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An Audit Report on

**Early Childhood Intervention
Services at the Department of
Assistive and Rehabilitative
Services**

August 2007
Report No. 07-043



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Overall Conclusion

The Department of Assistive and Rehabilitative Services (Department) has a sufficient process to identify Early Childhood Intervention (ECI) providers that are at risk of noncompliance with program requirements. In addition, the Department's fiscal oversight processes are sufficient to ensure ECI funds are being spent in compliance with contracts and federal and state regulations.

The Department could increase the fiscal accountability of ECI providers by obtaining and reviewing supporting documentation for ECI expenditures, conducting more regular on-site fiscal monitoring at all ECI providers, and defining when to impose sanctions on ECI providers that do not comply with the terms and conditions of the ECI contract.

The Department has appropriate processes for reviewing potential ECI providers' funding applications and allocating ECI funding. While these processes are appropriate, the Department does not promote competition for available funding, and it does not consistently ensure that potential ECI providers submit all necessary and required information to support their budgets. This reduces the Department's ability to determine whether it obtains best value to maximize the use of funds.

To assess the Department's monitoring of ECI providers, auditors also conducted on-site audits at two ECI providers: the Easter Seals Rehabilitation Center ECI in San Antonio and Any Baby Can Child and Family Resource Center (Any Baby Can) in Austin. At Easter Seals, auditors identified \$337,750 in unauthorized expenditures for fiscal year 2006. The Department had not conducted an on-site fiscal monitoring visit at Easter Seals since 1999. Auditors separately communicated other issues identified at Easter Seals directly

Background Information

Early Childhood Intervention (ECI) services are funded through state General Revenue, U.S. Individuals with Disabilities Education Act federal grants, and local funds. According to the Department, it spent \$136,081,849 for ECI services in fiscal year 2006 and provided services to 45,901 children through 60 ECI providers. The Department contracted with 58 ECI providers in fiscal year 2007. ECI providers include a variety of local agencies and organizations across the state, including mental health and mental retardation authorities, school districts or regional educational service centers, and nonprofit organizations.

ECI providers evaluate and assess children from birth to age three who may have disabilities or delays to determine the children's eligibility and need for services. These services include:

- Family education and support.
- Service coordination.
- Developmental services.
- Audiology and vision services.
- Nursing and nutrition services.
- Physical, occupational, and speech-language therapies.

No child is to be turned away because of a family's inability to pay.

Source: The Department of Assistive and Rehabilitative Services.

to Easter Seals management and the members of its board (see Appendix 5 for a copy of the letter sent to Easter Seals and Easter Seals' management responses). At Any Baby Can, auditors identified \$3,697 in unauthorized expenditures for fiscal year 2006. This ECI provider's last on-site fiscal monitoring visit by the Department was in 2005.

Summary of Management's Response

Management agrees with recommendations made in this report.

Summary of Information Technology Review

Auditors assessed controls associated with the Department's Texas Kids Intervention Data System (TKIDS) and the processes that ECI providers follow when using TKIDS. The Department has adequate controls to protect information in TKIDS. Access to TKIDS is properly controlled, and TKIDS has audit trails to ensure the integrity of the data. Some TKIDS controls can be strengthened to further ensure the accuracy and completeness of data, and auditors communicated those issues to the Department.

Auditors also identified weaknesses in the other automated systems at the two ECI providers visited. These weaknesses were in the areas of access controls and policies and procedures. To minimize the risks associated with security breaches, auditors communicated details regarding these issues directly to the ECI providers.

Summary of Objective, Scope, and Methodology

The objective of this audit was to determine whether the Department is compensating ECI providers in accordance with contracts and federal and state laws.

The scope of this audit covered September 2004 through May 2007.

The audit methodology consisted of visiting two ECI providers; conducting staff interviews; analyzing data; reviewing policies and procedures; testing client files; and reviewing contracts, financial reports, and ECI funding applications.

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Detailed Results

Chapter 1

The Department Has Developed Sufficient Processes to Conduct Fiscal Oversight of Early Childhood Intervention Providers

The Department of Assistive and Rehabilitative Services (Department) identifies Early Childhood Intervention (ECI) providers that are at risk of noncompliance, and its fiscal oversight processes are sufficient to ensure funds are being spent in compliance with contracts and federal and state laws. But the Department could increase the fiscal accountability of ECI providers by obtaining and reviewing supporting documentation for ECI expenditures, conducting on-site fiscal monitoring visits regularly at all providers, and defining when sanctions should be imposed on ECI providers.

Chapter 1-A

The Department Has Developed a Sufficient Risk Assessment Process to Identify ECI Providers at Risk of Noncompliance

The Department has developed a risk assessment process that sufficiently identifies ECI providers that should have an increased level of fiscal monitoring. The Department's risk assessment process measures nine characteristics of the ECI providers to determine the ECI providers' likelihood of compliance with required Department policies. This risk assessment is performed annually and may be updated if an ECI provider's risk conditions change. Also, the Department reviews and updates its risk assessment procedures on a regular basis.

While the overall risk assessment process is sufficient to identify ECI providers at risk of noncompliance, auditors identified one area where the Department could enhance its risk assessment process:

- The Office of Inspector General at the Health and Human Services Commission reviews ECI providers' annual Single Audit reports¹, but in certain circumstances the Department does not adequately consider the results of these reviews in its risk assessment of ECI providers. Specifically, the Office of Inspector General can determine that an ECI provider is at high risk of financial instability based on that provider's performance in all of the programs it offers (not just ECI). However, if the Single Audit report did not identify financial issues that were directly associated with the ECI program, the Department may not consider that same provider to be at high-risk of financial instability. Because a

¹ A Single Audit includes (1) an audit of a provider's financial statements and (2) an audit of the provider's compliance with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

provider's overall financial instability can have a direct impact on its ECI program, the Department also should consider the provider to be at high risk.

In fiscal year 2006, the Office of Inspector General considered 14 ECI providers to be at high risk of financial instability, but the Department classified only one of these providers to be at high risk.

Recommendation

The Department's risk assessment process should more closely follow the rankings in the Single Audit results provided by the Office of Inspector General.

Management's Response

The Department of Assistance and Rehabilitative Services (DARS) agrees with this recommendation. DARS has revised the risk assessment process for fiscal year 2008 for ECI contracts to more closely follow the rankings in the Single Audit results provided by the Office of Inspector General. The overall and financial viability risk rankings are incorporated into the Single Audit issues risk factor.

Target Implementation/Completion Date: *This has been implemented in the fiscal year 2008 risk assessment.*

Responsible Management: *Director of Contract Oversight and Support.*

Chapter 1-B

The Department's Desk Reviews of Quarterly Financial Status Reports Could be Enhanced by Obtaining and Reviewing Supporting Documentation for ECI Expenditures

The Department has conducted on-site fiscal monitoring visits of 46 of 58 (79.3 percent) ECI providers since May 2002. As of May 2007, the Department had not conducted on-site fiscal monitoring visits of the remaining 12 in more than five years, including five ECI providers that had not been visited since 1997. At the time of this audit, the Department had one fiscal monitor. According to Department staff, the Department was in the process of hiring an additional part-time policy and procedures technician employee who will assist with some fiscal monitoring duties.

Because the Department has not been able to regularly conduct on-site fiscal monitoring visits at all ECI providers, obtaining and reviewing supporting information for ECI expenditures would allow the Department to strengthen

its monitoring without making on-site visits. The Department could obtain this supporting documentation when it conducts quarterly reviews of ECI providers' Financial Status Reports. During its quarterly reviews of Financial Status Reports, the Department verifies that the expenditures reported by the providers do not exceed the approved contract budget amount and that the report is signed, mathematically correct, and submitted on time. Currently, however, the reviews do not determine the appropriateness of reported expenditures because ECI providers are not required to submit supporting documentation with their quarterly reports.

Obtaining and reviewing additional documentation during the reviews of Financial Status Reports would also enhance the Department's risk assessment process, which relies in part on the results of these reviews.

Recommendation

The Department should consider requiring ECI providers to submit documentation to support expenditures reported in their Financial Status Reports.

Management's Response

DARS agrees with this recommendation. The department will evaluate the type of documentation that will be most beneficial to request in support of the Financial Status Reports. This recommendation will be considered in combination with the recommendation to conduct more frequent on-site financial reviews to determine what types of support documentation should be reviewed between on-site visits.

Target Implementation/Completion Date: *The new procedures will be implemented in fiscal year 2008 and completed by the beginning of fiscal year 2009 (September 2008).*

Responsible Management: *DARS ECI Consumer Services Director.*

Chapter 1-C

The Department's On-site Fiscal Monitoring Visits at ECI Providers Are Sufficient to Ensure Providers' Expenditures Comply with State and Federal Requirements, But the Department Should Ensure it Regularly Conducts On-site Fiscal Monitoring Visits at All ECI Providers

The Department has developed and uses adequate monitoring checklists for its on-site fiscal monitoring visits of ECI providers. Auditor reviews of two ECI providers—Easter Seals Rehabilitation Center ECI in San Antonio and Any

Baby Can Child and Family Resource Center (Any Baby Can) in Austin — identified issues that were similar to issues identified by the Department during its on-site fiscal monitoring visits of other ECI providers. This indicates that the Department’s fiscal monitoring instruments are adequate, when properly implemented, to ensure ECI providers’ compliance with contract requirements and state and federal regulations.

The Department should conduct on-site fiscal monitoring visits regularly at all ECI providers.

As discussed in Chapter 1-B, the Department has not been able to conduct on-site fiscal monitoring visits of all ECI providers, and some providers have not been visited in more than five years. For example, the last on-site fiscal monitoring visit at one provider—Easter Seals Rehabilitation Center ECI — was conducted in January 1999. During auditors’ visit to this provider, auditors identified issues of noncompliance including \$337,750 in unauthorized expenditures for fiscal year 2006. These issues may also be present at other ECI providers at which the Department has not conducted regular on-site fiscal monitoring visits.

Examples of the issues auditors identified at Easter Seals Rehabilitation Center ECI included the following:

- One employee has full access and control over the Easter Seals Rehabilitation Center ECI’s accounting system and accounting functions, including authorizing transactions; posting to the general ledger; maintaining custody, printing, and signing of checks; and reconciling the general ledger to bank statements.
- Auditors identified a total of \$337,750 in expenditures not authorized for fiscal year 2006 in its contract with the Department. Specifically:
 - ♦ Errors in calculations by staff caused Easter Seals to overcharge the Department \$127,633 for salaries and fringe benefits.
 - ♦ Easter Seals Rehabilitation Center ECI made a one-time contribution to the employees’ 403B retirement plan in the amount of \$120,590 that was not authorized in its contract with the Department. Easter Seals management stated that verbal approval for this expenditure was obtained from the Department, but there is no documentation to support this action.
 - ♦ Easter Seals Rehabilitation Center ECI charged the Department \$63,007 in salaries for the purchase of accrued leave (holidays, annual, and compensatory time) that employees chose to sell (instead of taking the time). This expenditure was not authorized in Easter Seals’ contract with the Department. Additionally, Easter Seals does not use

time sheets, which would allow management to accurately track the hours worked and leave taken by its administrative personnel.

- ♦ Other unauthorized expenditures totaled \$26,520 for items such as security services and fund-raising.
- The same certified public accounting firm has been providing accounting services to Easter Seals since 1964. Department policy² requires ECI providers to solicit informal proposals for contracts expected to exceed \$5,000 and written proposals for contracts expected to exceed \$10,000 annually as of fiscal year 2001. Easter Seals Rehabilitation Center ECI management stated it has not solicited formal written proposals for any accounting services other than an informal proposal for the Single Audit for 2005. In fiscal year 2006, Easter Seals paid its certified public accounting firm \$7,000 for the Single Audit and \$10,188 for other accounting services.

Auditors also visited another ECI provider—Any Baby Can—whose last on-site fiscal monitoring visit by the Department was in 2005. Auditors were able to verify that information this ECI provider submitted to the Department was adequately supported by its financial records. However, auditors identified \$3,697 in fiscal year 2006 expenditures that were not supported or not authorized in its contract with the Department, as well as another area for improvement. Specifically:

- The provider made the following expenditures not authorized by its contract: \$1,410 in depreciation expense, \$1,384 in interest expense, and \$903 in other expenses.
- The provider's client-related service subcontracts, which account for approximately \$57,000 in outsourced ECI services, did not include a clause requiring the subcontractor to conduct criminal background checks of employees of subcontractors. This clause is required by Department rule.³

Recommendations

The Department should:

- Continue to strengthen its efforts to perform on-site fiscal monitoring visits at ECI providers on a more regular basis.
- Consider requiring ECI providers to solicit proposals for accounting and Single Audit services at least every five years. Also, the Department

² Early Childhood Intervention Policy Manual, Chapter 1.6.11

³ Title 40, Texas Administrative Code, Chapter 108.

should consider requiring ECI providers to contract with different accounting firms for Single Audit and other accounting services.

- Require ECI providers' subcontracts to include a clause to conduct criminal background checks of the subcontractors' employees.

Management's Response

Continue to strengthen its efforts to perform on-site fiscal monitoring visits at ECI providers on a more regular basis.

DARS agrees with this recommendation. DARS will ensure ECI providers receive financial monitoring on a more regular basis. On-site visits are planned in fiscal year 2008 for the providers that have not had an on-site visit in over five years. Financial on-site visits will be conducted at no less than a five year cycle in subsequent years.

Target Implementation/Completion Date: *In FY08 visits will be conducted for providers that have not had an on-site visit in over five years.*

Responsible Management: *Director of Contract Oversight and Support.*

DARS also agrees with the recommendation that it consider requiring ECI providers to solicit proposals for accounting and Single Audit services at least every five years. Additionally, the Department will evaluate the practice of allowing accounting firms for Single Audit to perform other accounting services for the same agency and make changes to policy as necessary.

Target Implementation/Completion Date: *The policy will be revised in fiscal year 2008 (by August 2008) to include required changes.*

Responsible Management: *DARS ECI Assistant Commissioner.*

Require ECI providers' subcontracts to include a clause to conduct criminal background checks of the subcontractors' employees.

DARS agrees with this recommendation. DARS ECI policy currently requires that a pre-employment criminal history record check be conducted on all applicants for employment and contractors per ECI policy. The policy in regard to client/consumer-related contract services will be revised to include a requirement that sub-contractors complete criminal background checks on employees.

Target Implementation/Completion Date: *The policy will be revised in fiscal year 2008 to include this requirement.*

Responsible Management: *DARS ECI Assistant Commissioner.*

The Department Should Specify the Conditions in Which it Will Impose Sanctions on ECI Providers

The Department has a policy that allows it to impose sanctions on ECI providers that do not comply with the terms and conditions of the ECI contract. However, the Department's policy does not specify the conditions in which it will impose sanctions for instances of noncompliance. This increases the risk that the Department will not impose sanctions in a consistent manner across all providers.

The primary type of noncompliance that has resulted in sanctions has been delinquent fiscal or program reporting. This noncompliance results in the Department withholding or reducing ECI provider payments until the reporting requirements are met. The Department does not currently issue fines or penalties for noncompliance with terms of the contract.

Recommendation

The Department should amend its policy to specify the conditions in which it will impose sanctions on ECI providers for noncompliance.

Management's Response

DARS agrees with this recommendation. There are agency rules on sanctions and a remedial action policy to ensure consistency in the application of sanctions. DARS ECI policy will be revised to more clearly specify when sanctions will be imposed. Fines and penalties are not currently used as sanctions and policy will be revised to reflect this.

Target Implementation/Completion Date: Policy will be revised by August 2008.

Responsible Management: DARS ECI Assistant Commissioner.

The Department Has Appropriate Processes for Reviewing ECI Funding Applications, But It Should Improve Certain Aspects of Those Processes to Ensure It Obtains Best Value

The Department has appropriate processes and tools in place for reviewing funding applications and allocating ECI funding. These processes include the Department's detailed review of each application. During these reviews, Department staff determines whether funding applications are complete, reviews funding applicants' budgets, reviews ECI providers' child enrollment histories for reasonableness, and flags items that require additional review by Department staff. Department staff uses a checklist to complete the review of ECI funding applications.

Best Value Services

Texas Human Resources Code, Section 73.011, requires the Department to select ECI providers on a best value basis in a manner that:

- Maximizes federal, private, and local sources of funding.
- Promotes competition when possible.

In determining "best value," the Department should consider:

- The past performance of the provider.
- The quality of the provider's services.
- The cost of the provider's services.
- The ability of the provider to maximize federal, private, and local sources of funding.
- The ability of the provider to comply with state and federal program requirements.
- The availability of the provider to deliver required services.
- Any other relevant factors.

While these processes are appropriate, the Department does not promote competition for available funding as required by statute (see text box). In addition, the Department does not ensure that ECI providers submit all necessary and required information to support their budgets. Not promoting competition and not receiving adequate supporting documentation reduces the Department's ability to determine whether it obtains best value to maximize the use of funds (see text box). Auditors identified the following areas in which improvements could be made:

- Enforcement of effective maintenance of effort requirements.
 - Review and approval of cost allocation plans for adequacy and completeness.
- Review of supporting documentation for non-payroll budgeted costs.
 - Oversight of Medicaid Administrative Claiming.

The Department does not require ECI providers to submit information to verify their “effective maintenance of effort,” and it provides exemptions to ECI providers that do not maintain the previous year’s effective maintenance of effort level.

The Department’s funding application process does not require ECI providers to submit information that confirms ECI providers are reporting particular sources of other revenue for the ECI program, which are classified as the “effective maintenance of effort” (effective MOE, see text box for additional details).

Effective Maintenance of Effort (MOE)

Each ECI provider that has previously contracted with the Department is required to budget and expend at least the same amount of funds from sources such as local and donated funds as the ECI provider actually spent from those particular sources in the preceding fiscal year. This amount is defined as the effective MOE.

Texas Human Resource Code, Section 73.011, requires the Department to select ECI providers that maximize federal, private, and local sources of funding. Also, according to Department policy and the U.S. Department of Education, ECI providers are required to use all other revenues for ECI program expenditures before they use ECI contract funds. Because the Department does not require

applicants to submit information to verify their effective MOE, it cannot determine whether ECI contract funds will be maximized prior to allocating ECI funds. In auditors’ on-site review at one provider—Any Baby Can—it was determined that this provider collected more effective MOE than it pledged and reported to the Department on its ECI application.

In addition, the Department has granted exemptions to its policy that ECI providers budget and expend at least the same total amount of effective MOE as they spent in the preceding fiscal year. It granted these exemptions to more than 30 percent of the ECI providers during funding application years 2006 and 2007.

The Department does not consistently obtain sufficient information for ECI providers’ cost allocation plans.

Three of six ECI provider cost allocation plans that auditors tested did not contain enough information to determine whether the allocation method was adequate. For example, Easter Seals Rehabilitation Center ECI’s cost allocation plan did not include supporting documentation or the percentage of costs to be charged to the ECI program as required by the Department’s policy. In addition, the Department did not review and approve Any Baby Can’s fiscal year 2006 cost allocation plan. The Department has reviewed and approved Any Baby Can’s cost allocation plan for fiscal year 2008.

Department policy⁴ requires ECI providers to maintain a current cost allocation plan to support their requests for funding of expenditures that benefit more than one program or activity. Cost allocation plans must detail the specific cost to be allocated, the method or basis to allocate the cost, and the rate or percentage to be used to allocate common costs between ECI and non-ECI programs.

⁴ Early Childhood Intervention Services Policy Manual, Chapter 1.5.

Department staff do not consistently enforce requirements to obtain supporting documentation for non-payroll budgeted costs.

During the funding application process, the Department's staff did not consistently request or follow up on missing supporting documentation for non-payroll budgeted costs. While ECI providers submitted detailed documentation for salaries and fringe benefits, which according to unaudited information received from the Department accounts for approximately 74⁵ percent of all ECI expenditures, they did not consistently submit adequate documentation for non-payroll budgeted costs.

The Department does not have a process to obtain Medicaid Administrative Claiming monitoring results from the Health and Human Services Commission.

The Department does not have a process to ensure it is notified of any noncompliance issues related to Medicaid Administrative Claiming (MAC)⁶ funding. As of March 2006, fiscal oversight of MAC has been transferred to the Health and Human Services Commission. The Department is required by Texas Human Resources Code, Chapter 73, to consider a provider's past performance when it allocates available funding.

Recommendations

The Department should:

- Promote competition for available ECI funding, as suggested by statute.
- Require ECI providers to submit documentation during the funding application review process to ensure that they are reporting all collected revenues classified as effective MOE.
- Approve all ECI providers' cost allocation plans and require ECI providers to submit detailed information for cost allocation plans.
- Require providers to submit supporting documentation for all budgeted costs and cost allocation rates, and ensure that Department staff follow-up on missing supporting documentation during application reviews.
- Work with the Health and Human Services Commission (Commission) to create a written agreement that defines the Commission's responsibilities and reporting requirements to the Department for the fiscal oversight of Medicaid Administrative Claims funds.

⁵ Unaudited percentage provided by the Department of Assistive and Rehabilitative Services.

⁶ The purpose of Medicaid Administrative Claiming is to maximize federal Medicaid reimbursement for assisting eligible and potentially eligible Medicaid individuals in accessing services covered by the Medicaid program through activities such as outreach, referral, case coordination, and follow-up.

Management's Response

DARS ECI agrees with the recommendation to competitively procure services. Specific service areas of the state have been competitively procured when appropriate. An agency project to plan for competitively procuring ECI services on a statewide basis is already in place. The timeline for the project is pending the determination of any changes required by federal funding sources that will affect the current financing structure and thus the financial responsibilities of potential offerors.

Target Implementation/Completion Date: *The project began during fiscal year 2007 and will continue until full implementation. The timeline is dependent on clarification from federal funding sources.*

Responsible Management: *ECI Assistant Commissioner.*

DARS agrees with the recommendation for submission of additional documentation to support maintenance of effort revenue sources with the funding application. ECI providers contribute local, private and community funds as required by policy. Providers are held to a total amount of Effective Maintenance of Effort and involuntary losses of funds are considered for an exemption. There has been a system wide increase in these funds from \$5,229,874 in FY2004 to \$5,834,442 in FY2006. DARS is committed to exploring ways to create incentives for the contribution of more of these funds while not discouraging one time or short term contributions.

DARS agrees with the recommendation to request more detailed information on cost allocation plans and this process began with the most recent fiscal year 2008 funding application process.

DARS agrees with the recommendation to request more detailed information and support documentation for all budgeted costs.

Target Implementation/Completion Date: *New processes will begin in fiscal year 2008 and completely implemented for the fiscal year 2009 funding cycle (September 2008).*

Responsible Management: *ECI Consumer Services Section Director.*

DARS will work with the Health and Human Services Commission to create a service level agreement to define the responsibilities for reporting requirements and the communication of issues pertinent to oversight of the Medicaid Administrative Claiming funds.

Target Implementation/Completion Date: *An agreement will be completed for the fiscal year 2008.*

Responsible Management: *ECI Assistant Commissioner.*

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Department of Assistive and Rehabilitative Services (Department) is compensating Early Childhood Intervention (ECI) providers in accordance with contracts and federal and state laws.

Scope

The scope of this audit covered September 2004 through May 2007.

Methodology

Information collected and reviewed and procedures and tests conducted included the following:

- Reviewing the processes and monitoring instruments used by the Department's Contract Oversight and Support section and the Consumer Services Programs section.
- Gaining an understanding of two ECI providers' accounting processes and controls over revenue and expenditure recognition.
- Testing the completeness and accuracy of the Texas Kids Intervention Data System (TKIDS), the Department's client information management system.
- Testing the general and application controls of TKIDS at the state level.
- Reviewing the Department's ECI funding application and approval process.
- Reviewing the Department's and two ECI providers' policies and procedures.
- Reviewing the Department's contracts with ECI providers selected for testing for fiscal years 2006 and 2007.
- Reviewing Maintenance of Effort data collected by the Department for fiscal year 2005 through fiscal year 2007.
- Testing two ECI providers' quarterly Financial Status Reports for fiscal year 2006.

- Testing general ledgers, invoices, third-party billing documentation, and client files obtained at the ECI provider level.

Criteria used included the following:

- The Department's *Early Childhood Intervention Services Policy Manual*.
- Department ECI provider contracts for fiscal years 2006 and 2007.
- Title 40, Texas Administrative Code, Chapter 108.
- Texas Human Resources Code, Chapter 73 (Interagency Council on Early Childhood Intervention Services).
- Uniform Grant Management Standards.
- U.S. Department of Education Instructions for Annual Performance Report Information Collection 1820-0578, Part C State Performance Plan.
- Fiscal Year 2007 ECI Application Instructions.

Project Information

Audit fieldwork was conducted from May 2007 through June 2007. This audit was conducted in accordance with generally accepted government auditing standards.

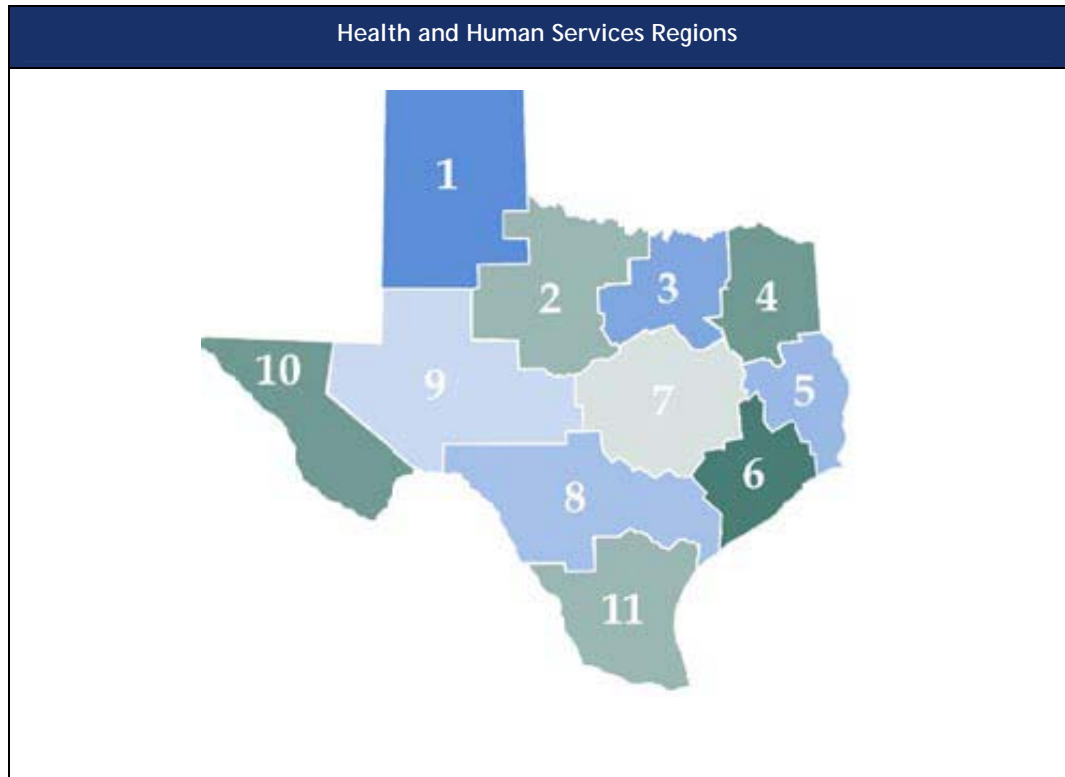
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Health and Human Services Regions in Texas

Figure 1 identifies the 11 health and human services regions in Texas. See Table 3 in Appendix 4 for a list of Early Childhood Intervention providers servicing each region.⁷

Figure 1



Source: Department of Assistive and Rehabilitative Services.

⁷ The alignment of ECI providers to health and human services regions is based on the location and primary service area of the local ECI provider.

Number of Children Referred to and Served by ECI Providers

Table 1 shows the number of children referred for fiscal years 2005 through 2007⁸ for Early Childhood Intervention (ECI) services by health and human service region.⁹ These children may have an actual or suspected developmental delay or disability.

Table 1

| Number of Children Referred to Early Childhood Intervention Providers ^a | | | |
|--|------------------|------------------|---|
| Health and Human Services Region | Fiscal Year 2005 | Fiscal Year 2006 | Fiscal Year 2007 (1st through 3rd quarters) |
| Region 1 – High Plains | 2,168 | 2,250 | 2,079 |
| Region 2 – Northwest Texas | 1,303 | 1,452 | 1,317 |
| Region 3 – Metroplex | 11,711 | 12,787 | 12,152 |
| Region 4 – Upper East Texas | 1,809 | 1,905 | 1,676 |
| Region 5 – Southeast Texas | 1,366 | 1,344 | 1,535 |
| Region 6 – Gulf Coast | 10,776 | 11,709 | 10,039 |
| Region 7 – Central Texas | 5,578 | 5,819 | 5,447 |
| Region 8 – Upper South Texas | 5,391 | 5,864 | 5,382 |
| Region 9 – West Texas | 1,119 | 1,079 | 873 |
| Region 10 – Upper Rio Grande | 2,922 | 3,068 | 2,623 |
| Region 11 – Lower South Texas | 3,702 | 4,011 | 3,683 |
| Total Children Referred | 47,845 | 51,288 | 46,806 |

^a Not all children referred to Early Childhood Intervention programs require services.

Source: Unaudited data provided by the Department of Assistive and Rehabilitative Services.

⁸ Fiscal year 2007 number represents children referred as of the third quarter of that year.

⁹ The alignment of ECI providers to health and human services regions is based on the location and primary service area of the local ECI provider.

Table 2 shows the number of children who received ECI services for fiscal years 2005 through 2007¹⁰ by each health and human services region.¹¹ These children were identified as having developmental delays or disabilities.

Table 2

| Number of Children Served by Early Childhood Intervention Providers ^a | | | |
|---|------------------|------------------|---|
| Health and Human Services Region | Fiscal Year 2005 | Fiscal Year 2006 | Fiscal Year 2007 (1st through 3rd quarters) |
| Region 1 – High Plains | 2,365 | 2,527 | 2,406 |
| Region 2 – Northwest Texas | 1,403 | 1,512 | 1,380 |
| Region 3 – Metroplex | 11,349 | 12,091 | 11,149 |
| Region 4 – Upper East Texas | 1,613 | 1,635 | 1,466 |
| Region 5 – Southeast Texas | 1,256 | 1,219 | 1,157 |
| Region 6 – Gulf Coast | 8,693 | 9,150 | 8,429 |
| Region 7 – Central Texas | 4,752 | 5,029 | 4,637 |
| Region 8 – Upper South Texas | 4,989 | 5,216 | 4,833 |
| Region 9 – West Texas | 1,243 | 1,286 | 1,119 |
| Region 10 – Upper Rio Grande | 2,656 | 2,921 | 2,797 |
| Region 11 – Lower South Texas | 3,209 | 3,315 | 3,199 |
| Total Children Served | 43,528 | 45,901 | 42,572 |
| ^a This number represents an unduplicated count of children served in each fiscal year. | | | |

Source: Unaudited data provided by the Department of Assistive and Rehabilitative Services.

¹⁰ Fiscal year 2007 number represents the number of children served as of the third quarter of that year.

¹¹ The alignment of ECI providers to health and human services regions is based on the location and primary service area of the local ECI provider.

Early Childhood Intervention Expenditures by Health and Human Services Region

Table 3 shows total expenditures by Early Childhood Intervention (ECI) provider for fiscal years 2005 and 2007.¹² ECI providers are grouped by the health and human services region to which they belong.¹³ See Figure 1 in Appendix 2 for a map that identifies the 11 health and human services regions in Texas.

Table 3

| Early Childhood Intervention Expenditures by Health and Human Services Regions | | | |
|--|------------------------------|------------------------------|---------------------------------|
| Early Childhood Intervention Providers | Fiscal Year 2005 (Actual) | Fiscal Year 2006 (Actual) | Fiscal Year 2007 (Projected) |
| Region 1 - High Plains | | | |
| Central Plains Center for Mental Health and Mental Retardation and Substance Abuse | \$ 945,751 | \$ 981,931 | \$ 1,047,520 |
| Lubbock Independent School District | 2,970,772 | 3,180,831 | 3,464,925 |
| Region 16 Education Service Center | 1,615,784 | 1,741,094 | 1,894,485 |
| Texas Panhandle Mental Health and Mental Retardation Center | 1,987,851 | 2,136,288 | 2,008,226 |
| Region 1-High Plains Totals | \$7,520,158 | \$8,040,144 | \$8,415,156 |
| Region 2-Northwest Texas | | | |
| Betty Hardwick Center | \$ 1,101,519 | \$ 1,184,500 | \$ 1,249,270 |
| Central Texas Mental Health and Mental Retardation Center | 535,856 | 539,512 | 699,930 |
| North Texas Rehabilitation Center, Inc. | 1,611,607 | 1,583,549 | 1,684,672 |
| West Texas Centers for Mental Health and Mental Retardation | 1,265,322 | 1,250,286 | 1,230,665 |
| Region 2-Northwest Texas Totals | \$ 4,514,304 | \$ 4,557,847 | \$ 4,864,537 |
| Region 3-Metroplex | | | |
| Dallas Center for Developmentally Disabled | \$ 1,717,690 | \$ 1,638,574 | \$ 2,156,859 |
| Dallas Independent School District | 2,459,185 | 2,222,234 | 2,843,555 |
| Dallas Metrocare Services | 1,965,770 | 2,039,747 | 2,229,272 |
| Garland Independent School District | 1,634,667 | 1,836,698 | 2,127,600 |
| Infant and Toddler Intervention Program of North Texas | 4,300,580 | 4,422,970 | 4,246,158 |
| Johnson Ellis Navarro Mental Health and Mental Retardation Services | 2,552,944 | 3,335,601 | No longer an ECI program. |

¹² Fiscal year 2007 amount represents projected expenditures.

¹³ The alignment of ECI providers to health and human services regions is based on the location and primary service area of the local ECI provider.

| Early Childhood Intervention Expenditures by Health and Human Services Regions | | | |
|--|------------------------------|------------------------------|---------------------------------|
| Early Childhood Intervention Providers | Fiscal Year 2005 (Actual) | Fiscal Year 2006 (Actual) | Fiscal Year 2007 (Projected) |
| Lakes Regional Mental Health and Mental Retardation | 806,882 | 893,450 | 951,824 |
| LifePath Systems | 4,282,199 | 4,802,390 | 5,179,120 |
| Mental Health and Mental Retardation of Tarrant County | 8,461,554 | 8,979,137 | 12,967,567 |
| Mental Health and Mental Retardation Services of Texoma | 1,478,681 | 1,578,605 | 1,596,810 |
| Richardson Development Center for Children, Inc. | 1,550,874 | 1,566,369 | 1,564,815 |
| Special Care and Career Services | 1,588,992 | 1,542,641 | 1,588,430 |
| Region 3-Metroplex Totals | \$32,800,018 | \$34,858,416 | \$37,452,010 |
| Region 4-Upper East Texas | | | |
| Andrews Center | \$ 2,085,457 | \$ 2,061,466 | \$ 2,145,000 |
| Region 08 Education Service Center | 654,586 | 637,045 | 682,500 |
| Sabine Valley Center | 1,808,266 | 1,907,739 | 1,847,628 |
| Texarkana Special Education Center Opportunities Inc. | 408,976 | 452,470 | 532,270 |
| Region 4-Upper East Texas Totals | \$ 4,957,285 | \$ 5,058,720 | \$ 5,207,398 |
| Region 5-Southeast Texas | | | |
| Burke Center | \$ 1,557,417 | \$ 1,741,110 | \$ 1,787,500 |
| Silsbee Independent School District | 589,707 | 616,543 | 648,845 |
| Spindletop Mental Health and Mental Retardation Services | 1,453,392 | 1,475,693 | 1,558,428 |
| Region 5-Southeast Texas Totals | \$ 3,600,516 | \$ 3,833,346 | \$ 3,994,773 |
| Region 6-Gulf Coast | | | |
| Bay Area Rehabilitation Center | \$ 2,942,662 | \$ 2,927,932 | \$ 3,045,786 |
| Brazoria County Association for Citizens with Handicaps | 1,874,521 | 2,027,866 | 2,132,460 |
| Harris County Department of Education | 5,677,420 | 6,412,645 | 7,246,590 |
| Katy Independent School District | 1,358,828 | 1,390,043 | 1,493,280 |
| Mental Health and Mental Retardation Authority of Harris County | 6,958,015 | 6,654,772 | 7,763,832 |
| Texana Mental Health and Mental Retardation Center | 1,543,302 | 1,713,994 | 1,966,356 |
| United Cerebral Palsy of Greater Houston | 3,043,187 | 3,088,609 | 3,180,964 |
| University of Texas Medical Branch at Galveston | 1,681,533 | 1,704,496 | 1,776,727 |
| Region 6-Gulf Coast Totals | \$25,079,468 | \$25,920,357 | \$28,605,995 |
| Region 7-Central Texas | | | |
| Any Baby Can Child and Family Resource Center | \$ 1,099,582 | \$ 1,106,985 | \$ 1,227,352 |
| Austin-Travis County Mental Health and Mental Retardation Center | 1,332,073 | 1,387,162 | 1,407,184 |
| Bluebonnet Trails Community Center | 2,266,721 | 2,573,265 | 2,848,982 |

| Early Childhood Intervention Expenditures by Health and Human Services Regions | | | |
|--|------------------------------|------------------------------|---------------------------------|
| Early Childhood Intervention Providers | Fiscal Year 2005 (Actual) | Fiscal Year 2006 (Actual) | Fiscal Year 2007 (Projected) |
| Central Counties Center for Mental Health and Mental Retardation Services | 2,224,298 | 2,557,265 | 2,916,302 |
| Easter Seals-Central Texas | 2,063,884 | 2,208,039 | 2,254,200 |
| Heart of Texas Region Mental Health and Mental Retardation Center | 1,173,896 | 1,285,744 | 1,286,208 |
| Hill Country Community Mental Health and Mental Retardation Center | 2,143,222 | 2,257,635 | 2,333,760 |
| Mental Health and Mental Retardation Authority of Brazos Valley | 1,902,947 | 1,939,910 | 2,066,332 |
| Region 7-Central Texas Totals | \$14,206,623 | \$15,316,005 | \$16,340,320 |
| Region 8-Upper South Texas | | | |
| Brighton School, Inc. | \$ 3,072,800 | \$ 3,098,533 | \$ 3,348,000 |
| Camino Real Community Mental Health and Mental Retardation Center | 1,190,124 | 1,561,947 | 1,961,154 |
| Center for Health Care Services | 2,651,354 | 2,613,961 | 3,290,850 |
| Easter Seals Rehabilitation Center | 5,456,401 | 6,046,015 | 5,416,320 |
| Maverick County Hospital District | 427,766 | 419,632 | No longer an ECI program. |
| Region 03 Education Service Center | 1,993,559 | 2,089,539 | 2,275,000 |
| Region 8-Upper South Texas Totals | \$ 14,792,004 | \$ 15,829,627 | \$ 16,291,324 |
| Region 9-West Texas | | | |
| Permian Basin Community Centers | \$ 1,315,999 | \$ 1,404,830 | \$ 1,446,522 |
| Region 15 Education Service Center | 1,891,406 | 2,054,876 | 2,148,895 |
| Region 18 Education Service Center | 832,389 | 893,969 | 909,810 |
| Region 9-West Texas Totals | \$ 4,039,794 | \$ 4,353,675 | \$ 4,505,227 |
| Region 10-Upper Rio Grande | | | |
| El Paso Community Mental Health and Mental Retardation Center | \$ 3,368,048 | \$ 4,043,659 | \$ 4,345,123 |
| El Paso Rehabilitation Center | 2,925,705 | 3,319,771 | 3,506,392 |
| Region 19 Education Service Center | 1,346,752 | 1,731,806 | 1,996,764 |
| Region 10-Upper Rio Grande Totals | \$ 7,640,505 | \$ 9,095,236 | \$ 9,848,279 |
| Region 11-Lower South Texas | | | |
| Coastal Plain Community Mental Health and Mental Retardation Center | \$628,578 | \$635,420 | \$720,130 |
| Community Action Corporation of South Texas | 1,742,010 | 1,654,415 | 1,998,506 |
| Easter Seals Rio Grande Valley | 2,302,574 | 2,247,064 | 2,520,315 |
| Nueces County Mental Health and Mental Retardation Community Center | 1,951,297 | 2,079,602 | 2,147,004 |

| Early Childhood Intervention Expenditures by Health and Human Services Regions | | | |
|--|------------------------------|------------------------------|---------------------------------|
| Early Childhood Intervention Providers | Fiscal Year 2005 (Actual) | Fiscal Year 2006 (Actual) | Fiscal Year 2007 (Projected) |
| Region 01 Education Service Center | 2,431,528 | 2,601,974 | 2,642,564 |
| Region 11-Lower South Texas Totals | \$ 9,055,987 | \$ 9,218,475 | \$ 10,028,519 |
| TOTALS | \$128,206,662 | \$136,081,849 | \$145,553,538 |

Source: Unaudited data provided by the Department of Assistive and Rehabilitative Services.

Letter to Easter Seals Rehabilitation Center ECI Board of Directors and Easter Seals' Response



August 6, 2007

Mr. Vince Zinsmeyer, Board President
 Easter Seals Rehabilitation Center ECI
 AMCORP 941 Proton Road
 San Antonio, TX 78258

Dear Mr. Zinsmeyer:

During the State Auditor's Office audit of the Department of Assistive and Rehabilitative Services' (Department) Early Childhood Intervention (ECI) program, auditors visited Easter Seals Rehabilitation Center ECI (Easter Seals) in San Antonio, Texas, and identified weaknesses in internal controls and information systems that should be addressed. Auditors' limited audit procedures and testing of selected fiscal year 2006 ECI expenditures at Easter Seals identified \$337,750 in unauthorized expenditures.

| Expenditure Type | Amount |
|------------------------------|------------------|
| Salaries and Fringe Benefits | \$127,633 |
| 403B Contributions | 120,590 |
| Employee Leave | 63,007 |
| Security Services | 14,940 |
| Harley Davidson Activities | 6,473 |
| Other Expenditures Tested | 5,107 |
| Total | \$337,750 |

Auditors identified weaknesses in the following areas:

- **Segregation of Duties:** Lack of segregation of duties may prevent Easter Seals from identifying and preventing the mishandling of assets.
- **Compliance with ECI Contract Requirements and Policies:** Spending of available ECI contract funds on items not authorized reduces the number of children that Easter Seals could serve.
- **Information System Access Controls:** Weaknesses in information system controls increase the risk of accidental or deliberate alteration or deletion of information, which could affect Easter Seals' ability to ensure the integrity of its information.

Segregation of Duties

Easter Seals lacks segregation of duties in its financial processes. An employee in a senior management position has full access and control over the Easter Seals' accounting system and accounting functions, including authorizing transactions; posting to the general ledger; maintaining custody, printing, and signing of checks; and reconciling the general ledger to bank statements; all without review by other individuals. This employee commented that she does not take vacations. Also, Easter Seals does not have another employee trained to be a backup for the performance of fiscal duties. Easter Seals staff considers the signature of two employees an adequate internal control over the disbursement of checks, but this is not

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Mr. Vince Zinsmeyer, Board President
Easter Seals Rehabilitation Center ECI
August 6, 2007
Page 2

sufficient segregation of duties. The U.S. Government Accountability Office¹ characterizes control standards over segregation of duties as:

- Key duties and responsibilities divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing, processing, and recording of transactions; reviewing the transactions; and handling any related assets.
- No one individual should control all key aspects of a transaction or event.

In addition to lack of segregation of duties, Easter Seals uses its bank statements to determine the amount of collected revenues that should be posted to the general ledger. Under these procedures, a check that is misplaced and not deposited will not be detected by management.

Compliance with ECI Contract Requirements and Policies

Easter Seals needs to strengthen its internal controls and adhere to ECI policies to ensure compliance with contract requirements. Review of selected state fiscal year 2006 expenditures identified \$337,750 in unauthorized expenditures as described below.

General Ledger

As of June 2007, Easter Seals did not maintain an accounting system with a self-balancing set of accounts for its ECI program expenditures, nor did it prepare Department-required financial reports directly from this set of accounts as required by the Department's ECI policies.² For example, auditors were not able to reconcile the expenditures reported on the Easter Seals' Financial Status Reports (Form 269a) to its general ledger because Easter Seals staff manually calculates the ECI portion of expenditures. In addition, errors in these calculations caused Easter Seals to overcharge the Department's ECI program by \$127,633 for salaries and fringe benefits.

Procurement

Easter Seals does not have a procurement process that ensures it procures services based on best value. It does not solicit informal proposals for contract services that are expected to exceed \$5,000 and it does not solicit written proposals for contracts expected to exceed \$10,000 annually as required by the Department's ECI policies.³ Auditors identified three procured services exceeding the \$5,000 threshold for which no informal or written proposals were obtained. In addition, Easter Seals did not consistently have written contracts that described the services procured, the contract amounts, and the time frame for delivery of services.

¹ *Standards for Internal Control in the Federal Government*, U.S. General Accounting Office, November 1999. In July 2004, the GAO's legal name became the Government Accountability Office.

² *Early Childhood Intervention Policy Manual*, Department of Assistive and Rehabilitative Services, Policies 1.1.1.1 and 1.1.1.2.

³ *Ibid.*, Policies 1.6.11.1.2 and 1.6.11.1.3, effective as of fiscal year 2001.

Mr. Vince Zinsmeyer, Board President
Easter Seals Rehabilitation Center ECI
August 6, 2007
Page 3

The services procured without bids include:

1. Security services for \$14,940. This is also an unauthorized expenditure under the contract.
2. Certified public accounting services for \$7,000 for the annual Single Audit and \$10,188 for other accounting services. These expenditures were authorized in their contract. While Easter Seals had a contract for Single Audit services only, it has not solicited formal written proposals for any accounting services other than an informal proposal for the Single Audit for 2005. Also, Easter Seals has not rotated its accounting firm since 1964.
3. Harley Davidson fund-raising coordination activities for \$6,473. This is also an unauthorized expenditure under the contract.

Additional Unauthorized Expenditures

Contributions to Employees' 403B Pension Plan. Easter Seals made a one-time contribution to the employees' 403B retirement plan in the amount of \$120,590 that was not authorized in its contract with the Department. Easter Seals management explained that verbal approval for this expenditure was obtained from the Department, but there is no documentation to support this action.

Sale of Employees' Leave. Easter Seals charged the Department \$63,007 as salaries for the purchase of employees' leave (holidays, annual, and compensatory time). This expenditure was not authorized in Easter Seals' contract with the Department. Additionally, Easter Seals does not use time sheets, which would allow management to accurately track the hours worked and leave taken by its administrative personnel.

Other unauthorized expenditures. Other unauthorized expenditures as a result of selected expenditure testing totaled \$5,107.

Information Technology (IT) Systems Access Controls

Auditors also identified weaknesses in certain automated systems other than the Texas Kids Intervention Data System (TKIDS). These weaknesses were in the area of access controls. To minimize the risks associated with security breaches, auditors have communicated details regarding these issues to the Easter Seals Board of Directors in person.

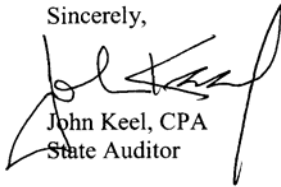
We recommend that the Easter Seals Board of Directors strengthen its internal controls to safeguard its assets, comply with ECI contract requirements, and secure its automated systems and data to allow the Easter Seals Rehabilitation Center to better serve children with developmental delays with the required resources and support to reach their goals.

Mr. Vince Zinsmeyer, Board President
Easter Seals Rehabilitation Center ECI
August 6, 2007
Page 4

This letter will be included in an appendix to an audit report addressed to the Department. We anticipate releasing this report in August 2007.

If you have any questions, please contact Lisa Collier (the audit manager who oversaw the audit), Ileana Barboza (the project manager who directed the audit on site), or me at (512) 936-9500.

Sincerely,



John Keel, CPA
State Auditor

cc: Easter Seals Board of Directors
Mr. David Ballard
Ms. Brooke Brownlow, Secretary
Mr. Jay Friedman, Jr., Vice President
Dr. Robert Gledhill
Mr. Jim Hamer
Mr. Oliver Nelson
Ms. Linda Tapia, Executive Director, Easter Seals Rehabilitation Center ECI
Ms. Kim Wedel, Assistant Commissioner for Early Childhood Intervention Services
Department of Assistive and Rehabilitative Service
Mr. Alex McAlmon, Internal Audit Director, Department of Assistive and Rehabilitative Service



Easter Seals

2203 Babcock Road
San Antonio, Texas 78229
210.614.3911 phone
210.616.0443 fax

August 10, 2007

Mr. John Keel, CPA
State Auditor
State Auditor's Office
P.O. Box 12067
Austin, Texas 78711-2067

Dear Mr. Keel:

The Board, leadership and staff of the Easter Seals Rehabilitation Center is very proud of our history of an organization in providing services to children and adults in our community. Our program was one of the original recipients of the ECI grants from the state in 1982 and we are extremely proud of our history as an organization of providing ECI services as a contractor with the state. We strive each and every day to provide services that are of the highest quality to those that we serve. Our mission is to create solutions and change the lives of individuals with disabilities and we are extremely proud of our service to the 1752 infants, toddlers and their families during the fiscal year audited by the SAO. The Board of Directors and the administration of the Easter Seals Rehabilitation Center wishes to respectfully submit the following response to the SAO report of August 6, 2007. We further wish to provide assurances that the report of the SAO was very carefully reviewed and we are well underway in implementing corrective actions required by the audit.

- Segregation of Duties

The Easter Seals Board of Directors regards the segregation of duties as extremely important and considers it as one of the primary oversight responsibilities exercised by the board. In response to the concerns addressed in the SAO report, an independent source will be identified and will conduct a review of the segregation of duties as exercised by the center. This review will allow us to ensure that the best practice standards are met and will further ensure that no one individual within the organization has the ability to override any system. We expect this review to be completed within six (6) months. A report will be generated and sent to the Board of Directors. Suggestions made will be implemented.

- Compliance with ECI Policies and Contract Requirements

Easter Seals management has conducted an internal review of all ECI policies and procedures to ensure that center operations are in compliance. All recommendations made by the SAO regarding the general ledger have been implemented. In the matter of procurement, management has implemented steps to ensure that all staff involved in the purchase of goods and services have been instructed to maintain adequate documentation.

- Information Systems Access and Controls

Easter Seals appreciates the suggestions communicated to the Board of Directors by the SAO regarding ways to improve IT access controls and the overall security of the system. As implementation of these recommendations is currently underway, management has set a target date of six (6) months for the implementation of these improvements.

We want to again express our appreciation to the SAO for the recommendations made. The various suggestions made have been taken very seriously by the Board of Directors and the management staff and we are moving forward to implement these improvements as quickly as possible.

Sincerely,

Linda Tapia
Executive Director

Cc: Mr. John Keel, SAO
Ms. Ileana Barboza, SAO
Ms. Kim Wedel, Early Childhood Intervention, DARS
Easter Seals Board of Directors

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The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Health and Human Services Commission

Mr. Albert Hawkins, Executive Commissioner

Department of Assistive and Rehabilitative Services

Mr. Terrell I. Murphy, Commissioner



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