



# A Legislative Summary Document Regarding Department of Protective and Regulatory Services

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## State Auditor's Observations

The Department of Protective and Regulatory Services (Department) has numerous, detailed processes and tools for managing and reporting financial activity for Legislative Appropriations Request (LAR) purposes. These processes appear reasonable, but the results over time have not been accurate, particularly in the area of foster care. During the past three years, the Foster Care and Adoption Subsidy strategy has spent \$125 million more than was originally appropriated.

The Department attributed the 2002 Foster Care shortfall to three main factors: increased caseload, increased levels of care, and increased rates. Of these, increased caseload appears to have had the greatest impact. In the Department's 2002–2003 LAR, foster care enrollment (in full-time equivalents) was projected to be 12,899 in 2002. Instead, actual enrollment exceeded 14,000, more than 8.5 percent higher than projected. In October 2002, the Department revised its methodology for projecting foster care caseloads and increased its LAR request for the foster care strategy by approximately \$43 million for the 2004–2005 biennium. We did not assess the reasonableness of the revised methodology because the revision occurred after we completed our review work.

For fiscal year 2001, we cannot provide assurance that the grantees and contractors of the Children's Trust Fund of Texas Council spent all money from the Child Abuse and Neglect Prevention Trust Fund for intended purposes. Effective September 1, 2001, the Children's Trust Fund of Texas Council was abolished, and the Department assumed responsibility for the Child Abuse and Neglect Prevention Trust Fund. Our audit covered the period before this transition.

According to the most recent federal statewide single audit report, the Department had reportable conditions in eligibility, allowable costs, and cash management.

Prepared for the 78th Legislature  
by the State Auditor's Office

January 2003

SAO No. 03-324

*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.*

# Department of Protective and Regulatory Services

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## Financial Profile

### Revenue Projections

Given the complexity of its methods of finance, the Department of Protective and Regulatory Services (Department) does reasonably well estimating revenues.

The Department's primary revenue sources are federal funds and interfund transfers (including general revenue matches). Federal funding accounts for approximately 64 percent of total funding.

Revenue estimates are driven by historical trending and staffing models. The Foster Care strategy uses statistical time-series forecasting in its revenue estimation methodology. The methodology must consider multiple, complex factors involving several funding sources, each with various eligibility requirements. Revenue variances between the fiscal year 2002 Legislative Appropriations Request (LAR) and the fiscal year 2002 operating budget appear reasonable.

### Expenditure Projections

With the exception of foster care payments, the Department does reasonably well estimating its expenditures.

Following are the results from our review of planning and budgeting processes for the foster care program:

**Caseload projections.** Inaccurate financial projections for the foster care program are primarily the result of inaccurate projections of caseloads and changes in the levels of care to which children are assigned. In the Department's 2002–2003 LAR, foster care enrollment (in full-time equivalents) was projected to be 12,899 in 2002. Instead, enrollment exceeded 14,000, more than 8.5 percent higher than projected. The Department uses a time-series model to project caseloads. The model does not take into account a number of factors that might influence caseloads, such as economic factors. The Department has recently revised its methodology for projecting caseloads. The Department's new model cuts off older data and weights recent data more heavily. We did not assess the reasonableness of the revised methodology because it was put into effect after we completed our review work.

- **Rate setting.** Based on a rate study concluded in 2001, the Department increased rates effective fiscal year 2002. The Legislature had funded a 5 percent increase in rates for the 2002–2003 biennium, but the rates adopted by the Department exceeded what was appropriated. The Department believed it could adopt the higher rates without incurring additional costs to the State through the use of enhanced federal funding. However, in making this determination, it relied on dated caseload figures. The shortfall developed when caseloads increased.

Within every level of care, not all expenditures are allowable under the primary federal funding source for foster care (Title IV-E). Overall, the proportion of funding from Title IV-E increased from fiscal years 2001 to 2002, as the Department had said would happen when it adopted the new rate structure. However, this benefit was partly offset by increased payments to child-placing agencies for administrative costs that are reimbursed at a lower match rate.

Increased rates contributed to the program shortfall for 2002. Of the three cited causes of the shortfall, only rates are within the Department's control. In August 2002, the Department's commissioners voted to maintain the same rates for 2003.

Another aspect of expenditures related to rates is outsourcing through the use of child-placing agencies. It appears that lower care-level placements arranged by child-placing agencies may cost more per child than do similar placements arranged by the Department's caseworkers. However, it is not possible to make a direct comparison because the Department does not maintain data in a format that lends itself to cost-comparison. Instead, the Department's costs are imbedded in caseworker salaries and other expenditures for strategies, such as Child and Family Services and Purchased Services. The State Auditor's Office is currently working with the Department to further analyze this cost information.

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## Expenditures by Category

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

<b>Expenditures by Comptroller USAS Category Groups</b>			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Interfund Transfers/Other (Note A)	\$ 501,192,702	\$ 581,411,750	\$ 712,091,411
Public Assistance Payments (Note B)	393,147,598	423,738,498	487,753,489
Salaries and Wages <sup>a</sup>	211,356,690	214,882,709	236,561,868
Employee Benefits	47,407,413	49,680,839	58,905,163
Rentals and Leases	17,642,499	21,915,278	21,652,156
Other Expenditures	14,483,274	15,204,145	11,966,647
Travel	13,500,499	13,291,232	15,884,892
Professional Services and Fees (Note C)	12,626,874	20,550,221	17,332,541
Repairs and Maintenance	8,654,856	4,967,671	4,475,044
Communications and Utilities	5,611,389	6,488,984	6,451,349
Supplies and Materials	3,695,114	3,503,642	3,676,165
Printing and Reproduction	992,199	973,001	987,739
Capital Outlay	760,888	957,935	1,232,085
Claims and Judgments	268,858	7,685	17,400
Interest/Prompt Payment Penalties	81,468	39,466	20,421
<b>Total Expenditures</b>	<b>\$ 1,231,422,321</b>	<b>\$ 1,357,613,056</b>	<b>\$ 1,579,008,370</b>
<sup>a</sup> 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.			

Note A – Amounts reflect collection of federal funds in one fund that are subsequently transferred to Fund 001.

Note B – The increases in public assistance payments from appropriation year 2000 to appropriation year 2002 relate primarily to the Department's Foster Care and Adoption Strategy and were caused by increases in caseloads and levels of care as well as rate increases.

Note C – The appropriation year 2001 increase in professional services and fees was related to maintaining and enhancing automated systems.

# Department of Protective and Regulatory Services

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## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### **An Audit Report on Funds Collected as Court Costs**

(Report No. 02-049, May 2002)

*Note: Effective September 1, 2001, the Children's Trust Fund of Texas Council was abolished, and the Department of Protective and Regulatory Services (Department) assumed responsibility of the Child Abuse and Neglect Prevention Trust Fund. This audit covered the period before this transition.*

#### **Status of Audit Recommendations as of November 30, 2002 (unaudited)**

The Department has reported the following:

Implemented	1
<b>Total recommendations</b>	<b>1</b>

For fiscal year 2001, we cannot provide assurance that the grantees and contractors of the Children's Trust Fund of Texas Council (Agency) spent all money from the Child Abuse and Neglect Prevention Trust Fund for intended purposes. The Agency did not require grantees and contractors to submit bills or other documentation that would support their requests for funds in addition to the monthly expenditure report. The Agency also did not monitor its contracts and grants. Consequently, we cannot determine how funds were being spent.

In addition to not requiring additional support (such as bills) for the monthly expenditure report and not performing monitoring, the Agency also had contract management issues. These issues increase the risk that fund money may not be spent for intended purposes. For 79 percent (53 of 67) of contracts and grants, contractors or grantees did not comply with all of the contractual or statutory requirements. During fiscal year 2001, the Agency issued 45 grants, 6 service contracts, and 16 letters of agreement totaling \$1.7 million. The money for these grants, contracts, and agreements comes from the Child Abuse and Neglect Prevention Trust Fund. Grantees use the funds for programs that prevent child abuse and neglect.

### **State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001<sup>1</sup>**

(February 2002)

#### **Eligibility**

The Department of Protective and Regulatory Services (Department) did not ensure that one of the 30 sampled recipients was eligible for Temporary Assistance for Needy Families (TANF). The questioned cost was \$40,736.19.

#### **Allowable Costs**

In our review of the Department's procurement, suspension, and debarment process relating to TANF, we found one contract in a sample of 30 that was approved, paid, and allocated to TANF funds for parking lot repairs for a Texas county. These costs are not reasonable as a direct cost of the program because they are not specified within the allowable types of assistance and type of services stated in the State Plan. A portion of this invoice also was allocated to the following federal grants: Child Welfare Services, Foster Care – Title IV-E, Adoption Assistance and Medical Assistance Program (Medicaid: Title XIX). The questioned cost was \$24,500.00.

#### **Cash Management**

The Department does not have the controls to ensure that funding from federal programs will be paid out within three days after the receipt of federal funds.

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

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.

<sup>1</sup> Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see [www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345](http://www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345).

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

(Report No. 01-035, August 2001)

Self-reported information received from the Department of Protective and Regulatory Services (Department) indicates that the Department did not comply with certain provisions of the Historically Underutilized Business (HUB) regulations identified in the Texas Administrative Code (TAC) and Chapters 111 and 2161 of the Texas Government Code in fiscal year 2000. However, we determined that the Department made a "good-faith effort" to comply with TAC and the Texas Government Code.

<b>Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000</b>				
<b>Compliance Requirement</b>				<b>Did the Entity Make a "Good-Faith Effort"?<sup>b</sup></b>
<b>Planning</b>	<b>Outreach<sup>a</sup></b>	<b>Reporting</b>	<b>Subcontracting</b>	
No specific HUB programs mentioned in the strategic plan (Texas Government Code, Section 2161.123)	Did not sponsor HUB forums (TAC, Section 111.27)	No material noncompliance	No material noncompliance	Yes

<sup>a</sup> The Department of Protective and Regulatory Services indicated that a mentor protégé relationship exists at the agency, but no program had been developed.

<sup>b</sup> 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 Department reported that it had implemented corrective action on all three areas of noncompliance. This information has not been audited. However, an audit of the Department's HUB compliance is currently underway. A report from that audit is expected to be released in February 2003.

## **Performance Management**

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### **Performance Indicators Used by Management**

According to the Executive Support Staff Coordinator, the Department of Protective and Regulatory Services' (Department) Board, along with the Executive Director and other key members of management, evaluate performance measures to ensure that the Department is achieving its mission. Department managers are responsible for reviewing their respective performance measures for an indication as to the status of their performance and make adjustments as needed for the attainment of their goals.

Some performance measures are produced by Forecasting and Program Statistics (F&PS). Some are produced by other departments, forwarded to F&PS for review, and input into the Automated Budget and Evaluation System for Texas (ABEST). The F&PS quality assurance section is responsible for ensuring that the performance measures are calculated accurately. It conducts a standard quality assurance check every quarter and samples and tests measures once a year. If the quality assurance review finds an error in the performance measure calculation, a correction sheet is sent out to a performance measure analyst for correction. Performance measures also may be subject to review by the Internal Audit Department.

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## 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	Protective Services	Percent of CYD Youth With Improved TAAS Scores	Inaccurate
2000	A	Protective Services	Percent of Validated Occurrences Where Children are Placed at Serious Risk	Factors Prevented Certification
2000	A.1.2	Child and Family Services	Number of Completed CPS Investigations	Certified
2001 Q1	A.1.2	Child and Family Services	Number of Completed CPS Investigations	Certified
2000	A.1.2	Child and Family Services	Average Weighted CPS Caseload per Worker	Inaccurate
2001 Q1	A.1.2	Child and Family Services	Average Weighted CPS Caseload per Worker	Certified with Qualification
2000	A.1.3	CPS Purchased Services	Number of Days of Child Day Care Paid per Month	Certified with Qualification
2001 Q1	A.1.3	CPS Purchased Services	Number of Days of Child Day Care Paid per Month	Certified with Qualification
2000	A.1.3	CPS Purchased Services	Average Cost per Child for Purchased Services	Certified with Qualification
2001 Q1	A.1.3	CPS Purchased Services	Average Cost per Child for Purchased Services	Certified with Qualification
2000	A.1.5	Foster Care/Adoption Payments	Average Number of Days per Month of Foster Care for All Levels of Care	Certified
2001 Q1	A.1.5	Foster Care/Adoption Payments	Average Number of Days per Month of Foster Care for All Levels of Care	Certified
2000	A.1.5	Foster Care/Adoption Payments	Average Monthly Payment per Child (FTE) in Paid Foster Care	Certified
2001 Q1	A.1.5	Foster Care/Adoption Payments	Average Monthly Payment per Child (FTE) in Paid Foster Care	Certified
2000	A.2.1	Adult Protective Services	Average Monthly Cost per APS Investigation	Certified
2001 Q1	A.2.1	Adult Protective Services	Average Monthly Cost per APS Investigation	Certified with Qualification
2000	A.3.1	Child Care Regulation	Average Cost per Inspection	Factors Prevented Certification
2001 Q1	A.3.1	Child Care Regulation	Average Cost per Inspection	Factors Prevented Certification
<b>Total Measures Certified Without Qualification<sup>a</sup></b>				<b>7/18 (39%)</b>
<b>Data Reliability Percentage (Certified and Certified with Qualification)</b>				<b>13/18 (72%)</b>
<sup>a</sup> 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)].				

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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 Department of Protective and Regulatory Services (Department) completed the following projects at the total costs noted:

- Automate Child Care Licensing: \$8,978,779
- Enhance Automation for Child Protective Services: \$3,142,268
- Upgrade Infrastructure: \$4,928,052

### Canceled Projects

*Quality Assurance Team Annual Report – January 2003*

The Department canceled the Enhance Child and Adult Protective Services (CAPS) Automation project at a total cost of \$0.

### Canceled Projects

*Quality Assurance Team Annual Report – January 2002*

The Department canceled the Consolidate Local Office Operations project at a total cost of \$0.

The Department canceled the Promote a Tenured Workforce to Increase Experience project at a total cost of \$0.

### Ongoing Projects

*Quality Assurance Team Annual Report – January 2003*

CAPS Web Enablement (CAPS) — The Department began working on the Web-enablement of the Child and Adult Protective Services system in September 2001. This project is 40 percent complete. An adjustment was made to a technical assessment, which had been overlooked in the initial reported project cost. Current expenditures are \$2,591,273.

Maintain and Enhance Child Care Licensing Automated Support System (CLASS) — In September 2001, the Department began a project to provide additional functionality to the CLASS Web-based application. This project is 50 percent complete. Current expenditures are \$2,534,029.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
CAPS	Web-enablement of CAPS	\$5,662,128	\$9,928,672	\$4,266,544	08/31/03	08/31/03	None
CLASS	Enhance CLASS application	\$6,190,044	\$6,190,044	\$0	08/31/03	08/31/03	None

# Department of Protective and Regulatory Services

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## Disaster Preparedness

We gathered information from the Department of Protective and Regulatory Services (Department) 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 Department's plans. Our objective was only to provide the information reported by the Department.

The Department maintains a Business Continuity Plan (BCP) and an Information Technology Disaster Recovery Plan (IT Plan) as the source documents for its disaster recovery efforts. The Department initially developed the BCP to prepare for Y2K. The BCP includes 14 binders and encompasses 11 regional offices, the state office, testing results, and planning. Each regional office maintains its own BCP and has its own processes in place for disaster recovery.

The Department's IT Plan, which was revised on August 15, 2002, documents the strategies, personnel, procedures, and resources the Department uses to respond to any short-term or long-term interruption or incident that affects computer operations. The intention of the IT Plan is to assist in the definition and understanding of responsibilities and procedures related to a business disruption caused by a physically disastrous event.

## Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Protective and Regulatory Services between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

## Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 13,186,434	\$ 12,943,823	\$ 15,588,654
Out-of-State Travel	322,119	339,337	290,769
Foreign Travel	7,247	8,068	1,337
Other Travel Costs	(15,300)	4	4,133
<b>Total Travel Expenditures</b>	<b>\$ 13,500,499</b>	<b>\$ 13,291,232</b>	<b>\$ 15,884,892</b>
Limit on Travel Expenditures (Cap)	12,585,370	12,585,370	329,365 <sup>a</sup>
<b>Expenditures in Excess of Cap</b>	<b>\$ 915,129<sup>b</sup></b>	<b>\$ 705,862<sup>b</sup></b>	<b>\$ 0</b>

<sup>a</sup> 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 Department and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

<sup>b</sup> The excess expenditures may be reduced or eliminated because certain travel is exempt from the travel cap. General Appropriations Act, 77th Legislature, II-90, Rider 23, exempted travel directly associated with child abuse and neglect investigations. The Department reported expending \$1,882,858 for this type of exempt travel in 2000 and reported \$1,686,411 for 2001.

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.