

# OFFICE OF INSPECTOR GENERAL

## TEXAS HEALTH AND HUMAN SERVICES COMMISSION

### AUDIT OF NONCOMPETITIVE CONTRACTOR PROCUREMENTS OVER \$10 MILLION

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*Local Authority Contract between  
Department of Aging and Disability Services and  
Alamo Area Council of Governments*



November 30, 2016  
IG Report No. IG-16-071



# HHSC IG

TEXAS HEALTH AND HUMAN SERVICES COMMISSION

INSPECTOR GENERAL

## AUDIT OF NONCOMPETITIVE CONTRACTOR PROCUREMENTS OVER \$10 MILLION

*Local Authority Contract between DADS and Alamo Area Council of Governments*

### WHY THE IG CONDUCTED THIS AUDIT

The Department of Aging and Disability Services (DADS) administers long-term services and supports for people who are aging and for people with intellectual and physical disabilities. DADS administered local authority contracts until September 1, 2016, when that responsibility transitioned to the Intellectual and Developmental Disability Services (IDD) unit of HHSC.

In 2013, DADS awarded the Alamo Area Council of Governments (AACOG) a local authority contract to develop and allocate resources to provide services for eligible individuals with intellectual and developmental disabilities in Bexar County. AACOG provides the services and assists with eligibility determination and service coordination. The value of the September 2013 through August 2015 contract was \$15,018,110.

This is one in a series of three performance audits on HHS agency contracts. The audits are evaluating whether (a) contract funds were used as intended and (b) contractors performed in accordance with contract requirements. The contracts selected for review were noncompetitively awarded and had a contract value of \$10 million or greater.

### WHAT THE IG RECOMMENDS

HHSC IDD Services should (a) require AACOG to locate 46 missing assets or reimburse HHSC IDD Services for their cost, (b) direct AACOG to improve its equipment accountability and inventory process, and (c) continue to periodically review AACOG’s accountability for equipment purchased with state funds.

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For more information, contact: [IG.AuditDivision@hhsc.state.tx.us](mailto:IG.AuditDivision@hhsc.state.tx.us)

### WHAT THE IG FOUND

To determine whether AACOG used contract funds as intended and performed in accordance with contract requirements, the IG Audit Division reviewed AACOG’s budget and related expenditures. Personnel costs accounted for more than half of the budget, and equipment costs were nearly three times the budgeted amount. The IG Audit Division (a) evaluated whether AACOG employees had qualifications required to perform their designated functions, (b) reviewed client records to determine whether regular interaction between service coordinators and clients were documented, and (c) reviewed equipment inventory records. Results indicated key contract performance requirements related to personnel had been met and contract funds were substantially used as intended.

In a 2014 financial review, DADS identified that AACOG had not updated equipment records to reflect asset locations and assigned users. AACOG conducted a physical inventory count in December 2015, and could not locate 46 of 93 equipment items.

Inventory Results	# of Assets	Value of Assets
Physically confirmed	47	\$ 42,748
Not physically confirmed	46	\$ 45,808
<b>Total</b>	<b>93</b>	<b>\$ 88,556</b>

The IG Audit Division selected a sample of ten equipment items to test during the 2016 site visit and could not locate five items. This indicated that AACOG had not implemented its corrective action plan to “update the location and equipment accountability information,” as directed by DADS. The inability to locate equipment could result in (a) unexpected expenditures for additional equipment, reducing the funds available for services to clients, (b) breaches of personal health information, or (c) delays in client services due to loss of service coordination notes.

HHSC IDD Services concurred with the IG Audit Division recommendations, and will facilitate AACOG’s implementation of a corrective action plan designed to improve AACOG’s equipment tracking and accountability. Subsequent to the IG Audit Division fieldwork, HHSC IDD Services accounted for the 46 equipment items; however, this work has not been verified by the IG Audit Division.

### LESSONS LEARNED

Contractors should safeguard equipment and other tangible goods purchased with funds received from HHS System agencies. Agencies awarding contracts governed by Uniform Grant Management Standards are responsible for obtaining reasonable assurance that proper accountability is being used. After conducting monitoring reviews, contracting agencies should follow up on the status of the contractor’s implementation of corrective action plans.

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# INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Inspector General (IG) Audit Division is conducting an audit of contracts from Health and Human Service agencies. The contracts selected for review were noncompetitively awarded and had a contract value<sup>1</sup> of over \$10 million. Due to the diversity of the contracts involved, the IG Audit Division is issuing three separate reports.

This report details the results of an audit of the local authority contract awarded to the Alamo Area Council of Governments (AACOG). In September 2013, the Department of Aging and Disability Services (DADS) awarded AACOG a noncompetitive, sole source, biennial contract to develop and allocate resources intended to provide services to eligible individuals with developmental disabilities. The value of the September 2013–August 2015 contract was \$15,018,110. The contract was renewed for another term through 2017. The AACOG contract was selected for review due to (a) the high dollar value of the contract and (b) the noncompetitive award of the contract. Unless otherwise described, any year referenced is the state fiscal year, which covers the period from September 1 through August 31.

## ***Objective***

The audit objective was to determine whether (a) contract funds were used as intended and (b) contractor performance was in accordance with contract requirements.

## ***Background***

AACOG is an association of local governments and organizations that serves its members through planning, information, and coordination activities. AACOG provides general technical assistance to member governments in their planning functions, preparation of applications, and the administration of programs across a 13-county region. It also offers program-specific technical assistance for regional planning in the areas of aging services, economic development, 9-1-1 systems, homeland security, criminal justice, resource recovery, air quality, transportation, and weatherization.

Doing business as Alamo Local Authority for Intellectual and Developmental Disabilities (Alamo Local Authority), AACOG is the local authority in Bexar County, serving as the point of entry for intellectual and developmental disability programs and provides or contracts to provide an array of services for persons with intellectual and developmental disabilities.

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<sup>1</sup> The contract value is the total maximum contract amount from September 2011 through August 2015.

AACOG has two main functions as Alamo Local Authority:

- Eligibility determination—licensed psychologists employed by the Alamo Local Authority determine whether an individual has a qualifying intellectual disability or meets criteria to be considered a member of the priority population<sup>2</sup> eligible to receive community services for persons with intellectual and developmental disabilities.
- Service coordination—Alamo Local Authority staff, through interactions with eligible clients, create and regularly update a customized plan for each client to coordinate medical, social, and educational services.

AACOG is also responsible for complying, and for ensuring its subcontractors comply, with the terms and conditions of its local authority contract with DADS, including applicable federal and state laws, Texas Administrative Code, and Uniform Grant Management Standards.

AACOG was certified as the Bexar County local authority in 2006 to make services for individuals with intellectual and developmental disabilities more accessible and convenient.<sup>3</sup> A local authority has responsibility for making “recommendations relating to the most appropriate and available treatment alternatives for individuals in need of intellectual disability services.”<sup>4</sup> As of 2016, AACOG remains the local authority for Bexar County, an administrative area with nearly 1.9 million residents.<sup>5</sup>

The local authorities section of DADS administered local authority contracts until September 1, 2016, when responsibility transitioned to HHSC’s Intellectual and Developmental Disability (IDD) Services. The IG Audit Division presented audit results, issues, and recommendations to HHSC IDD Services and to AACOG in a draft report dated November 15, 2016. Each was provided with the opportunity to study and comment on the report. HHSC IDD Services management responses to the recommendations contained in the report are included in the report following each recommendation. AACOG’s comments are included in Appendix C. HHSC IDD Services concurred with the IG Audit Division recommendations, and will facilitate AACOG’s development of a corrective action plan designed to improve AACOG’s equipment tracking and accountability.

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<sup>2</sup> To be a member of the priority population, an individual must: (a) have a pervasive development disorder or autism spectrum disorder as defined in the Diagnostic and Statistical Manual, (b) have a related condition and be eligible for enrollment in the Home and Community-based Services, Texas Home Living, or Intermediate Care Facility for Individuals with an Intellectual Disability or Related Conditions program, (c) be a nursing home resident who is eligible for specialized services for intellectual disability or a related condition, or (d) eligible for Early Childhood Intervention services.

<sup>3</sup> Texas Health and Safety Code, Title 7, Subtitle A, Chapter 533A, § 533A.035(c)(2) (April 2, 2015).

<sup>4</sup> United States Census Bureau, “Quick Facts: Bexar County, Texas,” Population estimates, July 1, 2015, (V2015).

<sup>5</sup> AACOG is the council of governments for 13 counties, including Bexar County. Alamo Local Authority serves IDD clients in Bexar County.

The IG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

## RESULTS, ISSUES, AND RECOMMENDATIONS

The services AACOG was required to provide through the local authority contract, as detailed in the main functions described in the background section of this report, were focused on AACOG staff interacting with potential and eligible clients. Because of this, the IG Audit Division determined that key contract requirements were those that most directly supported the quality and frequency of client interaction.

Some of the key contract requirements established the minimum qualifications of staff who determined program eligibility and staff who coordinated the services eligible clients needed. Other key contract requirements established the minimum frequency of contacts AACOG staff were to have with eligible clients and how those client contacts should be documented.

The IG Audit Division examined records to determine the extent AACOG was in compliance with these selected key requirements. The results of audit test work designed to determine the level of compliance also indicate whether the funds used to pay for the effort associated with meeting these key requirements were used as intended.

DADS contract monitors recently identified a concern about how AACOG accounted for equipment purchased with local authority contract funds. In addition, the total amount of equipment purchases during 2015 was about three times greater than the approved budget amount for equipment in the same year. While equipment purchases represent only a small portion of the overall AACOG budget for the local authority contract, this information suggests the possibility of risk related to inappropriate use of funds. To evaluate the impact of this risk, the IG Audit Division examined the effectiveness of AACOG's inventory management system.

### **Staff Qualifications**

AACOG's performance under the local authority contract relied heavily upon its staff, most of whom were either service coordinators or eligibility determination staff. AACOG employed 157 service coordinators and 5 eligibility determination staff.

### Eligibility Determination Staff

Texas Health and Safety Code requires that eligibility determination staff must be licensed in Texas as a psychologist or a physician, or hold other specific credentials.<sup>6</sup>

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<sup>6</sup> Texas Health and Safety Code, Title 7, Subtitle D, Chapter 593, § 593.004 (June 14, 2013).

### Service Coordinators

Texas Administrative Code requires a service coordinator to hold “a bachelor’s or advanced degree from an accredited college or university with a major in a social, behavioral, or human service field.”<sup>7</sup>

### Results of Staff Qualifications Test Work

To determine whether AACOG service staff met minimum employment requirements, the IG Audit Division examined information contained in human resources files for all five eligibility staff for evidence of required licenses. To determine whether licenses were current, the IG Audit Division compared license documents in each human resource file with information obtained from the Professional Licensing and Certification Unit of the Texas Department of State Health Services.

From the 157 service coordinators, the IG Audit Division selected a haphazard sample<sup>8</sup> of 39, and examined information in human resources files for the 39 selected staff for evidence of appropriate degrees and academic majors.

The results of this audit test work indicated that all of the eligibility determination staff and service coordinators tested met applicable minimum requirements for employment.

### ***Client Interaction and Documentation***

#### Client Contacts

Texas Administrative Code requires a local authority<sup>9</sup> to ensure that a service coordinator and client meet face-to-face at least once every 90 days.<sup>10</sup>

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<sup>7</sup> Texas Administrative Code, Title 40, Part 1, Chapter 2, Subchapter L, § 2.559(b)(1) (June 1, 2010).

<sup>8</sup> Haphazard sampling is a nonstatistical technique used by auditors to simulate random sampling.

<sup>9</sup> A local authority may also be referred to as a local intellectual and developmental disability authority (LIDDA) or a mental retardation authority (MRA) in Texas Administrative Code.

<sup>10</sup> Texas Administrative Code, Title 40, Part 1, Chapter 2, Subchapter L, § 2.556(d)(1) (June 1, 2010) states “A LIDDA must ensure that a service coordinator meets face-to-face with an individual in accordance with one of the following, whichever is most frequent:

- (A) at least once every 90 days; or
- (B) for the minimum number of face-to-face contacts required by:
  - (i) rules or other requirements of the program or services in which the individual is enrolled; or a contract between DADS and the LIDDA.”

### Client Contact Documentation

Texas Administrative Code requires a local authority to document its service coordinators' contact with clients in each client's record. Documentation should include the name of the service coordinator who had contact with the client and describe the services provided to the client.<sup>11</sup>

### Results of Client Interaction and Documentation Test Work

The IG Audit Division reviewed three months during the audit period and selected new client records for a random number generated sample of 25 of 889 eligible clients who first received services from AACOG during those months. Each client record contained forms titled "Direct Service Encounter Single Client and Single Server Data Entry." These forms were used by service coordinators to document each face-to-face contact with a client. The forms were used to document information that included the client name and case number; the date, time, duration, location, and type of the contact; a description of elements of the coordination provided including progress toward goals and revision to the documented plan; and the service coordinator's name, signature, and credentials.

The information in the records of the sampled clients indicated that AACOG service coordinators held face-to-face meetings with all 25 clients at least once every 90 days, as required. In addition, the information contained on "Direct Service Encounter Single Client and Single Server Data Entry" forms in the records of the sampled clients contained required information.

### ***Inventory Management***

Uniform Grant Management Standards procedures for managing equipment state: "property records must be maintained that include . . . the location, use and condition of the property."<sup>12</sup> These standards require that property records must be maintained and reconciled to a physical inventory at least once every two years.<sup>13</sup>

AACOG used a tracking system to maintain data regarding equipment consisting mostly of mobile computing devices, which are inherently difficult to track. AACOG performed annual physical inventory counts, and DADS periodically conducted monitoring reviews to determine whether AACOG was effectively managing its equipment inventory.

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<sup>12</sup> Uniform Grant Management Standards, Part III, Subpart C.32(d) (June 2004).

<sup>13</sup> Uniform Grant Management Standards, Part III, Subpart C.32(d) (June 2004).

### Equipment Accountability

DADS performed a financial review of AACOG in May 2014. Results from that review indicated that AACOG had not updated equipment records reflecting where and by whom assets were being used. The financial review report recommended that AACOG execute a corrective action plan to “update the location and equipment accountability information.”

Subsequent to the DADS visit, AACOG conducted an inventory count in December 2015. Table 1 presents the results of the count. Of the 93 items on AACOG’s 2015 equipment inventory list, AACOG was unable to physically locate 46 equipment items. The purchase price of the 46 items that could not be located totaled \$45,808.

**Table 1: Results of AACOG’s Equipment Inventory in 2015**

Inventory Results	# of Assets	Value of Assets
Physically confirmed	47	\$ 42,748
Not physically confirmed	46	\$ 45,808
<b>Total</b>	<b>93</b>	<b>\$ 88,556</b>

*Source: AACOG general ledger and December 2015 equipment count*

AACOG’s fiscal year 2015 equipment budget for the local authority contract was \$32,497, while actual equipment expenditures in the same fiscal year totaled \$91,994. Equipment expenditures were about three times greater than the approved budget amount.

### Results of Inventory Management Test Work

The IG Audit Division performed test work to evaluate whether local authority contract equipment funds were being used as intended, and whether AACOG had improved its inventory management processes subsequent to the 2014 DADS financial review and AACOG’s 2015 inventory. From 62 equipment purchases contained in 10 general ledger entries posted during the audit period, the IG Audit Division selected a haphazard sample of 10 equipment items.

Of the ten sampled equipment items tested, five could not be physically located during fieldwork,<sup>14</sup> indicating that AACOG’s equipment tracking system was not ensuring that safeguards exist to adequately account for equipment and to identify equipment that is lost, damaged, or stolen, and could not be relied on to adequately determine the location, use, or condition of all equipment.

Until AACOG is able to demonstrate that it has located the missing equipment from the 2015 inventory and the testing performed during this audit, there is no assurance that equipment

<sup>14</sup> Two of the five items, a locking file cabinet and smart board, also could not be positively identified in the inventory records despite meeting AACOG’s criteria to be tracked.

funds were used as intended. AACOG did not exceed its total local authority contract budget in 2015, even though it exceeded its equipment budget. However, the ineffective equipment tracking system may have resulted in unexpected expenditures on additional equipment, reducing the amount of funds available for services to clients. Misplaced equipment could result in breaches of personal health information or delay services to clients. Since IDD clients are to be seen in their natural environment, mobile devices are used by AACOG staff to facilitate these meetings. If the equipment is lost, misplaced or stolen, important notes related to client meetings may be lost, resulting in unnecessary delays in client service.

### **Recommendations 1–3**

HHSC IDD, through its contract oversight responsibility, should require AACOG to strengthen its equipment management activities by:

1. Requiring AACOG to locate the 46 missing assets and to reimburse HHSC IDD up to \$45,808 for any assets they are unable to locate.
2. Directing AACOG to improve its equipment accountability and inventory process.
3. Continuing to periodically review AACOG's accountability for equipment purchased with state funds. The reviews should include requesting updates on the implementation status of AACOG's corrective action plans and validating that implementation improved the accuracy, completeness, and effectiveness of equipment tracking.

### **HHSC IDD Services Management Response 1**

Effective September 1, 2016, the Local Authorities section of the Department of Aging and Disability Services (DADS) transitioned to the Intellectual and Developmental Disability (IDD) Services unit of the Health and Human Services Commission (HHSC).

On September 19, 2016, HHSC IDD Services staff conducted a follow-up review at AACOG. All 46 assets were accounted for during this review. HHSC staff met with AACOG staff and accounted for 43 assets by comparing the asset tag numbers on the actual item to those listed on the inventory sheets. The remaining three assets were returned to the manufacturer. AACOG staff provided documentation verifying the return of the three items. HHSC IDD Services found no other issues.

Responsible Individual: Manager, HHSC IDD Services Performance Contracts

Date Completed: September 19, 2016

### **HHSC IDD Services Management Response 2**

On September 19, 2016, HHSC IDD Service staff reviewed the changes AACOG implemented for its equipment accountability and inventory process during its follow-up

review. At the time of the review, AACOG was in the process of integrating their asset information into a new IT system.

Responsible Individual: Manager, HHSC IDD Services Performance Contracts

Date Completed: September 19, 2016

**HHSC IDD Services Management Response 3**

HHSC IDD Services will continue to periodically review AACOG's accountability for equipment purchased. HHSC IDD Services will also request an update during its next review on the implementation status of AACOG's corrective action plans and validate the implementation improved the accuracy, completeness, and effectiveness of equipment tracking.

Responsible Individual: Manager, HHSC IDD Services Performance Contracts

Target Implementation Date: March 2017

## CONCLUSION

The IG Audit Division completed an audit of the local authority contract between DADS and AACOG. The audit included an evaluation of the performance of AACOG, doing business as Alamo Local Authority, to determine whether contract funds were used as intended and key contract performance requirements were met. The IG Audit Division evaluated qualifications of key personnel, service coordination records, and equipment inventories documented between September 2014 and April 2016.

Although weaknesses in its equipment tracking will require AACOG to take corrective actions, and will require AACOG to return \$45,808 to HHSC IDD if not located, contract funds were otherwise used as intended and key contract performance requirements related to service staff were met.

The IG Audit Division offered recommendations to HHSC IDD which, if implemented, will result in AACOG:

- Accounting for missing equipment purchased with contract funds or returning funds to HHSC IDD.
- Improving records and tracking so equipment can be located and protected in the future.

The IG Audit Division thanks management and staff at DADS and AACOG for their cooperation and assistance during this audit.

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## Appendix A: OBJECTIVE, SCOPE, AND METHODOLOGY

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### ***Objective***

The objective of the audit was to determine whether (a) contract funds were used as intended and (b) contractor performance was in accordance with contract requirements.

### ***Scope***

AACOG's use of contract funds and performance in accordance with contract requirements from September 2014 through April 2016, as well as a review of relevant activities and controls in place during fieldwork in June 2016.

### ***Methodology***

To accomplish its objectives, the IG Audit Division collected information by:

- Interviewing key staff at AACOG and DADS.
- Reviewing prior onsite financial reviews of AACOG.
- Testing the human resource records of a sample of 39 of 157 service coordinators and all 5 eligibility determination staff to appropriate education requirements and current licensure records.
- Examining a sample of client files to determine whether interactions were documented with the frequency and the detail required by TAC.
- Testing equipment records for accuracy, physical confirmation, and reconciliation against the most recent inventory count based on state standards.

The IG Audit Division issued an engagement letter to AACOG on March 15, 2016, and conducted fieldwork at the AACOG facility in San Antonio, Texas, from June 6, 2016, through June 10, 2016. While on site, the auditors interviewed personnel, evaluated and reviewed documents, and observed assets and processes related to the objectives of the audit.

Professional judgment was exercised in the planning, executing, and reporting the results of this audit. The IG Audit Division used the following criteria to evaluate the information provided:

- Uniform Grant Management Standards
- Texas Health and Safety Code
- Texas Administrative Code

The IG Audit Division conducted the audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards

require auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on audit objectives. The IG Audit Division believes the evidence obtained provides a reasonable basis for the issues and conclusions based on audit objectives.

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## **Appendix B: SAMPLING METHODOLOGY**

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The IG Audit Division examined AACOG's use of contract funds and performance in accordance with contract requirements from September 2014 through April 2016. After an initial assessment of risk across key contract requirements, the IG Audit Division performed testing from the population of AACOG personnel, equipment, and client interaction reporting.

### ***AACOG Personnel***

The IG Audit Division reviewed a sample of AACOG service coordinators to determine whether personnel met education requirements for employment. The sample comprised 39 service coordinators from the total population of 157 service coordinators employed throughout the scope of the audit. The IG Audit Division reviewed 100 percent of AACOG eligibility determination staff employed throughout the scope of the audit for licensing requirements.

### ***Client Interaction Documentation***

The IG Audit Division selected three months from the audit period to test, November 2014, July 2015, and November 2015, and selected 25 of 889 client records with first face-to-face service coordination meeting dates in those months. The IG Audit Division reviewed client records to determine if (a) clients received at least one face-to-face meeting with a service coordinator every 90 days and (b) required contact record elements were maintained.

### ***Equipment***

The IG Audit Division reviewed a sample of general ledger entries of equipment purchases during the audit period to determine if (a) invoices were paid and the equipment was physically received and (b) the equipment could be physically located. The judgmental sample comprised 10 general ledger entries, which reflected 62 equipment items purchased. From the 62 equipment items, 10 equipment items were selected for further review.

## Appendix C: AACOG COMMENTS



### Board of Directors

**John Williams, Chairman**  
Mayor, City of Universal City  
**Chris Schuchart, Vice-Chairman**  
County Judge, Medina County  
**Luana Buckner**  
Board Chair, Edwards Aquifer Authority  
**Tommy Calvert**  
Commissioner, Bexar County  
**Richard A. Evans**  
County Judge, Bandera County  
**Chris Fails**  
Mayor, City of Hollywood Park  
**Mike Gallagher**  
Councilman, City of San Antonio  
**George Green**  
Councilman, New Braunfels  
**Robert W. Gregory**  
Mayor, City of La Vernia  
**James C. Hasslocher**  
Board Member, University Health System  
**Robert L. Hurley**  
County Judge, Atascosa County  
**Richard L. Jackson**  
County Judge, Wilson County  
**Andrew Keller**  
Mayor, City of La Coste  
**Sherman Krause**  
County Judge, Comal County  
**Walter R. Long, Jr.**  
County Judge, Karnes County  
**Arnulfo Luna**  
County Judge, Frio County  
**Darrel L. Lux**  
County Judge, Kendall County  
**Doug Miller**  
State Representative, District 73  
**Ron Nirenberg**  
Councilman, City of San Antonio  
**Tom Pollard**  
County Judge, Kerr County  
**Robert R. Puente**  
President/CEO, San Antonio Water System  
**Katie N. Reed**  
President, Northside ISD  
**Sergio "Chico" Rodriguez**  
Commissioner, Bexar County  
**Thomas A. Schoolcraft**  
Mayor, City of Helotes  
**Mike Schultz**  
Mayor, City of Boerne  
**Mark Stroehrer**  
County Judge, Gillespie County  
**James E. Teal**  
County Judge, McMullen County  
**Carlos I. Uresti**  
Senator, State of Texas, District 19  
**Kevin A. Wolff**  
Commissioner, Bexar County  
**Jim O. Wolverton**  
Commissioner, Guadalupe County  
**Ryan Guillen (Ex-Officio)**  
State Representative, District 31  
**John Kuempel (Ex-Officio)**  
State Representative, District 44  
**Col. Mark A. Lee (Ex-Officio)**  
502 ABW & JBSA, Vice Commander  
**Judith Zaffirini (Ex-Officio)**  
Senator, State of Texas, District 21

November 23, 2016

Kacy J. VerColen, CPA  
Audit Director  
Texas Health and Human Services Commission  
Office of Inspector General  
Mail Code 1326  
P.O. Box 85200  
Austin, Texas 78708-5200

Dear Ms. VerColen:

AACOG would like to present the following Management comments regarding the Draft Report - Audit of Noncompetitive Contractor Procurements Over \$10 Million Alamo Area Council of Governments:

During the onsite visit of the IG Audit Division staff, a sample of equipment was identified using a list of "62 equipment purchases contained in 10 general ledger entries posted during the audit period". Upon receipt of the draft report last week, we were made aware that five items from this sample had not been located during the on-site fieldwork. We have attached the sample list sent to our staff by IG auditors during the on-site review, which includes eleven mobile devices that have been located (Attachment 1). Five of the eleven items were included in the AACOG 2015 Inventory, and we further obtained current photographic documentation of these five items on November 22, 2016. Six of the eleven items were included in the DADS/HHSC on-site inventory audit conducted on September 19, 2016, and have been so identified and should be included in the materials provided by DADS/HHSC. The Smart Board purchase identified in Footnote 14 on Page 8 was not a purchase of new equipment, but, rather, was a purchase (and installation) of replacement components for two Smart Boards permanently installed in Classroom 3-01 on the Third Floor of AACOG's Tesoro office. The Locking File cabinet referenced in Footnote 14 has now been assigned an AACOG inventory tag (#6720) and is located in Office #330A. Photographic documentation of these two items and the five items from the 2015 Inventory are included as Appendix A to this correspondence.

After the fieldwork was completed, we were advised by DADS/HHSC staff on July 19, 2016, via email, that 46 items from the ALA (Alamo Local Authority) Asset List provided to IG Audit staff were not included in the AACOG 2015 Inventory report. Upon being notified of the discrepancy, we immediately commenced a targeted physical inventory process to ensure our funders that these 46 items were, in fact, on-site and being appropriately used by AACOG/ALA staff. Because we maintain Equipment Responsibility Forms (Attachment 2) for all ALA mobile equipment, we were able to quickly locate all 46 equipment items. AACOG submitted documentation of this physical inventory to DADS/HHSC staff on July 21, 2016 (Attachment 3).

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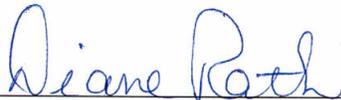
To confirm the information provided by AACOG, DADS/HHSC staff came on-site and performed a targeted audit of AACOG/ALA equipment on September 19, 2016, visually confirming the asset tags on the equipment with the list of 46 items provided by IG staff. DADS/HHSC audit staff has advised us that they were able to physically confirm all 46 items included in the IG request during their visit to AACOG.

On page 8 of the Draft Audit, AACOG's initial equipment budget for Fiscal Year 2015 is identified as \$32,497. In fact, in addition to the \$32,497 budgeted for "Equipment 500-4,999", an additional \$34,188 was included in the Fiscal Year 2015 Budget under a separate line item, "Computer Equipment & Software", for a total of \$66,667 projected for equipment needs. The actual expenses of \$91,994, an increase of \$25,227 over budget, were incurred due to additional staffing required to prepare for unexpected new enrollments in the Medicaid Waiver programs and the new Community First Choice program implemented on July 1, 2015 (see Attachment 4). No mobile devices were lost or misplaced in FY 2015, nor were any State or Federal funds used to replace mobile equipment that had been lost or misplaced. Three mobile devices, not included in this review, were stolen in September 2016 and a claim has been submitted to the agency's insurance policy for their replacement. An additional four items from the ALA Asset List were broken/malfunctioned in 2016 and were repaired or replaced in accordance with the manufacturer's warranty. There were no breaches of PHI nor material delays in services to clients due to these events.

As noted in the draft report, "AACOG conducted an inventory count in December, 2015," and your report indicates that 46 out of 93 Equipment Items were not physically located during that inventory. We believe that our reporting system, rather than the actual count, was to blame for this discrepancy. Because of a miscommunication, the IT equipment inventory was not effectively or completely integrated into the overall agency inventory in December, 2015, which resulted in some confusion in the reports generated during the Annual Inventory and during the IG's on-site visit. However, due to a robust internal tracking process in place, we were able to quickly locate and document all items. AACOG is currently reviewing our Inventory processes/systems, and will implement updated and more effective processes/systems for the 2016 Annual Inventory, which commences in December, 2016. Also, effective October 15, 2016, AACOG transitioned to a specialized IT consulting team that has further and significantly enhanced our equipment deployment, maintenance and tracking processes.

I sincerely appreciate the opportunity to provide these comments regarding the Inventory issues identified in the Draft Audit of the Alamo Area Council of Governments. I hope the additional information provided here, and by the DADS/HHSC staff that performed the special on-site audit, will effectively resolve any continuing concerns regarding the equipment that AACOG maintains and uses for our Alamo Local Authority activities. I can assure you that we do not take lightly our responsibility to effectively manage the resources provided by the State and Federal government to serve individuals with Intellectual and Developmental Disabilities in our community, and we will continue to fulfill this responsibility with utmost care and integrity.

Sincerely,



Diane Rath  
Executive Director

11/23/16  
Date

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## **Appendix D: REPORT TEAM AND REPORT DISTRIBUTION**

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### ***Report Team***

The IG staff members who contributed to this audit report include:

- Kacy J. VerColen, CPA, Audit Director
- Lisa Kanette Blomberg, CPA, CIGA, Audit Manager
- Marcus Horton, CIA, CFE, CRMA, CCSA, Audit Project Manager
- Edward Maldonado, CGAP, Audit Project Manager
- Amy Behrnes, CIA, CIPP, IT Audit Project Manager
- Aaron Christopher, Staff Auditor
- Grace Valentine, Staff Auditor
- Ousmane Diallo, Staff Auditor
- Louis Holley, Staff Auditor
- Lawrence Gambone, CPA, Quality Assurance Reviewer
- Mo Brantley, Senior Audit Operations Analyst

### ***Report Distribution***

#### **Health and Human Services**

- Charles Smith, Executive Commissioner
- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Kara Crawford, Chief of Staff
- Karen Ray, Chief Counsel
- Anthony Jalomo, Director Mental Retardation Authority
- Karin Hill, Director of Internal Audit
- Lona Carter, Manager, HHSC IDD Services Performance Contracts

#### **Alamo Area Council of Governments**

- Diane Rath, Executive Director
- Susan Lodge, Senior Director
- Jacob Ulczynski, AACOG Operations Manager and Privacy Officer

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## Appendix E: IG MISSION AND CONTACT INFORMATION

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### ***Inspector General Mission***

The mission of the IG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of IG's mission and statutory responsibility includes:

- Stuart W. Bowen, Jr.                      Inspector General
- Sylvia Hernandez Kauffman            Principal Deputy IG
- Christine Maldonado                  Chief of Staff and Deputy IG for Operations
- Olga Rodriguez                          Senior Advisor and  
Director of Policy and Publications
- James Crowley                          Deputy IG for Investigations
- David Griffith                            Deputy IG for Audit
- Quinton Arnold                          Deputy IG for Inspections
- Anita D'Souza                            Chief Counsel

### ***To Obtain Copies of IG Reports***

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- Online:                                        <https://oig.hhsc.texas.gov/report-fraud>
- Phone:                                        1-800-436-6184

### ***To Contact the Inspector General***

- Email:                                        [OIGCommunications@hhsc.state.tx.us](mailto:OIGCommunications@hhsc.state.tx.us)
- Mail:                                         Texas Health and Human Services Commission  
Inspector General  
P.O. Box 85200  
Austin, Texas 78708-5200
- Phone:                                        512-491-2000