

Travis County Health and Human Services & Veterans Service Social Service Contracts and Interlocal Agreements

2015 Inherent Risk Assessment



TRAVIS COUNTY AUDITOR'S OFFICE
Risk Evaluation & Consulting Division

May 2, 2016

TRAVIS COUNTY
AUDITOR'S OFFICE

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To: Sherri Fleming
County Executive, Travis County Health and Human Services & Veterans Service

From: Nicki Riley, CPA
Travis County Auditor

Date: March 14, 2016

Re: 2015 Risk Assessment – Social Service Contracts and Interlocal Agreements

The Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has completed a risk assessment of the Travis County Health and Human Services & Veterans Service (HHSVS) social service agency contracts and interlocal agreements. The objective of the risk assessment was to assist HHSVS in identifying potential risks or exposures associated with their business processes, allowing them to implement or adjust internal controls as they deemed necessary.

We began by performing an engagement-level inherent risk assessment focusing on the identification and rating of risks that were intrinsic to HHSVS' activities and business processes. To a limited extent, we considered the impact of internal controls implemented by management to mitigate these risks. As such, the reported risks represent potential exposures. While we are not providing a judgment of how well management is addressing risk, we have noted "areas of concern" that involve the allocation of interlocal agreement costs from the City of Austin (City) to Travis County. The discussion of these items begins on page 11 of the report.

A summary of our methods, risk assessment results, and supplemental information about the areas under review comprise the first eight pages of this report. The remainder of the report provides the details of our risk assessment, including the areas of concern referenced above.

BACKGROUND

For fiscal year 2015, HHSVS budgeted \$18 million for their social service contracts and ILAs. A breakdown of their budget is provided below:

Cost Center	Contract Name/Type	FY 2015 Budget
1580540001	Social Service Agency Contracts	\$ 13,110,637
1580080001	Animal Services & Public Health ILAs	4,862,738
1580290001	Summer Youth Employment Program	217,554
1580420001	AgriLife Extension	190,702
	Total Contracts and ILAs	<u>\$ 18,381,631</u>

This risk assessment was limited to the social service agency contracts and the Animal Control Services and Public Health interlocal agreements (ILAs). The social service agency contracts touch multiple HHSVS divisions whereas the ILAs do not interact with any of HHSVS' operational areas. The remaining contracts will be evaluated during the risk assessments for the Community Services and Texas AgriLife Extension Service Divisions.

Social Service Agency Contracts

HHSVS contracts with social service providers to obtain services that align with and supplement the Department's direct programs. These community-based social service programs meet a wide range of critical needs of local residents and address goals established for each issue area. HHSVS has standard social service contracts for which they are required to pay a specified dollar amount of the agency's annual program budget. In addition, they have Managed Service Organization (MSO) contracts for which the MSO provides and manages a service network for eligible community residents and HHSVS pays for the services and an MSO fee.

Animal Control Services & Public Health ILAs

HHSVS entered into the Animal Control Services and Public Health ILAs with the City to ensure coverage of these services in the areas of the County located outside the jurisdiction of the City. Through the Animal Control Services ILA, sheltering, enforcement, and prevention services are provided for companion animals. The focus of the Public Health ILA is to improve the health and well-being of community members by encouraging healthy behaviors; providing health education programs; enforcing regulations that protect people from injury and illness; reducing the occurrence and impact of disease; and increasing public health emergency preparedness. The City administers the programs, and allocates a portion of their program costs to the County.

SCOPE

The risk assessment covered the business processes for the social service agency contracts and the Animal Control Services and Public Health ILAs. It was limited to the business processes in place during the time the risk assessment was performed - the two months ending August 31, 2015. Only the inherent risks were rated, meaning there were no tests of controls to assess control risk. All client meetings were held at HHSVS' Highland Mall Office.

During the risk assessment, we noted internal controls for the Animal Control Services and Public Health ILAs were lacking. Specifically, there were no policies and procedures requiring a detailed review of the City's cost allocation calculations and supporting documentation to verify accuracy. We expanded the scope of the engagement to include testing of the City's ILA cost allocation calculations for the seven years ending September 30, 2014.

ENGAGEMENT TEAM

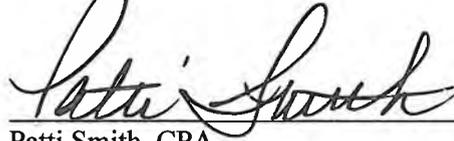
Joanne Englund, CPA, Senior Auditor
Angel Candelario, Staff Auditor

CLOSING

This report is intended solely for the information and use of the Health and Human Services & Veterans Service and Auditor's Office management. We greatly appreciate the cooperation and assistance received from management and staff during this risk assessment. Please contact our office if you have any concerns or questions regarding this report.



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INTRODUCTION TO THE RISK ASSESSMENT REPORT FORMAT

WHAT IS RISK ASSESSMENT?

Risk assessment is a systematic process of evaluating the potential negative outcomes, such as financial loss, that may occur in a business process.

HOW DOES THE RISK ASSESSMENT PROCESS WORK?

The risk assessment process includes three steps: data gathering; business process, risk and control identification; and risk rating. In data gathering, we collect information about the functional area under review to gain an understanding of its objectives, operations, and processes. We then identify what processes are in place, the inherent risks for each process, and the internal controls that have been implemented by management. The last step is to rate the risks identified for the business processes handled by the functional areas under review by evaluating them based on risk factors and assigning risk ratings.

HOW ARE THE RISK RATINGS ON THE RISK PROFILES CALCULATED?

The risks associated with each business process can be described and valued based on the risk factors of impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. The components of likelihood include geographic dispersion, complexity of operations, training and documentation, access to high-risk assets, state of automation, abuse of power potential, and management oversight. The components of impact include volume/dollar value/operational significance, media attention, government regulation, and damage to customers or third parties.

In order to obtain a risk rating for these business processes, we assign a numeric value to each of the above components. Likelihood is graded on a 1 to 5 scale from very remote to probable, while impact is graded on a 1 to 5 scale from very light to very severe. The values are then plotted on the Inherent Risk Matrix to determine the risk rating for the individual business process.

HOW IS THIS REPORT USED BY THE AUDITOR'S OFFICE?

We use risk assessments to allocate audit resources, prioritizing areas of greatest risk.

HOW CAN THIS REPORT BE USED BY COUNTY MANAGEMENT?

This report is intended to help management focus their efforts on mitigating the highest risk areas. This includes the distribution of personnel, implementation of internal controls, and allocation of budget resources.

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EXECUTIVE SUMMARY

PURPOSE

During fiscal year 2013, REC began the process of transitioning to the risk-based method of internal auditing. Under this approach, audit resources are directed toward the higher risk areas first. To determine which County offices/functional areas/business processes pose the greatest risk to the County, risk assessments are performed. The two levels of risk assessment are described below:

ENTERPRISE RISK ASSESSMENT (ERA)

This type of risk assessment is performed annually and involves identifying, rating and ranking risks at the enterprise or County level. The ERA is performed at a higher level both in terms of risk rating thresholds and level of detail. The results of this assessment are used to create the audit plan which is the schedule of internal audit engagements to be performed during the upcoming year. The audit plan is used to prioritize the utilization of audit resources.

AUDIT/ENGAGEMENT RISK ASSESSMENT (ARA)

Risk assessments performed at the engagement level delve into greater detail than ERAs, as they address the risks associated with the processes and activities handled by the County office or functional area under review. This type of risk assessment requires the internal auditor to gain an understanding of the entity's business objectives, flow of operations, business processes, inherent risks, and the system of internal controls implemented by management. During an ARA, there are three types of risks identified, evaluated and rated as follows:

- **Inherent risk** - The risk to an organization in the absence of any actions management might take to alter either the risk's probability or impact. In other words, the risks intrinsic to the entity's objectives if no internal controls are implemented.
- **Control risk** - The risk that management controls are not efficiently designed or effectively implemented, preventing the organization from meeting its objectives and protecting its assets.
- **Residual risk** - The risk that remains after management has responded to the risk by implementing controls.

To properly implement risk-based auditing, REC will be performing engagement-level risk assessments of all the Travis County offices and departments. For the majority of these entities, we will only be rating the inherent risks during the initial risk assessment. The audit plan will then be tailored to address the higher risk areas first. Going forward, we will periodically update the ARAs and accordingly adjust the audit plan. This is the first risk assessment report for HHSVS' social service contracts and ILAs.

METHODOLOGY

The risk assessment process was performed in three phases: data gathering; business process, risk and control identification; and risk rating. Brief overviews of the phases are provided below:

- **Data Gathering** - Collect sufficient information about the functional area under review to gain an understanding of its business objectives and flow of operations.
- **Identification of business processes, risks and controls** - Determine what business processes are in place, the inherent risks associated with the processes, and the internal controls implemented by management to mitigate the risks.

- **Rate inherent risks** - Evaluate the inherent risks and assign risk ratings to the business processes handled by the functional areas under review.

More information about the ARA process is provided in the detailed report section below.

HIGH RISK AREAS

We rated the risks inherent to the business processes in place for the social service agency contracts and the Animal Control Services and Public Health ILAs on a five-level scale from very low to very high. A summary of the risk ratings is provided below:

<u>Contract Type</u>	<u>Business Process</u>	<u>Risk Rating</u>
Animal Services & Public Health	Contract Management-Interlocal Agreements	High
Social Service Agency Contracts	Contract Management-Professional Services	High

DETAILED REPORT

RISK ASSESSMENT PROCESS

We performed an engagement-level risk assessment of the inherent risks associated with HHSVS' social services contracts and ILAs in the following three phases:

DATA GATHERING

In order to perform an accurate and thorough risk assessment, the first step is to become familiar with the nature of the entity's business activities. To begin this process, we requested the following documents from HHSVS:

1. Organizational charts
2. Budget submission forms (PB-3s) which provide program goals, statutorily required/mandated services, discretionary services, funding sources, anticipated reductions in revenues and grant resources, performance measures, historical trends, program efficiencies/outcomes, and proposed reallocations of budget.
3. Contract listings (interlocal, and professional services)
4. Policies and procedures
5. Formally documented narratives and flowcharts

Before meeting with HHSVS employees, we reviewed the above documentation, prior audit reports, various narratives, Commissioners Court minutes, Travis County Code, and the CAFR.

At the entrance conference, we met with various high-level employees of the Research & Planning and Finance Divisions as well as the Public Health Project Planning Manager at their Highland Mall office. At this meeting, we provided an explanation of how our office performs risk assessments as well as the anticipated timeline.

We subsequently held meetings with these employees and others to discuss their operations and business processes in greater detail. During these meetings, HHSVS employees described the various tasks involved with managing their social service contracts and ILAs. They also provided a document which breaks down the contract management tasks by responsible employee: Contact Compliance Specialist, Performance Specialist, and Program Lead. The document is titled "The Three Contract Roles: Overview" and can be found on page 8 of the report. After the meetings, we documented their flow of operations and business processes, following up with staff for clarification as needed.

IDENTIFICATION OF BUSINESS PROCESSES, RISKS, AND CONTROLS

After completing the process flow documentation, we analyzed the information gathered for each functional area and identified the following: the auditable business processes, potential risks inherent to these processes, and the controls implemented by management to mitigate the risks. We have provided a summarized version of the results of our analysis in the Business Process Risks, Risk Ratings and Control sections provided within each functional area later in this report. Additional details about the information reported in these sections are provided below.

BUSINESS PROCESSES

A business process can be defined as a group of interrelated activities or tasks that are initiated to accomplish a specific organizational goal. In the context of a risk assessment performed by REC, business processes include the basic activities used to support financial operations, for example: cash handling, accounts payable, contract management, etc. The following business processes were identified for HHSVS' social services contracts and ILAs:

- Contract Management – Interlocal Agreements
- Contract Management – Professional Services

POTENTIAL RISKS

To identify the potential risks that could prevent HHSVS from achieving their financial objectives, we reviewed the individual steps of their business processes with a focus on what could go wrong that would result in either the failure to meet objectives or in a loss of County funds. We consulted auditing standards for internal and governmental auditors, as well as industry-accepted technical guidance for risk assessment as needed.

Inherent risks are those risks that exist in the absence of any actions management might take to alter either the risk’s probability or impact. Because management control is not a factor in determining the level of inherent risk, a high degree of inherent risk does not indicate poor management or the absence of controls.

Although the stated objective of the engagement was to identify and report on the risks inherent to HHSVS’ business processes, we would be remiss if we did not convey areas of concern we came across during the assignment. An explanation of our concerns begins on page 11 of the report.

REPORTED RISK MANAGEMENT TECHNIQUES/CONTROLS

Risk management techniques/controls were self-reported by HHSVS during the course of interviews and follow-up communications. Although we reviewed their controls for reasonableness, we have not audited or otherwise validated them through audit procedures. After risk management techniques were identified, they were mapped to the risks they were designed to mitigate.

RATE INHERENT RISKS

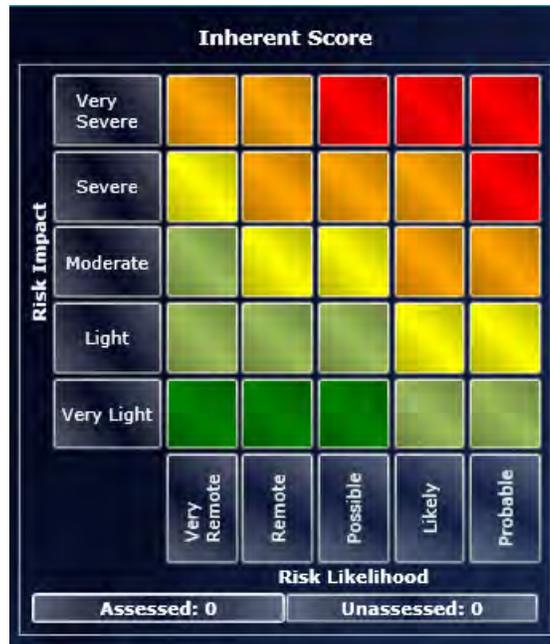
PROCESS RISK RATING

We evaluated the business processes and the associated risks for each functional area, rating the risks based on the risk factors of impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. We used the following risk factors to evaluate impact and likelihood:

Impact	Likelihood
Volume/dollar value/operational significance	Geographic dispersion
Media attention	Complexity of operations
Government regulation	Training and documentation
Damage to customers or third parties	Access to high-risk assets
	State of automation
	Abuse of power potential
	Management oversight

Adjustments were made based on auditor judgment and other factors as was deemed appropriate.

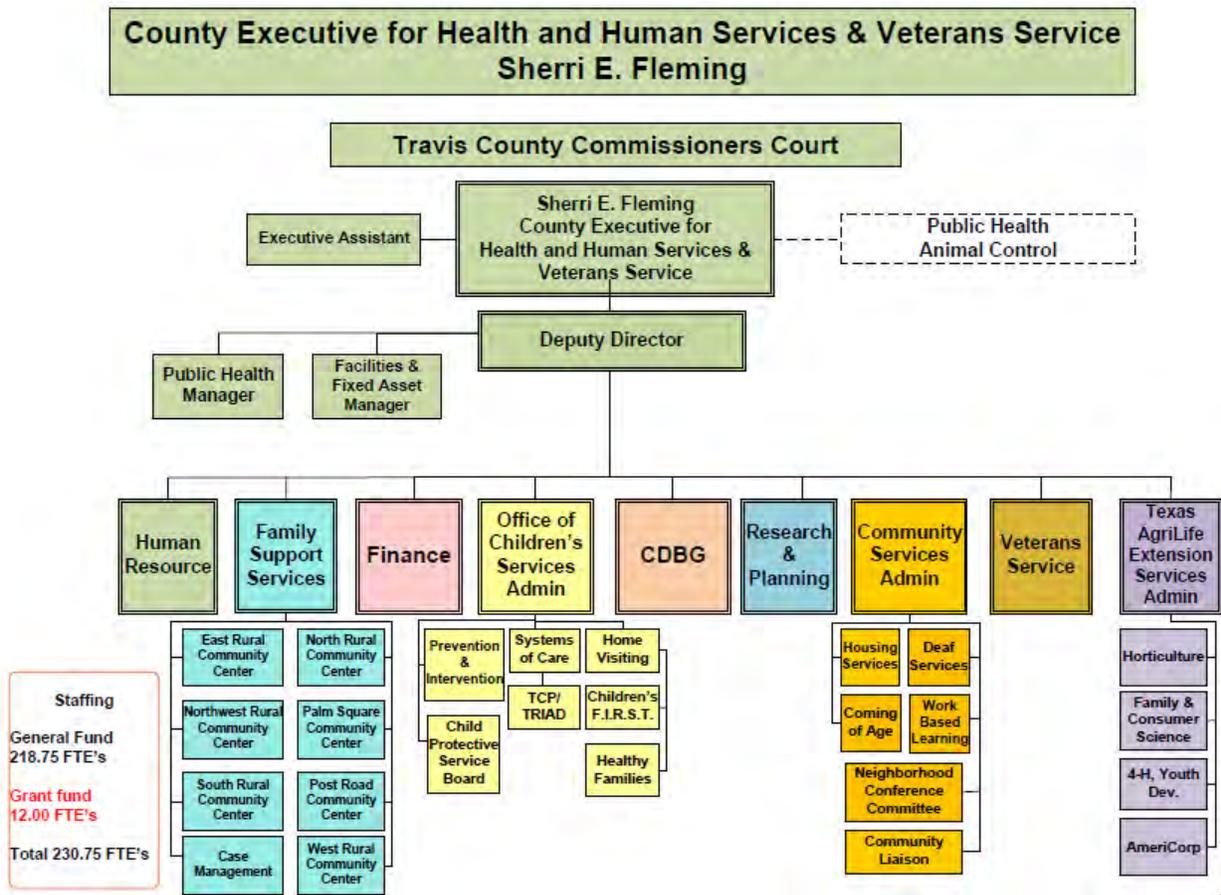
We rated impact risk on a five-level scale from very light to very severe and likelihood risk from very remote to probable. The resulting scores were then used to determine the overall inherent risk rating for each business process using our risk matrix, an example of which is provided below:



Using this matrix, the inherent risk for each business process was rated on a five-level scale as follows:

Color	Risk Rating	Description
Dark green	Very low	The risk of loss is remote, or if a loss were to occur, it would have no material impact.
Light Green	Low	The risk of loss is small, and even if a loss were to occur, it would have little material negative impact.
Yellow	Medium	There is an average risk of loss, and if a loss were to occur, it would likely have a moderate impact on the County.
Orange	High	The activity could potentially result in a significant loss to the County; however, the resulting loss, while significant, would not threaten the County in the long term.
Red	Very high	The activity could lead to significant and harmful loss to the County.

ORGANIZATIONAL CHART



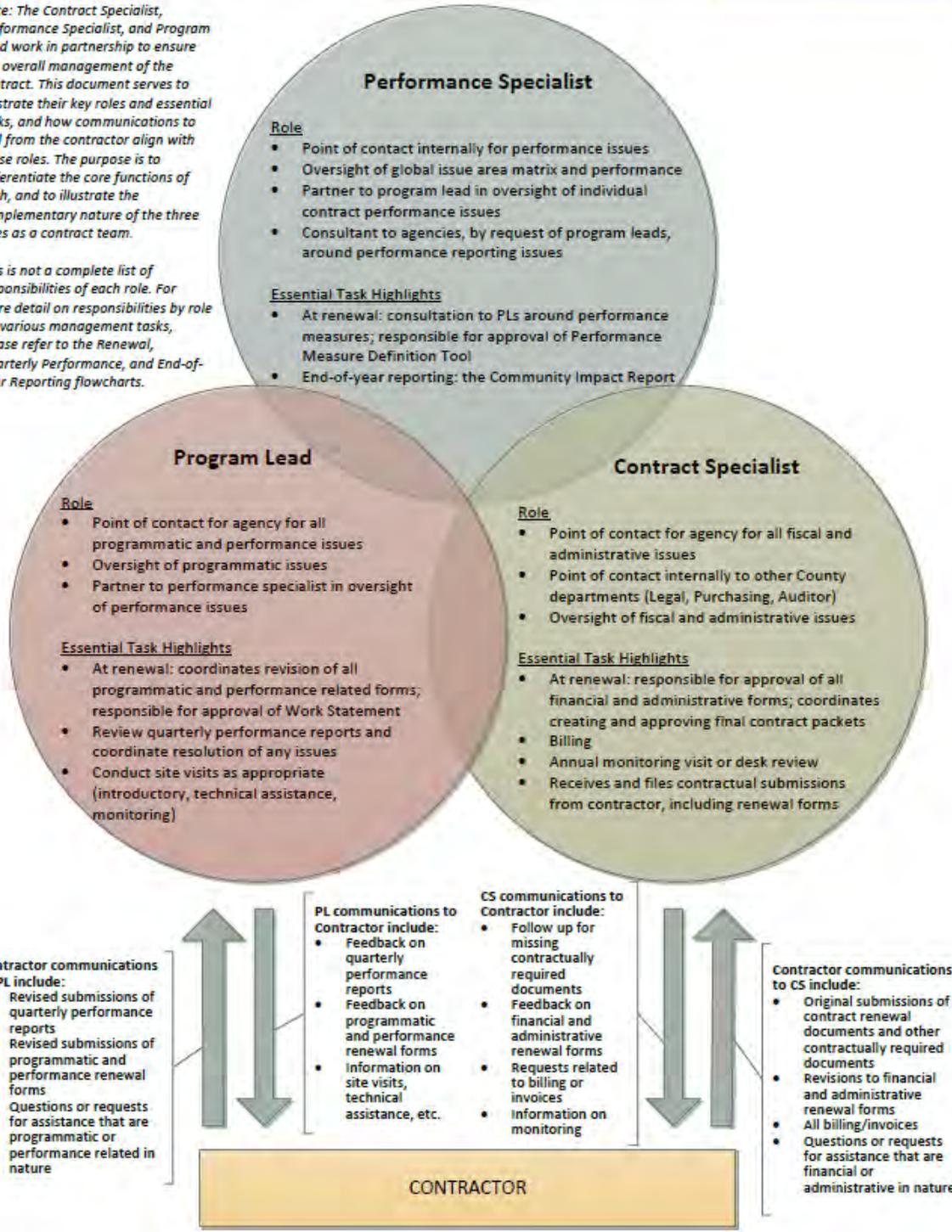
Note: The responsibility for managing the social service contracts crosses divisional lines, so they are not separately identified on the organizational chart.

CONTRACT MANAGEMENT ROLES

The Three Contract Roles: Overview Updated 8/28/2015

Note: The Contract Specialist, Performance Specialist, and Program Lead work in partnership to ensure the overall management of the contract. This document serves to illustrate their key roles and essential tasks, and how communications to and from the contractor align with those roles. The purpose is to differentiate the core functions of each, and to illustrate the complementary nature of the three roles as a contract team.

This is not a complete list of responsibilities of each role. For more detail on responsibilities by role for various management tasks, please refer to the Renewal, Quarterly Performance, and End-of-Year Reporting flowcharts.



ANIMAL CONTROL SERVICES & PUBLIC HEALTH INTERLOCAL AGREEMENTS

RISK PROFILE

MISSION AND OBJECTIVES

Combine resources with the City of Austin to provide animal control services and protect the entire population of the City and Travis County from disease through one public health system of service delivery for the City and County.

SIGNIFICANT ACTIVITIES

Animal Control Services - The City of Austin Animal Services Office provides the following:

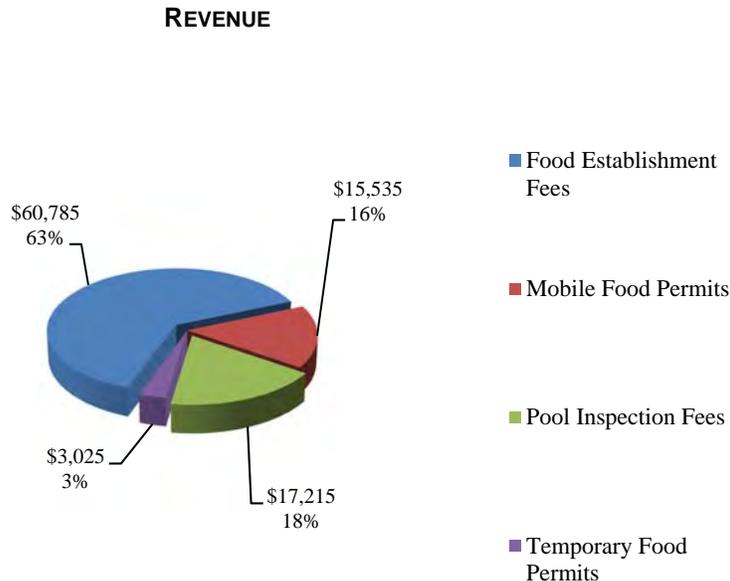
- Animal control services including rabies quarantine and the dispatch of officers to ensure public safety.
- Education to residents to prevent homelessness of animals and to promote compassionate treatment and responsible pet ownership.
- Shelter services to stray animals including veterinary care.
- Spay/neuter clinics that are affordable and accessible to the community.

Public Health – The Austin/Travis County Health and Human Services Department provides the following:

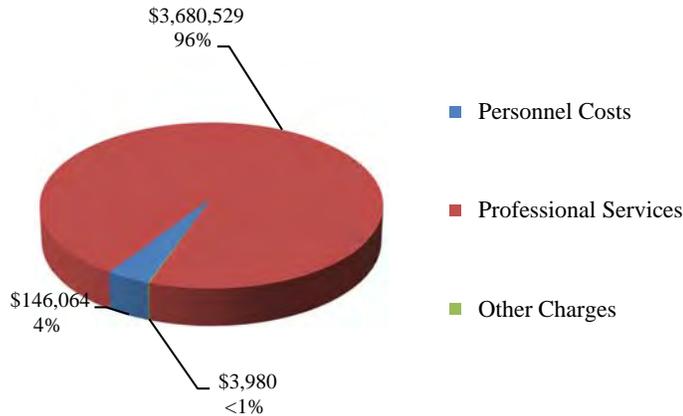
- Targeted interventions to vulnerable populations for chronic disease prevention and control.
- Promotes community-wide wellness and disease prevention; and protects the community from infectious diseases, environmental hazards, and epidemics.

FISCAL YEAR 2014 FINANCIAL DATA

During fiscal year 2014, inspection and permit fees totaling \$96,560 were collected on the County's behalf by the City. Expenditures totaled \$3,830,573 and were comprised almost entirely of payments made to the City for the Animal Control Services and Public Health ILAs. The details for their revenue and expenditures are provided below and on the following page in graph form.



EXPENDITURES



BUSINESS PROCESS RISKS, RISK RATINGS, AND CONTROLS

The following chart depicts the risk rating for the business process in place to manage the Animal Control Services and Public Health ILAs:

Business Area	Risk Rating
Contract Management – Interlocal Agreements	High

The primary risk areas and potential controls for this business process are provided below:

1. The County could pay ILA invoices that are not accurate due to miscalculations, pricing, or other errors, resulting in a loss of County funds. This risk can be offset by requiring County employees to perform a detailed review of the other party’s invoice calculations.
2. The County could reimburse the other party for expenses not covered by the ILA, resulting in a loss of County funds. The risk of this occurring can be decreased by requiring County employees to perform on-site monitoring visits and/or require supporting documentation be provided with the ILA invoices to verify it is appropriate to pay the invoice.
3. The other party to the ILA could fail to correct financial issues, resulting in a loss of County funds. This risk can be offset by implementing formal escalation procedures when the other party does not resolve financial issues in a timely manner.
4. The other party could provide substandard performance that remains undetected and/or uncorrected, resulting in the failure to meet County objectives. This risk can be minimized by requiring performance measure reporting, and County employee on-site monitoring visits to verify the accuracy of performance reporting.

AREAS OF CONCERN

As previously mentioned, HHSVS has interlocal agreements with the City that cover Animal Control Services and Public Health. The City administers the programs, and allocates a portion of their program expenses to the County. During the risk assessment, we documented the ILA contract management processes, noting the controls over the County's disbursements were lacking. In particular, although HHSVS requires documented approvals of the ILA invoices by both City and County management, they do not have policies or procedures requiring the verification of accuracy for the City's ILA cost allocation calculations.

We reviewed the ILA invoices paid by the County during the seven fiscal years ending September 30, 2014 to determine if the cost allocations were correctly calculated. This did not include detailed testing of City disbursements. To perform the examination, we obtained the City's year-end cost allocation spreadsheets (cost models) and the supporting financial statements. For each fiscal year, we traced year-to-date (YTD) expenses per the cost model to the supporting schedules and financial statements, reviewed cost model formulas for accuracy, and examined the cost models for inconsistencies and/or unusual items. As the result of our review, we noted exceptions which had a significant negative financial impact to the County. The exceptions are listed in the following table:

Description of Billing Error:	FY2010	FY2011	FY2012	FY2013	FY2014	Total
County billed for encumbrances		\$ 76,787	\$ 63,908	\$ 113,227	\$ 46,325	\$ 300,246
County overbilled due to revenue allocation errors				166,822	194,970	361,792
County billed twice for Rodent/Vector costs	\$ 56,255					56,255
Quarterly amount provided - Coyote Abatement credit				7,500	7,500	15,000
Total billing errors resulting in County overpayments	56,255	76,787	63,908	287,549	248,795	733,293
County underbilled due to timing of City's accruals		(27,062)	(21,078)	(99,529)	(20,185)	(167,853)
Quarterly amount billed - Spay/Neuter Clinic				(75,000)		(75,000)
Quarterly amount billed - Cha/Chip Demonstration				(25,500)		(25,500)
Total billing errors resulting in County underpayments		(27,062)	(21,078)	(200,029)	(20,185)	(268,353)
Total County over/(under) payments	\$ 56,255	\$ 49,725	\$ 42,830	\$ 87,520	\$ 228,610	\$ 464,940

The total dollar amount attributable to each type of billing error is color-coded to correspond with explanations of what occurred. These details are provided below:

Encumbrances Billed

Encumbrances totaling \$1,574,208 were included in the City's ILA cost models during fiscal years 2011-2014, resulting in improper cost allocations to the County totaling \$300,246. Encumbrances represent budget set aside for the anticipated cost of goods and/or services ordered in the current period that are expected to be delivered to the governmental entity in a future period. They are not incurred expenses or actual disbursements of funds. The County experienced a loss of funds when they paid the City for a portion of the encumbrances because they are budgetary transactions, not real purchases of goods and services.

Revenue Allocation Errors

The City is required to use the cost model provided in the ILA to allocate program costs to the County. According to the cost model, program costs are to be offset by program revenues before applying the cost allocation percentages to calculate the County's portion of expenses. During fiscal years 2013-2014, program revenues were multiplied by the allocation percentage before netting program revenue and expense. Because only a portion of the program revenue was offset against expenses, the County incurred a loss of funds that totaled \$361,792. It should be noted HHSVS began a detailed review of the cost allocations during this engagement and discovered this exception.

Duplicate Billing

In the fiscal year 2010 cost model, Rodent/Vector Program expense of \$438,017 was included twice in the costs to be allocated to the County. In addition to including them in Rodent/Vector expense, the costs were incorrectly added to the Health & Safety Code Compliance Program. As a result, the County was overcharged by \$56,255 for their portion of ILA costs.

Quarterly Amounts Billed

From inception of the ILAs, the City was required to allocate a portion of their budgeted expenses for the ILAs to the County on a quarterly basis, perform a true-up to their actual expenditures after fiscal year-end, and settle any over/under payments with the County. Beginning with fiscal year 2013, the ILAs were changed so that the City was required to allocate a portion of their actual expenditures to the County on a quarterly basis, meaning a true-up would not be needed after fiscal year-end. The adjustments made by the City to accommodate this change ultimately led to billing errors when the County was billed for one quarter rather than the full year of the ILA charges. The details are provided below and on the following page:

Coyote Abatement Credit

The City is required to give the County an annual credit of \$10,000 for running the Coyote Abatement Program. During fiscal years 2013-2014, the City only gave the County one quarter of the credit or \$2,500, resulting in a deficit of \$7,500 for each fiscal year and a total loss to the County of \$15,000.

Spay/Neuter Clinic

According to the 2013 ILA for Animal Services, the County is required to pay an annual fixed fee of \$100,000 for the Spay/Neuter Clinic. The City billed one quarter of this amount or \$25,000, resulting in the County being under-billed by \$75,000.

Cha/Chip Demonstration

According to the 2013 ILA for Public Health, the County is required to pay an annual fixed fee of \$34,000 for the Cha/Chip Demonstration Program. The City billed one quarter of this amount or \$8,500, resulting in the County being under-billed by \$25,500.

Year-End Accruals Not Billed

According to the Animal Control Services and Public Health ILAs that were in effect during the exam period, the City was required to invoice the County from 30-45 days (depending on the ILA) after fiscal year end. However, the City records year-end accruals as much as seven months (April) after the fiscal year ends. Because the accruals had not been recorded by the billing cutoff date, the County was not billed for its portion of the accruals.

The year-end accruals represented costs incurred by the City during the current fiscal year that were not paid until the following fiscal year. The accruals were reversed in the following fiscal year and offset the corresponding disbursements. As intended, the expense was reported the year it was incurred rather than the following year when the funds were actually disbursed. Because the County was neither billed when the expense was incurred (the accrual missed the billing cutoff) or the following year when funds were disbursed (and offset by the accrual reversals), the City did not receive reimbursement of their expenditures. During fiscal years 2011-2014, the City recorded year-end accruals totaling \$947,917 of which \$167,853 should have been billed to the County.

SIGNIFICANCE

Travis County employees have a fiduciary responsibility to safeguard County funds. This responsibility extends to the duty to ensure the County does not pay in excess of the amounts it is contractually required to pay.

RECOMMENDATIONS

Based on the noted significance, we recommend the following:

- Before requesting payment for the Animal Control Services and Public Health ILA invoices, HHSVS should verify the accuracy of the City's calculations to allocate ILA costs to the County. To perform the review, it will be necessary to obtain the following from the City: the cost model (Excel workbook), income statement by program (PDF), and supporting documentation (PDF) for any amounts included in the cost model that do not come from the financial statements.
- On an annual basis, preferably at fiscal year-end, support for the individual components of the cost allocation formulas should be obtained from the City, and used to verify the accuracy of the formulas used in the cost allocation model (e.g., the demographer's population reports, and system-generated reports of the number of permitted food establishment activities and animal control activities). For control purposes, the reports should be provided in PDF format.
- HHSVS should perform on-site monitoring visits for the Animal Control Services and Public Health ILAs on an annual basis to verify only the costs allowed by the ILA agreements are being allocated to the County. The most recent on-site monitoring visit occurred during 2013.

MANAGEMENT RESPONSE

The Health and Human Services & Veterans Service staff acknowledges and agrees with the findings described in the Travis County Auditor's Office Risk Assessment Report and has implemented immediate corrective actions where needed, and developed the necessary internal controls to guarantee the fulfillment of our fiduciary responsibility for processing future billings by the City of Austin. We are working diligently with the Auditor's Office to recapture the overpayment identified in this report.

The Department's finance staff will be building on our current internal controls to structure a detailed process review to verify the accuracy of each City of Austin invoice before processing for payment. That process will include a review of the contract's cost models to confirm agreement with the City of Austin's income statements and other supporting schedules. In addition, all cost model formulas will be evaluated to verify the mathematical accuracy of calculations. The accuracy of the allocation percentages used in the formulas will be verified by obtaining the City's support documents for all of the components of the allocation percentage formulas. For example, the department will recalculate the percentages in the same manner described in the Public Health ILA for food permitting activities. The department will request City of Austin to provide the income statements and all other supporting documentation in PDF format when applicable.

The HHSVS Finance Department Risk Assessment Process identifies all contracts and ILAs subject to an annual on-site monitoring visit. Due to the funding amounts of the Public Health Interlocal and the Animal Services ILA, an annual on-site monitoring visit will always be required. The HHSVS Finance Department staff along with the HHSVS Planning Project Manager conducted an on-site monitoring visit to review the administrative, financial and program performance of the Animal Services ILA, February 8th and 9th, 2016. The HHSVS staff will schedule an on-site monitoring visit for the Public Health ILA before the end of the 2016 contract year.

For Contract Year 2017, HHSVS will move forward to reach consensus for including language in the Public Health and Animal Services ILAs that assures administrative, programmatic and financial compliance by the City of Austin.

RESOLUTION OF BILLING ISSUES

After completing the review of the ILA cost allocations, we notified the City of Austin about the billing errors described above. They reviewed our findings, and let us know they were in agreement. Accordingly, the City provided a credit of \$464,940 on their first quarter billing for fiscal year 2016.

As of March 22, 2016, HHSVS was wrapping up a thorough review of the City's fourth quarter billings for fiscal year 2015. During their review, they found several billing errors which they were able to resolve with the City. The remaining concern has to do with the City including their 2015 fiscal year-end accruals which will not be recorded until April 2016. This is a recurring issue noted on the previous page. Once HHSVS completes their review and approval process, they will forward the invoices and support to the Auditor's Office to request payment.

SOCIAL SERVICE CONTRACTS

RISK PROFILE

MISSION AND OBJECTIVES

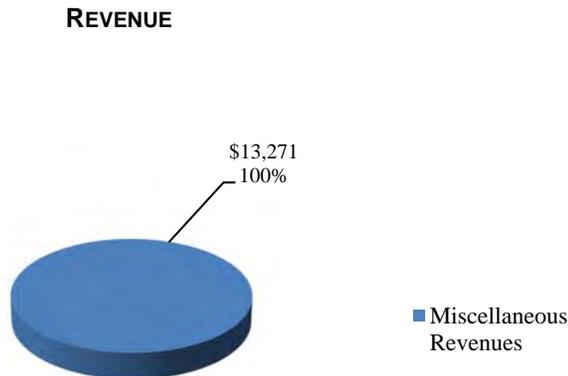
The mission of Travis County Health and Human Services & Veterans Service (HHSVS) is to address community needs through internal and external investments and services. The Department strives to maximize quality of life for all people in Travis County by protecting vulnerable populations; investing in social and economic well-being; promoting healthy living; physical, behavioral, and environmental; and building a shared understanding of our community.

SIGNIFICANT ACTIVITIES

HHSVS provides oversight of County tax dollars through contracts of programs and services in the following issue areas: Housing Continuum, Workforce Development, Child and Youth Development, Safety Intervention Services, Food and Transportation, Supportive Services for Community Living, Behavioral Health, Holistic Family Services, Public Health, Planning and Evaluation.

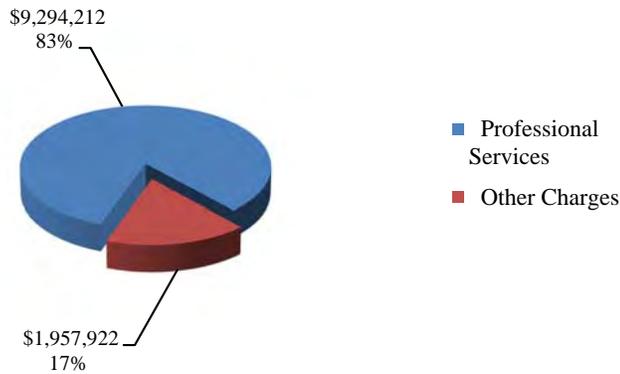
FISCAL YEAR 2014 FINANCIAL DATA¹

During fiscal year 2014, revenues consisted of juror contributions totaling \$13,271. Professional services were comprised almost entirely of social service agency contract payments and represented 83% of the expenditures which totaled \$11,252,133. The details for the revenue and expenditures are provided below and on the following page in graph form.



¹ Financial data does not include adjustments applicable to prior periods.

EXPENDITURES



BUSINESS PROCESS RISKS, RISK RATINGS, AND CONTROLS

The following chart depicts the risk rating for the business process in place to manage HHSVS’ social service contracts:

Business Area	Risk Rating
Contract Management – Professional Services	High

The primary risk areas and potential controls for this business process are provided below:

1. The County could contract with a professional services contractor that is not the best fit in terms of price and/or performance, resulting in a loss of funds and/or the failure to meet County objectives. The risk can be offset by implementing policies and procedures for selecting new contractors and evaluating them before renewing their contracts.
2. The County could incur a loss of funds as the result of fraud or misuse of contracted professional services. The required use of a gatekeeper/point of contact to request contracted services and/or authorization forms to request services lessen the risk of this occurring.
3. The County could pay invoices that contain pricing errors or charges for services not rendered, resulting in a loss of County funds. The risk can be offset by requiring a gatekeeper/point of contact to track services rendered and verify invoice accuracy.
4. The County could pay for services that are not covered by the contract, resulting in a loss of County funds. The risk of this occurring can be minimized by requiring County employees to perform on-site monitoring visits and/or require supporting documentation be provided with the invoices.
5. The professional services contractor could fail to timely correct financial issues, resulting in a loss of County funds. This risk can be offset by implementing formal escalation procedures when the contractor does not resolve financial issues in a timely manner.

6. The contractor could provide substandard performance that remains undetected and/or uncorrected, resulting in the failure to meet County objectives. This risk can be minimized by requiring performance measure reporting, and County employee on-site monitoring visits to verify the accuracy of performance reporting and provide technical assistance.

AREAS OF CONCERN

There were no areas of concern for HHSVS' social services contracts.