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State Auditor

May 17, 2004

Members of the Legislative Audit Committee:

Changes to the Texas Integrated Eligibility Redesign System (TIERS) prevent us from completing our audit objectives as established by our 2003 audit plan at this time. However, our preliminary work identified potential issues and risks in all phases of contract administration: contractor selection, contract establishment, payment/reimbursement, and contractor oversight. (Our discussion of these issues begins on the next page.)

On September 1, 2003, responsibility for TIERS began transferring from the Department of Human Services (DHS) to the Health and Human Services Commission (HHSC) as a result of the consolidation of health and human services agencies. As part of this transition, HHSC reports that it is re-evaluating TIERS's core functions and is terminating or extending related contracts. At this time, we cannot determine these changes' effect on TIERS's budget, time line, and functionality, which are the project elements our audit objectives were to address.

According to DHS, \$210 million was spent on TIERS between September 1999 and February 2004. DHS estimates that the amount expended since September 1999 will reach \$296 million by October 2005, which makes TIERS Texas's largest information technology project currently in development. Since 1994, the system for integrated eligibility has undergone four major changes, including moving from agency to agency and changing the service delivery method from an in-person approach to the use of call centers. (See "History" on page 2 of the attachment).

According to DHS, TIERS is scheduled to be completed in October 2005. It is currently being piloted for the second time at DHS offices in Austin and San Marcos. The current pilot reportedly merged functions of TIERS and included legislative updates and system enhancements to address interface issues identified in the first pilot.

The current pilot does not address the use of call centers. House Bill 2292 (78th Legislature, Regular Session) directed HHSC to evaluate whether it would be cost effective to use call centers to determine clients' eligibility. HHSC recently concluded that the use of call centers would be "financially and operationally feasible." HHSC indicated that its next step would be to determine the cost effectiveness of outsourcing the call center function.

Although we were unable to complete our audit, we identified several potential issues related to contract administration. The information we are providing, which has not been subjected to all the tests and verifications required of an audit, focuses on two TIERS contracts for critical positions: project manager and implementation director. While the services of these two individuals have been terminated, we are offering these issues for consideration as HHSC continues its consolidation efforts. Overall, good contract administration is important to the consolidation of the health and human services agencies. It is also important for ensuring that the TIERS project is completed on time, within budget, and with the intended functionality.

Background Information

TIERS's "primary goals include the replacement of several outdated automation systems associated with eligibility determination and enrollment functions for multiple programs . . . with one state-of-the-art integrated system that will improve accuracy and enhance the delivery of services to millions of Texans" (*DHS Self-Evaluation Report to the Sunset Advisory Commission*, September 2001).

The implementation of TIERS involves more than 50 public assistance programs, such as Medicaid and Temporary Assistance for Needy Families, which are administered by several agencies (see attachment).

House Bill 2292 (78th Legislature, Regular Session), moved the administrative functions of all health and human service agencies to HHSC effective September 1, 2003.

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Contractor Selection

We identified the following potential issues that indicate that DHS's process for awarding two contracts may have made the selected candidates appear to have an advantage over the others. The project manager, who was paid \$31,000 per month, was responsible for coordinating the development of the system. The implementation director, who was paid \$29,000 per month, was responsible for overseeing the replacement of the old system with TIERS.

Experience Requirements. DHS included specific requirements for technical experience in its request for offers (RFO) that may not have been necessary for TIERS based on our assessment of the functional software requirements for the software development RFO. For example, in the project manager RFO, DHS required "experience in electronic funds movement and Electronic Data Interchange financial transactions." TIERS does not involve either of these types of financial transactions, but the candidate selected for the project management contract had experience in these areas as a result of his previous employment with DHS.

Other experience requirements were repetitive. Repetitive requirements could make it appear that candidates without related experience are deficient in several areas, while those with related experience could appear to meet several requirements. The selected candidates scored high in these experience requirements.

Evaluation Process. The evaluators had no definitions for what constituted qualifying experience, which could undermine the consistency of the evaluation process. For example, one of the RFOs listed "diverse organizational experience" as a required experience, but the RFO does not define "organizational experience." One person might define "organizational experience" as a candidate's organizational skills, while another might interpret it as a candidate's experience working with several types of organizations. In addition, the evaluators considered requirements that were not specifically designated in the RFO. Consequently, the candidates may not have known to directly address these requirements.

We also noted the following potential issues, which could have benefited the selected candidates:

- The evaluation process did not mitigate potential bias on the part of the evaluators. The evaluators did not work independently, and the evaluation process did not keep them from knowing the names of the candidates they were evaluating. Also, the evaluators knew the selected candidates from their previous employment at DHS.
- The candidate chosen to be implementation director directly addressed only 10 experience requirements in his offer; however, he was given maximum points for 13 experience requirements.

Non-Competitive Selection of Support Personnel. DHS and the project manager amended their contract several times to add a total of four support personnel at a monthly cost of \$60,500. These changes raise some potential issues:

- **Other candidates may not have been competing against the selected contractor's true costs.** The first amendment was executed approximately two months after the contract was signed. It added one person for a cost of \$15,500 per month. Increasing the contract price so quickly and by so much creates a risk that the other candidates were not competing against the selected contractor's true costs. In the evaluation process for the project management contract, price accounted for 50 percent of the scoring evaluation; the experience requirements accounted for the remaining 50 percent. During the interview process, the selected candidate told DHS that he might need additional resources.

- **The support personnel may not be the best value for TIERS.** By adding the support staff to the contract without a competitive process, it appears that DHS negated the competitive nature of the RFO. While the approach that DHS and the project manager used resulted in personnel beginning work more quickly, it creates a risk that the best qualified personnel were not obtained at the best price.

Contract Establishment

The contracts awarded for project management and implementation director services and subsequent changes to them did not ensure that DHS could monitor these vendors' performance and hold them accountable. Specifically:

- The contracts did not contain performance measures or evaluation methodologies. DHS had an opportunity to add performance measures to the project management contract each time it amended the contract to add support staff; however, it did not do so. Furthermore, the amendments for the support personnel did not define what these personnel were to do. As of March 2004, the project manager was no longer providing services, but the four support personnel were still working under this contract without a defined scope of work and without performance measures.

Without performance measures or a defined scope of work, DHS has no way to hold the contractors accountable for their performance. In addition, the Texas Government Code, Section 2261.101 (b), requires state contracts to contain performance measures, and the General Appropriations Act (77th Legislature, Rider 43) specifically requires all TIERS contracts to have them.

- We also noted that changes to these two contracts lacked vendor signatures. In addition, there is no space available on the forms for the vendors to sign. Without the vendors' signatures, DHS has no assurance that the vendors are aware of the contractual changes and that services will be delivered as amended.

Payment/Reimbursement

There is a risk that DHS's Management Information Services division (MIS) may have charged TIERS an incorrect amount for temporary contracted services that MIS provided. From September 1999 to July 2003, MIS charged \$24 million to TIERS. TIERS uses MIS employees, and MIS supplements its workforce with outside contractors to cover for the employees who are working on TIERS. MIS charged TIERS for an estimated number of hours, but MIS could not identify which of its employees or contractors worked the hours charged to the TIERS project. Without this information, project management does not know if the estimated hours are reasonable. It also keeps project management from knowing the actual cost of the project.

Contractor Oversight

TIERS project management appears to not have complete, accurate, and up-to-date information needed to monitor the various TIERS contracts. Specifically:

- Project management could not provide a complete and accurate list of all the contracts related to the TIERS project. Without knowing the complete population of contracts, project management cannot ensure that it adequately oversees its contracts.

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- It took several weeks for TIERS project management to provide us with an up-to-date list of deliverables associated with its primary contract, which is for software development and totals \$107 million. Without timely information about the status of deliverables, TIERS project management risks not knowing which deliverables it has yet to receive, which are ready for its review, and which it has accepted and paid for.

As we plan future audit work, we will consider auditing TIERS if our risk assessment process determines that it poses a risk to the State. If you have questions, please contact Sandra Vice, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Chair and Members, Texas Board of Human Services
Mr. Jim Hine, Commissioner, Department of Human Services
Mr. Albert Hawkins, Executive Commissioner, Health and Human Services Commission

Additional TIERS Information

Programs

In September 2001, the Department of Human Services (DHS) reported that the scope of the Texas Integrated Eligibility Redesign System (TIERS) included the programs listed in Table 1.

Table 1

Programs in TIERS's Scope	
Food Stamps	Temporary Assistance for Needy Families (TANF) ¹
Refugee Cash Assistance	TANF Child Care
Refugee Medical Assistance	TANF Choices
Medical Transportation	Family Medical Assistance ¹
Texas Health Steps	Long-Term Community Care ¹
Food Stamp Employments and Training (E&T)	Medicaid Eligibility ¹
Food Stamp E&T Child Care	
¹ These four programs are made up of several subprograms, bringing eligibility determination for more than 50 programs under the scope of TIERS.	

Source: *DHS Self-Evaluation Report to the Sunset Advisory Commission*, September 2001

Trading Partner Agencies

According to October 2003 contract documents, TIERS provides data to more than 20 state agencies. These agencies will use TIERS data to determine eligibility, or TIERS will share data with one of their existing systems. To date, the following agencies have been involved with TIERS development and data testing:

- Department of Mental Health and Mental Retardation
- Office of the Attorney General
- Texas Workforce Commission
- Department of Health
- Health and Human Services Commission (HHSC)

Funding Sources

Federal:

- U.S. Department of Agriculture – Food and Nutrition Services (FNS)
- U.S. Department of Health and Human Services – Administration for Children and Families (ACF) and Centers for Medicare and Medicaid Services (CMS)

State:

- General Revenue
- Revenue bonds issued by the Texas Public Finance Authority
- Telecommunications funds for the 2004–2005 biennium

Legislation Related to TIERS

- House Bill 1863 (1995)
- House Bill 2777 (1997)
- Rider 36, General Appropriations Act, 76th Legislature (1999)

History

Since 1994, TIERS has undergone several major changes, including moving from agency to agency and changing the service delivery method repeatedly. Specifically:

- In 1994, DHS started a project, known as the Eligibility Determination Strategic Initiative, to upgrade its main eligibility systems, such as the Generic Worksheet and the System for Application, Verification, Eligibility, Referrals, and Reporting (SAVERR).
- In 1995, responsibility for the project was moved to HHSC, and the project was expanded when HHSC was directed to develop an integrated eligibility determination system for health and human service programs and to determine the cost-effectiveness of outsourcing eligibility determination. At this time, the project was called Texas Integrated Enrollment and Services (TIES). The federal government, which provides part of the system's funding, later rejected the outsourcing plan.
- In 1997, HHSC was directed to expand TIES to include more programs and agencies and to work with DHS, the Department of Health, the Texas Workforce Commission, and other affected agencies to develop the system. HHSC's implementation plan changed TIES to a call-center system that would be used to determine prospective clients' eligibility over the phone.
- In 1999, the project, which became known as TIERS, was moved to DHS. DHS changed the approach from a call-center approach to an in-person eligibility determination system.
- In 2003, as part of the consolidation of health and human services agencies, responsibility for TIERS was moved to HHSC. House Bill 2292 directs HHSC to determine whether it would be cost-effective to use call centers and outsourcing to determine clients' eligibility.