors and evaluates performance measures that are developed and approved jointly by the Legislative Budget Board (LBB) and the Governor's Office of Budget and Planning to determine whether the Commission has achieved its mission, goals, and objectives.

The Commission monitors and reports on key performance measures on a quarterly basis and non-key measures on an annual basis. Quarterly reports are sent to the Governor's Office, the LBB, the Speaker of the House, the Lieutenant Governor, and the chairs of the Senate Health and Human Services Committee and the House Human Services Committee.

Estimating Performance Targets

The Commission's procedures for estimating performance targets result in targets that are reasonable and appropriate. When developing measures for 2002, the Commission held open meetings and public hearings with agency staff members, providers, and other external stakeholders; conducted internal surveys on agency operations; held work sessions; developed methods for tracking measures; and reviewed definitions and terminology with the LBB.

Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results of *An Audit Report on Performance Measures at 12 State Entities–Fiscal Year 2001* (Report No. 01-036, August 2001) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2000	A	Coordinate Services	Number of Interagency Administrative Support Initiatives	Inaccurate
2000	B.1.1	State Medicaid Office	Number of Interagency Medicaid Projects	Certified
2001 Q1	B.1.1	State Medicaid Office	Number of Interagency Medicaid Projects	Certified
2000	B.1.1	State Medicaid Office	Average Monthly Cost for CHIP II Children	Not Applicable
2001 Q1	B.1.1	State Medicaid Office	Average Monthly Cost for CHIP II Children	Factors Prevented Certification
2000	B.1.1	State Medicaid Office	Average Monthly Cost for Legal Immigrant Children	Not Applicable
2001 Q1	B.1.1	State Medicaid Office	Average Monthly Cost for Legal Immigrant Children	Factors Prevented Certification
2000	B.1.2	Investigations and Enforcement	Cost per Completed Medicaid Provider Investigation	Inaccurate

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Period	Goal/Strategy	Measure	Certification Results
2001 Q1	B.1.2	Investigations and Enforcement	Cost per Completed Medicaid Provider Investigation
			Inaccurate
Total Measures Certified Without Qualification ^a			2/7 (29%)
Data Reliability Percentage (Certified and Certified with Qualification)			2/7 (29%)

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

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

Quality Assurance Team Reviews Conducted by the Legislative Budget Board and State Auditor's Office

Completed Projects

Quality Assurance Team Annual Report – January 2002

The Health and Human Services Commission (Commission) completed the following projects at the total costs noted:

- Children's Health Insurance Program Programming: \$1,066,700
- Medicaid Fraud Abuse and Detection System (MFADS) Neural Network Enhancements: \$1,910,200
- PeopleSoft™ Statewide License Acquisition: \$6,505,150
- Texas Information and Referral Internet System: \$674,000

Ongoing Projects

Quality Assurance Team Annual Report – January 2003

Health and Human Services Administrative System (PeopleSoft™) – In September 2000, the Commission began working to replace its existing administrative information systems across 12 health and human service agencies with PeopleSoft™. Cost and time line changes can be attributed to the compression of implementation schedule, the delay of a Version 8.4 upgrade, decreases in the number of contractors, and the removal of Northrop Grumman costs from project reporting. Current expenditures are \$8,229,970 for fiscal years 2002–2003 only.

Compass 21 – Compass 21 originated at the Department of Health in November 1997 to develop a new integrated Medicaid Management Information System. National Heritage Insurance Corporation (NHIC) was the primary contractor. The system became operational in August 2001 after various time line extensions and cost overruns; however, claims processing problems became apparent, compromising federal certification of the system. The federal government certified the system in June 2002, although some questions related to development costs remain. The project transferred from the Department of

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Health (TDH) to the Commission, which hired an independent verification and validation vendor to mitigate the remaining system issues with NHIC. The current end date for rework and system corrections is August 2003, at an additional cost of \$978,870. The current total project cost, including the rework, is \$77,919,276. The Quality Assurance Team (QAT) monitored the project during development at TDH until it became operational. QAT recently reinstated monitoring on Compass 21 to ensure the resolution of system problems and questioned costs.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
PeopleSoft™	Replace administrative information systems	\$65,202,085	\$41,443,436	(\$23,758,649)	08/31/07	08/31/04	(36 months)
Compass 21	Develop new integrated Medicaid Management information system.	\$64,376,040	\$77,919,276	\$13,543,236	11/30/99	8/31/03	45 months

Disaster Preparedness

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

The Commission has a Business Continuity Plan that includes an Information Technology Disaster Recovery Plan. However, because the plan was last updated in 1997, it does not address the Commission's expansion that resulted from the recent transition of the Medicaid program from the Department of Health to the Commission. In the 2004–2005 Legislative Appropriations Request, the Commission requested, as an exceptional item to address disaster recoveries, \$500,000 for each year of the biennium.

The Commission's ability to restore operations and data in the event of an emergency is partly dependent on recovery plans at the Department of Human Services. The Commission relies on the Department of Human Services to determine eligibility for Medicaid and maintain shared systems. The Commission has a copy of the Department of Human Services' plan.

Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 301,787	\$ 277,721	\$ 374,410
Out-of-State Travel	31,628	22,072	29,250
Foreign Travel	0	0	0
Other Travel Costs	(119)	-	585
Total Travel Expenditures	\$ 333,297	\$ 299,792	\$ 404,245
Limit on Travel Expenditures (Cap)	357,815	357,815	82,695 ^a
Expenditures in Excess of Cap	\$ 0	\$ 0	\$ 0

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

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