

Key Points of Report

Texas Department of Health 1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The Department is in compliance with most federal regulations related to the \$4.2 billion in federal funds expended in fiscal year 1994. We also tested accounts that were significant to the State's financial statements and determined that the accounts are materially accurate and properly reported. These accounts included \$4.1 billion of federal revenues, human services expenditures of \$6 billion, and accounts payable of \$475 million.

Key Facts And Findings

- The Department does not comply with Maternal and Child Health Services Block Grant administrative requirements. The Department lacks sufficient accounting procedures and fiscal controls to determine if they are meeting spending requirements for \$58 million in block grant funds.
- The Department has not fully addressed the computer access and disaster recovery issues cited in fiscal years 1991 and 1993. Data accuracy and disaster recovery are essential since the agency processed \$4.2 billion in federal funds during fiscal year 1994.
- The Department does not have documented procedures to consider unresolved subrecipient questioned costs for materiality and possible disclosure in the financial statements. The lack of procedures could hinder the preparation of accurate financial statements.
- On September 1, 1993, the Department became responsible for administering the Medical Assistance Program as well as other programs that were previously administered by the Texas Department of Human Services. As a result, the Department's revenues increased from \$633 million in fiscal year 1993 to \$6.6 billion in fiscal year 1994.

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Related Report

The State Auditor's Office has verified that \$1,005,089 in adjustments have been made as required by the U.S. Department of Health and Human Services' letter of resolution. These adjustments resulted from the November 1993 report on the *State Legalization Impact Assistance Grant* (CFDA 93.565) issued by the U.S. Department of Health and Human Services Office of the Inspector General. The report related to the Texas Department of Health and other state agencies.

Internal Control Issue

Internal Control Issue:

Address Automation Issues Cited in Prior Years

(Prior Audit Issue)

The Department has not fully addressed the computer access and disaster recovery issues cited in fiscal years 1991 and 1993. Programmers still have unrestricted access to some data files which could result in unauthorized modification or loss of data. This access is not monitored on a regular basis. In addition, although progress has been made towards developing a disaster recovery risk analysis, it has not been completed in accordance with the implementation schedule developed by the Department of Information Resources. These conditions expose the Department of Health to a risk of delays in processing critical information in the event of a disaster. Data accuracy and disaster recovery are essential since the Department processed \$4.2 billion in federal funds during fiscal year 1994.

Recommendation: We recommend the Department of Health restrict programmer access to data files, complete the risk analysis, and update the disaster recovery plan based on the results of the risk analysis.

Management's Response: *The Texas Department of Health is willing to accept the risk for data access by programmers. The Department has received the final risk assessment from the contractor and has initiated procurement of disaster recovery plans. The Department has already contracted for disaster recovery plans for the Bureau of Vital Statistics. Payroll and other applications will follow*

Federal Compliance Issues

Recommendations addressed in the internal controls section of this report could impact controls over federal funds, especially for the Department's most significant federal programs administered by the U.S. Department of Health and Human Services.

Federal Compliance Issue 1:

Comply With Administrative Requirements

The Department does not comply with *Maternal and Child Health Services Block Grant (CFDA 93.994)* administrative requirements. The Department lacks sufficient accounting procedures and fiscal controls to determine if they are meeting required spending thresholds.

Over \$58 million in federal *Maternal and Child Health Services Block Grant* funds were expended in fiscal year 1994. The block grant requires that a minimum of 30 percent of grant funds be used to provide services to children and a minimum of 30 percent of the funds be used to provide services to children with special health needs. Current accounting procedures do not allow the Department to determine if they are meeting these requirements.

Federal regulations set forth in *Code of Federal Regulations (CFR), Title 45, Section 96.30* require the Department to establish accounting procedures and fiscal controls in order to ensure compliance with block grant requirements.

Recommendation: We recommend that the Department comply with block grant administrative requirements. The Department should develop accounting procedures and fiscal controls to monitor spending activity and ensure block grant spending thresholds are met.

Management's Response: *We agree that the Department's accounting systems to document and monitor spending thresholds can be improved. The necessary improvements are in process and will be operational no later than September 1, 1995.*

Federal Compliance Issue 2:

Consider Impact of Unresolved Subrecipient Questioned Costs

The Department does not have documented procedures to consider unresolved subrecipient questioned costs for materiality and possible footnote disclosure in the financial statements. The Department's subrecipients had approximately \$127,000 in unresolved questioned costs at the end of fiscal year 1994. The lack of procedures could hinder the preparation of accurate financial statements.

Office of Management and Budget (OMB) Circular A-128 requires the agency to consider whether subrecipient audits necessitate adjustment of the agency's own records. Furthermore, the *State Comptroller's Reporting Requirements for Annual Financial Reports of State Agencies* guidelines for fiscal year 1994 require the Department to

compile subrecipient questioned costs and determine their impact on the financial statements. Subrecipient questioned costs determined to be material to a federal program or fund should be disclosed as a contingent liability in the Notes to the Financial Statements. Material refunds owed to the Federal Government which originate from questioned costs require an adjustment to the financial statements.

Recommendation: We recommend that the Department develop a process whereby they can evaluate the impact of unresolved subrecipient questioned costs. If material, the questioned costs should be properly presented in the financial statements.

Management's Response: *The Department will document its procedure for considering unresolved subrecipient questioned costs for materiality and possible footnote disclosure in the financial statements.*

Audit Scope

The primary focus of our audit was the Department's compliance with federal requirements. We tested the Department's three largest federal programs which are the *Medical Assistance Program*, *Special Supplemental Food Program for Women, Infants and Children*, and the *Maternal and Child Health Services Block Grant*. These programs represent \$4.1 billion, or 97 percent, of the Department's fiscal year 1994 federal expenditures of \$4.2 billion. We gained an understanding of the general control environment and tested controls related to federal programs and cash disbursements. Specific procedures were used to test compliance with program requirements.

We also tested accounts that were significant to the State's financial statements and determined that the accounts are materially accurate and properly reported. These accounts included \$4.1 billion of federal revenues, human services expenditures of \$6 billion, and accounts payable of \$475 million.