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An Audit Report on

**The East Texas Council of
Governments' Procurement of
Services for Selected Programs**

August 2010
Report No. 10-038



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Overall Conclusion

The East Texas Council of Governments (Council) followed statutory and contractual requirements when procuring and providing services funded through the State for its Child Care Services Program and its Rural Transportation Program. However, auditors identified areas for improvement in the Council's procurement of services for its Senior Nutrition Program.

Senior Nutrition Program

Although the Council has a documented procurement process for awarding contracts for its Senior Nutrition Program, it did not follow that process when selecting a provider for the program. The Council did not document the criteria it used to resolve an appeal of an award recommendation. Although it completed the initial assessment and ranking of proposals based on standardized criteria, the Council modified its award recommendations after one provider appealed the initial recommendations, and it awarded a contract to a provider that had not submitted a proposal. The Council did not document the criteria or other information it used as the basis for modifying its initial award recommendations.

In addition, the Council did not adequately document a plan for operating and evaluating a congregate dining pilot program or all of the costs associated with operating the pilot program. As part of that program, the Council contracted with a private provider for the bulk meals; the Council provided all other services, including transportation, meal service, set-up, and clean-up. Auditors calculated that the Council's average cost per meal was \$10.88 at the pilot program's location from March 2009 to September 2009. In contrast, the average cost per meal at congregate dining locations operated by other providers was \$5.52.

All 29 Senior Nutrition Program expenditures auditors tested were allowable in accordance with contract requirements and applicable regulations. The Council's fiscal year 2009 expenditures for the Senior Nutrition Program totaled approximately \$4.0 million.

Background Information

The East Texas Council of Governments (Council) was created in 1970. The Council is a voluntary association of counties, cities, school districts, and special districts serving 14 counties in the East Texas region (see Appendix 2 for a map of the 24 Councils of Governments in Texas). The member governments represent approximately 813,838 citizens and cover an area of 9,722 square miles.

In fiscal year 2009, the Council reported total revenues of \$43,286,978, comprising \$230,195 in general fund revenues and \$43,056,783 in grant fund revenues.

The Council employs 99 persons to assist local governments in planning, cooperating, and coordinating for regional development. Either directly or through providers, the Council provides programs and services for East Texas seniors, employers, and job seekers. The Council also maintains the 9-1-1 emergency call delivery system; provides peace officer training and homeland security planning services; and provides rural transportation services, business finance programs, and environmental grant funding for the region.

Source: East Texas Council of Governments.

Child Care Services Program

The Council's Child Care Services Program's procurement process met competitive bidding requirements and had sufficient monitoring processes, which the Council used to determine that the provider did not meet the agreed-upon performance target. However, the Council did not follow up to ensure that the provider submitted a corrective action plan to rectify the deficiencies identified, as required by contract, until the Texas Workforce Commission issued a sanction for the shortfall in December 2009. In response to the sanction, a corrective action plan was developed and the sanction was removed in May 2010.

All 17 Child Care Services Program expenditures auditors tested were allowable in accordance with contract requirements and applicable regulations. The Council's fiscal year 2009 expenditures for the Child Care Services Program totaled approximately \$15.0 million.

Rural Transportation Program

The Council's Rural Transportation Program's 2007 contract with the prior transportation provider met competitive bidding requirements, and the Council awarded the contract to the proposal that received the highest score. In September 2007, the Council began directly providing Rural Transportation services. The Council engaged the Texas Transportation Institute to analyze the cost-effectiveness of providing the transportation services in-house and has implemented its plan to provide those services. Since taking over the operation of the program, the Council has increased transportation services provided to its residents.

Under its direct operation, the Council increased average ridership—from 70,250 total riders in fiscal year 2007 to 107,673 total riders in fiscal year 2009, a 53.3 percent increase. Additionally, the program's total expenditures increased—from \$2,733,427 in fiscal year 2008 to \$4,068,938 in fiscal year 2009, a 48.9 percent increase. The largest increases were in the areas of salaries and total benefits, fuel and maintenance, and capital equipment.

All 25 Rural Transportation Program expenditures tested were allowable in accordance with contract requirements and applicable regulations.

Summary of Management's Response

The Council agreed with the recommendations in this report. The management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors reviewed the Council's fund accounting application that is used to manage grants, budgeting, and financial transactions. This review focused on the application's grant administration, accounts payable, payroll, budget, and general ledger modules.

The Council had sufficient key application and general controls and auditors determined that the data in the application could be relied upon for the audit objectives.

Auditors identified improvements that the Council should make to strengthen its controls over physical security, monitoring, and application access. To minimize the risks associated with public disclosure, auditors communicated details about these information technology issues directly to Council management.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the Council procures and provides services funded through the State in compliance with applicable statutory and contractual requirements.

The scope of this audit included an analysis of the Council's management of its Senior Nutrition Program, Child Care Services Program, and Rural Transportation Program from October 1, 2007, through September 30, 2009.

The audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of tests; and interviewing management and staff at the Council.

Auditors also identified other less significant issues that were communicated separately in writing to Council management.

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Detailed Results

Chapter 1

The Council Did Not Consistently Follow Its Documented Procurement Process When Awarding Contracts for Its Senior Nutrition Program, and It Did Not Adequately Assess the Costs for a Pilot Program

Senior Nutrition Program

The Council, through the Area Agency on Aging of East Texas, administers the Senior Nutrition Program, which provides home delivered meals to eligible homebound seniors. The Senior Nutrition Program also provides congregate dining services and activities at local senior centers throughout the Council's 14-county service region (see Appendix 2 for a map of the service area).

Source: East Texas Council of Governments.

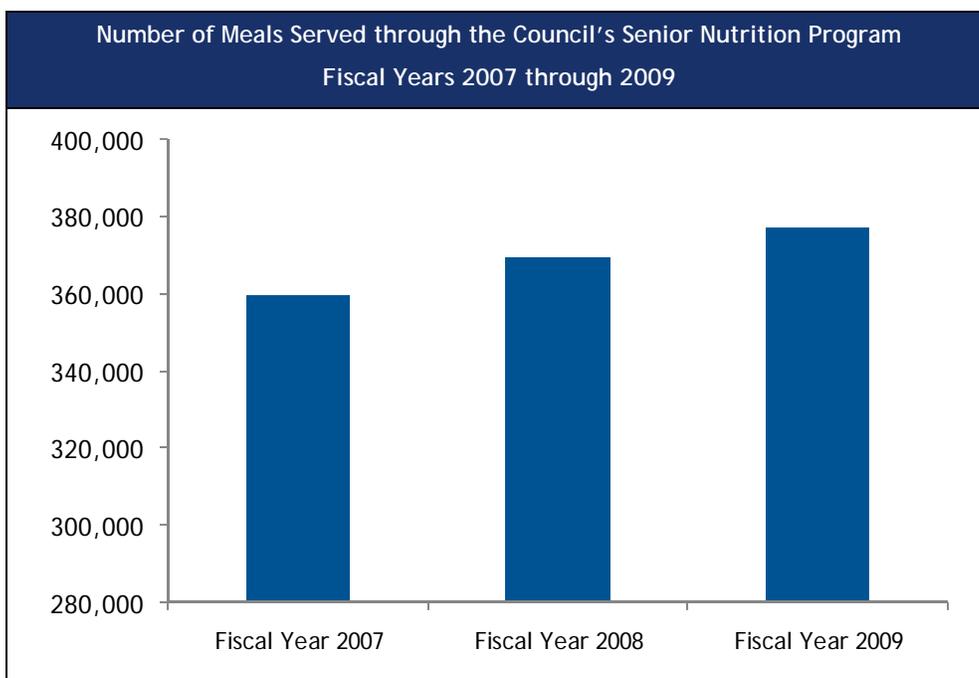
The East Texas Council of Governments (Council) has documented policies and procedures for the procurement of services for its Senior Nutrition Program (see text box for information about the program). However, the Council did not follow its procurement processes when selecting a provider for the Senior Nutrition Program.

To procure Senior Nutrition Program services in its 14-county service area for fiscal years 2008 through 2010, the Council issued a request for proposals (RFP) in May 2007. The Council followed its documented procurement process and used standardized criteria through the initial assessment and ranking of the proposals it received in response to that RFP. However, it did not follow its procedures or document the criteria it used in the final awarding of the contracts after one provider appealed the recommendations.

In addition, the Council operated a pilot program to provide congregate meals at one location. The Council spent an average of \$10.88 per meal at the pilot program location, compared to the average cost of \$5.52 for meals served at its other congregate meal locations.

All 29 Senior Nutrition Program expenditures that auditors tested were allowable in accordance with the contracts and applicable regulations. The number of meals served through the Council's Senior Nutrition Program has increased since fiscal year 2007 (see Figure 1 on the next page). In fiscal year 2009, the program's expenditures totaled \$3,988,872 and it provided 76,672 meals in a congregate setting, 299,832 home delivered meals, and 444 other meals.

Figure 1



Source: East Texas Council of Governments.

Chapter 1-A

The Council Did Not Document All the Criteria It Used to Select Providers for Its Senior Nutrition Program, and It Awarded a Contract to a Provider That Had Not Submitted a Proposal

The Council issues RFPs every three years for Senior Nutrition Program services in its 14-county service area. In May 2007, the Council issued an RFP for Senior Nutrition Program services for fiscal years 2008 through 2010, and the Council followed its documented procurement process through the initial assessment and ranking of the four proposals¹ it received. Specifically, the Council:

- Issued and properly advertised the RFP.
- Obtained competitive proposals.
- Reviewed and initially ranked the proposals according to documented criteria.

The Council's Aging Advisory Committee (Aging Committee) completed an initial assessment and ranking of the four providers' proposals based on the Council's standardized criteria and recommended contract awards.

¹ One of the four proposals submitted was incomplete and was not evaluated as part of the RFP.

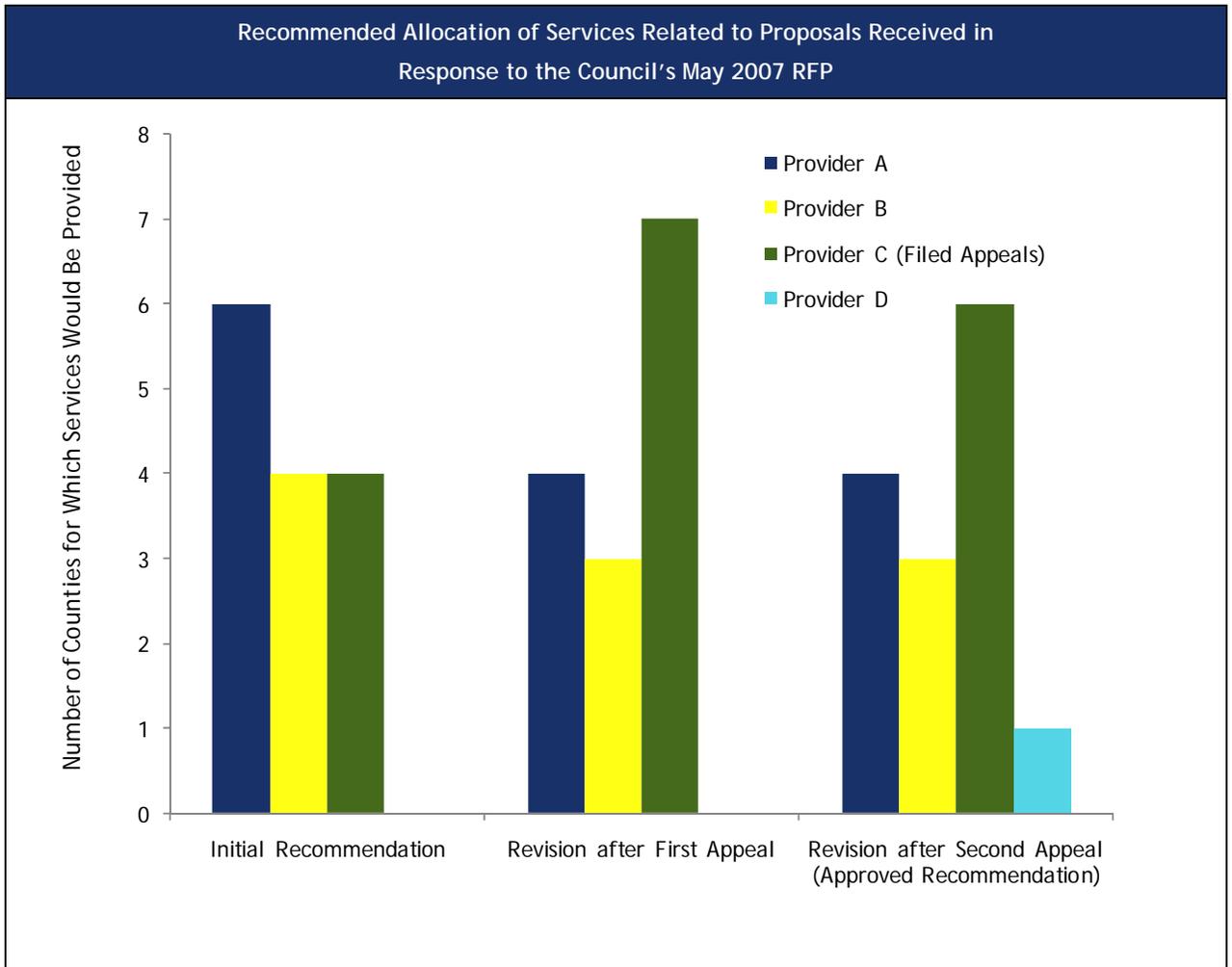
However, one provider appealed the Aging Committee's recommendations, and the Council could not provide detailed documentation of additional criteria considered or the results from the appeal process.

In response to the appeal, the Council sent the proposals back to the Aging Committee for review. The Aging Committee then issued new recommendations, which differed from the original recommendations, but it did not document any of the criteria or other information on which it based the revised recommendations.

Following a second appeal by the same provider, the Council contacted a separate provider that had not submitted a proposal and asked this new provider to provide services for a county that had complained about the quality of past meal services. The Aging Committee then reviewed the proposals for a third time and issued a third set of recommendations, which included awarding a contract to provide services in the county mentioned above to the new provider. The Council's Executive Committee used this set of recommendations as the basis for its final award decisions. However, neither the Aging Committee nor the Council had any documentation, such as memoranda, staff reports, evaluations, or listed criteria, showing what information the Aging Committee and the Council used in awarding the contracts.

Figure 2 on the next page shows the allocation of services among the three service providers that submitted a complete proposal and the provider contacted after the second appeal from the initial recommendations to the final award decisions.

Figure 2



Source: East Texas Council of Governments

Without written procedures for determining the proper action that should be taken in response to appeals and documentation supporting its award decisions, the Council cannot ensure that its procurement process is unbiased and that it awards contracts to the providers that offer the most cost-effective services and are most qualified to provide the services.

Recommendations

The Council should ensure that it fully documents its evaluation processes and award decisions for all contracts, including appeals. This should include:

- Developing and documenting all criteria that it may consider in the evaluation process, including for appeals.
- Documenting the basis for any actions taken as a result of an appeal.

- Documenting the assessment results of all criteria used when awarding a contract.

Management's Response

Management agrees that the major issue here had to do with documentation of evaluation criteria pertaining to final actions taken by the Aging Advisory Committee (Aging Committee) and the Council in awarding these contracts for regional Senior Nutrition programs for the specified periods.

The procurement in question was based on a selected regional area's rejection of the existing provider. The entire situation was further exacerbated by the appeals process for Senior Nutrition service contracts for the 2008-2010 fiscal periods. Swift action had to be undertaken to ensure that there were no service breaks to regional constituents that relied on these services for routine daily nutritional needs. As a result of the delays in awarding final contracts and the immediate need to continue services, criteria for the award were developed during the procurement process. The Council believes that the final actions taken were appropriate under the circumstances in any case and have confirmed the appropriateness of the actions with our state oversight agency.

It was noted in this section of the audit report that one of the four proposals submitted for this service was incomplete and was not evaluated as part of the RFP. The submitting vendor in this case was not certain of expectations on its part and was expecting to get this information based on procurement recommendations of the Aging Committee and the Council during the RFP evaluation and recommendation process. The proposal submitted by this vendor was never rejected and was used as a basis for developing the pilot program as noted in our next response for Chapter 1-B below.

The action to bring in a provider that had not submitted a proposal at the time was in response to an emergency situation related to the need to keep services continuous in the selected area of the region. As you have seen through the documentation that we submitted as part of the audit, the action resulted from the need for the services once the existing provider had been rejected by the selected area. The following information for the selected area shows further that providing continuous services was needed for seniors participating in this program:

- *Congregate meals served - 3,281 (approximately 205 meals per month)*
- *Home-delivered meals served - 4,714 (approximately 295 meals per month)*

The emergency situation created by the identified need for a new service provider in Rains County meant that seniors would not have been served

homebound or congregate meals, unless the Council had intervened. NETO's agreement to provide services in Rains County from June 1, 2008 - September 30, 2009 (meals served noted above) insured that the Council's commitment to the customer was honored.

In addition, the efforts of the pilot project to improve the senior nutrition program have been documented. The Council assumed operation of Rains County from October 1, 2009 - June 30, 2010. Over this nine (9) month period, the number of meals served per month increased 45% for congregate and 61% for homebound as set forth below:

- *Congregate meals served - 4,049 (approximately 449 meals per month)*
- *Home-delivered meals served - 4,250 (approximately 472 meals per month)*

Planned Actions

We plan to immediately implement the recommendations provided for all areas of our procurement practices. A part of these actions will be to centralize oversight of critical activities and documentation practices for all divisional procurements. This will also include providing central oversight for divisions pertaining to standardized documentation during the procurement process as well as general contract language for all the Council provider and vendor services.

These actions will improve the Council's procurement processes and provide specifically for the recommended practices.

Chapter 1-B

The Council Did Not Document a Needs Assessment or Plan for Operating and Evaluating a Congregate Dining Pilot Program

In March 2009, the Council started a pilot program through which it directly provided congregate meals at a site that had previously offered congregate dining services until it closed in 2005. As part of this program, the Council contracted with a private provider for bulk meals; the Council provided all other services, including transportation, meal service, set-up, and clean-up. As a result, the Council incurred costs for providing meals at the pilot program location that were significantly higher than the costs for meals provided at other congregate dining locations.

According to Council management, the pilot program was created to increase options for the consumer, increase competition, and develop alternative arrangements that could be used in the event of a contractor failure. However, prior to starting the pilot program, the Council did not:

- Adequately assess or document the need for the pilot program.
- Develop a documented plan for setting a time line, allocating responsibilities for certain activities and costs, or evaluating the pilot program.

In addition, the Council did not adequately document an analysis of all the costs associated with operating the pilot program. To determine the contracted meal rates for other Senior Nutrition Program providers, the Council used a budget worksheet that took into account the provider's expenditures associated with the meal service. The budget worksheet included costs associated with salaries and benefits, food purchases, equipment, buildings, vehicles and delivery, and administrative expenses. However, the Council did not use the worksheet to determine the budget for the pilot program.

As a result, the Council paid for various food, supply, and administrative costs to operate the pilot program site that it did not pay for at other congregate dining locations. During the first fiscal year of the pilot program's operation, those operating costs totaled \$42,022. Auditors calculated that the Council's average cost per meal served at the pilot program site was \$10.88 during the first year of operation (see text box for a detailed list of these costs), nearly twice the average cost of \$5.52 for meals served at other congregate dining locations.

Additionally, the Council incurred \$11,936 in startup costs for the pilot program. These costs included purchases of a cargo van, an upright freezer, and meal transport and delivery carts. The Council also paid for startup costs and renovations of senior centers in which congregate meals are served by its other Senior Nutrition Program providers.

Although it is not specifically required to do so by statute, the Council did not issue an RFP to obtain competitive proposals from providers to prepare meals for the pilot program. The Council's contract with the provider did not contain sufficient details. Specifically, the contract:

- Did not specify a term or ending date for the services to be provided.
- Did not define whether the number of agreed-upon meals to be provided was a minimum or maximum number. The terms of the contract called for the provider to provide meals to 30 participants per weekday at a cost of \$6.50 per meal. The provider supplied a total of 9,575 meals from March 2009 to September 2009; this was 4,985 meals more than the contracted number.

The pilot program shows that the Council can successfully provide congregate meals on an emergency basis, if needed. In March 2009, the first month of the pilot program's operation, the Council served an average of 44 meals per day.

Pilot Program Average Cost to Council Per Meal	
Contracted Amount per Meal Paid to Provider	\$ 6.50
Staff Wages	2.61
Mileage Reimbursement	0.48
Gasoline Purchases	0.16
Additional Food Purchases	0.19
Disposable Plates, Cups, and Utensils	0.26
Cleaning Supplies	0.13
Office Supplies	0.08
Utilities	0.17
Miscellaneous Items	<u>0.30</u>
Total	\$10.88

Source: East Texas Council of Governments.

By September 2009, the Council served an average of 70 meals per day, an increase of approximately 59.0 percent. However, based upon the average cost of meals for the pilot program, it may not be a cost-effective, long-term solution.

Recommendations

The Council should:

- Ensure that it adequately assesses the need for any pilot program and develops a documented plan for operating and evaluating the pilot program for cost and operational effectiveness.
- Ensure that contracts for future pilot programs are competitively bid through the procurement process.
- Ensure that all contracts contain sufficient information, such as the term of the contract and the number of deliverables intended.

Management's Response

Management agrees that documentation on assessment of needs may not have been fully adequate in this case and that vendor proposal information was incomplete as part of the RFP.

The additional criteria were developed during the program procurement and appeals processes. The criteria finally used was documented in the decisions reflected in Aging Committee meeting minutes and related correspondence documents regarding meal complaints and congregate meal sites that had been dropped by an existing provider, where the performance of the appealing bidder was at issue, both in terms of contract compliance and meal quality. We believe that the final actions taken were appropriate under the circumstances in any case and have confirmed the appropriateness of the actions with our state oversight agency.

The vendor submitted a proposal in this case but was not certain of expectations on its part and was expecting to get this information based on procurement recommendations of the Aging Committee and the Council. The proposal submitted by this vendor was never rejected and was used as a basis for developing the pilot program as noted in the final recommendation for contract award for the services in the region. As seen through the documentation that we submitted as part of the audit, the action resulted from the need for the services in congregate meal site areas that had been dropped by the existing provider. The Council and the Aging Committee felt that the needs were clear in the selected area that is further supported by actual pilot program participation. The selected site for the pilot project was closed in

2005. Therefore, no meals were being served. The following data demonstrates the effectiveness of the pilot project in Wood County at the congregate meal site. The number of meals initially projected to be served was 660 meals per month. As of September 30, 2009, the number of congregate meals served was 9,575. This averages to 1,367 meals per month, which calculates to an increase over the projections of 107.1% in only seven (7) months.

Most importantly, over the last twenty years, we have seen an increase in the home-delivered meal program participation. In the 1970's and 80's, the ratio of congregate to home-delivered meals was 90% congregate to 10% homebound. Simultaneously, the number of contractors declined from ten to three before the Council began to intervene to strengthen the system.

Currently the ratio of meals throughout the region is 80% home-delivered and 20% congregate. The pilot program was an attempt to reverse this trend and simultaneously begin to introduce new contractors in an effort to strengthen the provider base. While a number of factors contributed to this shift, the major factor has been the emphasis the contractors place on the homebound clients. The existing contractor had dropped the pilot program meal site and several other congregate sites citing profitability losses due to low participation. The pilot program found that the clients were there, they just did not participate, mainly due to low meal quality. Council management felt that the low meal quality was directly tied to the participation decreases at the pilot program site. Although there is a need to serve these homebound clients with the best quality and quantity possible, there should also be an equal emphasis on increasing congregate meal participation. In an effort to serve the clients, measures should continue to increase the provider base to ensure that the clients, both homebound and congregate can benefit from continual services.

The Council determined that the needs of seniors were inadequately addressed regarding the lack of congregate sites in the affected area and this is further documented by the participation figures that have increased since the pilot program started. The oversight state agency allowed a waiver for this program through September 30, 2010 in support Council efforts. With competing volume of meals for other providers, there was no way the costs could have been comparable to other providers and it was not a surprise to the Council or the oversight state agency. Additionally, the Council and the oversight state agency knew that this was not a cost effective long-term solution, which is one reason the waiver that was granted for service provision only goes through this next round of procurements for 2011 -2013 services.

As for costs and contracted meal counts, the pilot program was based initially on serving the selected area of the region and the eligible population that was not being served in that area. The result of the pilot program shows that the

area seniors wanted and needed these services. The entire reason for the pilot was to improve meal quality and begin to strengthen and diversify the provider base.

Planned Actions

We plan to immediately implement the recommendations provided for all areas of our procurement practices. A part of these actions will be to centralize oversight of critical activities and documentation practices for all divisional procurements. This will also include providing central oversight for divisions pertaining to standardized documentation during the procurement process as well as general contract language for all the Council's provider and vendor services.

These actions, when implemented, should improve the Council's procurement processes and provide specifically for the recommended practices. Since the referenced services in the pilot program area are a part of the RFP for 2011-13, these concerns should be satisfied when contracts are awarded for the 2011 fiscal year and beyond.

The Child Care Services Program's Procurement Process Met Competitive Bidding Requirements and Had Sufficient Monitoring Processes

Child Care Services Program

The Child Care Services Program provides subsidized child care for public assistance recipients and low income parents who are employed or attending school.

The Council administers the Child Care Services Program on behalf of the East Texas Workforce Development Board, which is under the oversight of the Texas Workforce Commission.

Total expenditures and pass through amounts for the Child Care Services Program increased from \$15,283,517 in fiscal year 2007 to \$15,327,013 in fiscal year 2009, an increase of only 0.3 percent.

Sources: East Texas Council of Governments and the Texas Workforce Commission.

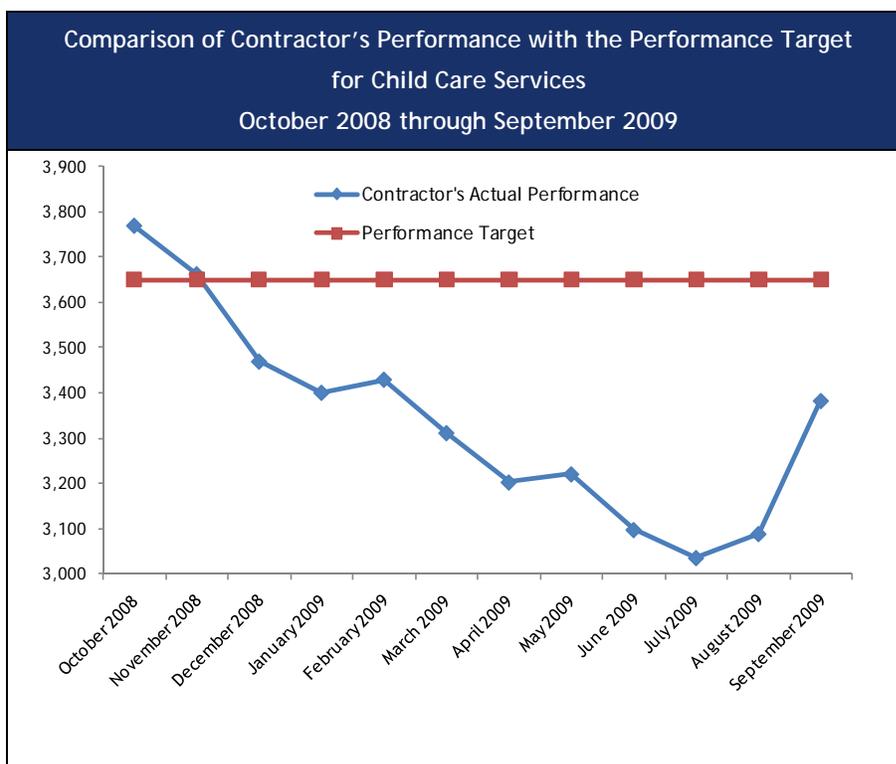
The Council has a documented procurement process for its Child Care Services Program (see text box for information about the program). The Council followed this process when it issued an RFP to award a contract for operating the Child Care Services Program in fiscal years 2007 through 2009. Specifically, the Council:

- Issued and properly advertised the RFP.
- Received proposals from at least two providers.
- Reviewed and ranked the proposals according to documented criteria.
- Retained documentation supporting its award decisions.
- Awarded the contract to the provider whose proposal received the highest evaluation score.

In addition, the Council sufficiently monitored the Child Care Services Program to ensure that expenditures were allowable and to determine that the provider was not meeting the performance target specified in its contract. Auditors tested 17 expenditures for the Child Care Services Program. All expenditures tested were allowable in accordance with the contract and applicable regulations.

The Council's contract monitoring process included requiring the provider to submit monthly reports listing the "total units paid," which is the total number of children for which the provider supplied services multiplied by the total number of days on which child care was provided. The Council used these reports to calculate the average number of children per day for whom child care services were provided. In fiscal year 2009, the provider averaged 3,338 children served per day, which was 91.5 percent of the contracted performance target of 3,650 children per day (see Figure 3 on the next page).

Figure 3



Source: East Texas Council of Governments.

The Council notified the provider about this identified shortfall, and the provider took steps to increase enrollment. However, the Council did not follow up to ensure that the provider submitted a corrective action plan to rectify the deficiencies identified, as required by the contract, until the Texas Workforce Commission sanctioned the East Texas Workforce Development Board in December 2009 for the shortfall.²

The provider and Council have since developed and implemented a corrective action plan. Annually, the Texas Workforce Commission determines the performance target for the contract year. For contract year 2010, the performance target fell from 3,650 average children served per day to 3,184. As a result of the corrective action plan and the lower performance target, the provider met its contracted performance target for four consecutive months, and in May 2010 the Texas Workforce Commission removed the sanction.

² The Council administers the Child Care Service Program on behalf of the East Texas Workforce Development Board, for which the Texas Workforce Commission has oversight authority.

Recommendations

For future issues related to provider performance, the Council should:

- Require the provider to submit a corrective action plan per the terms of the contract.
- Monitor its providers to ensure that corrective action plans are implemented as agreed.

Management's Response

Management agrees that the issue concerning the documentation of the submittal of a formal corrective action plan and the assurance of implementation. Although the contractor submitted a performance plan upon request, it was not in the format that met the specific contract requirements for a corrective action plan.

Planned Actions

We plan to immediately implement the recommendations as recommended.

The Rural Transportation Program's Prior Procurement Process Met Competitive Bidding Requirements, and the Council Has Increased the Services Provided Since Taking Over Direct Operations in 2007

Rural Transportation Program

The Rural Transportation Program provides rural public transportation services for residents within the Council's 14-county service region.

Passengers must request service at least a day in advance and are picked up from their requested pickup point, taken to their destination, and returned to their pickup point. The Council also offers a flex route transportation program offering set pickup times at fixed locations while allowing for small deviations to accommodate customers. Historically, the Council's Rural Transportation Program's primary customers have been the elderly, persons with disabilities, and low-income residents.

Source: East Texas Council of Governments.

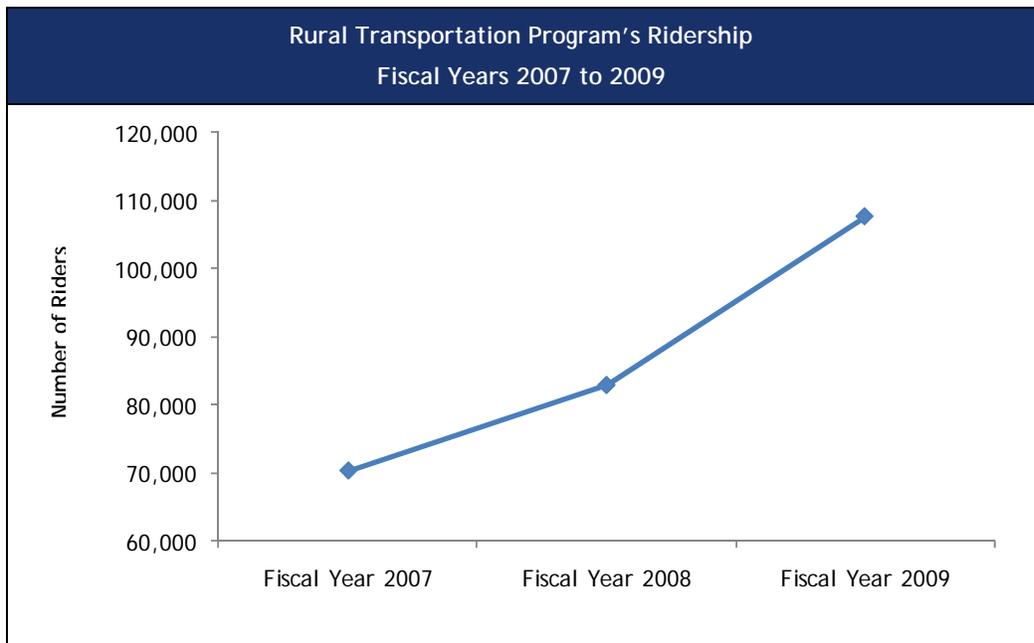
The Council followed its documented procurement process when it awarded a contract for its Rural Transportation Program (see text box for information about the program) prior to the Council taking over direct operations of the program in 2007. Prior to September 2007, the operation of the Rural Transportation Program was contracted out to one provider. In awarding this contract, the Council:

- Issued and properly advertised the RFP.
 - Obtained competitive proposals.
 - Reviewed and ranked the proposals according to documented criteria.
 - Retained documentation supporting its award decisions.
-
- Awarded the contract to the provider whose proposal received the highest evaluation score.

In September 2007, to improve and expand existing transit services, the Council began directly providing the Rural Transportation Program services. Before it took over direct operations of the program, the Council engaged the Texas Transportation Institute (Institute) to provide technical assistance and analyze the cost-effectiveness of providing the transportation services in house. In June 2007, the Institute issued its summary, which the Council used as the basis for providing transportation services.

Since the Council took over the direct providing of services, ridership and expenditures for the program have increased. The number of riders who used the rural transportation service increased from 70,250 in fiscal year 2007 to 107,673 in fiscal year 2009, a 53.3 percent increase (see Figure 4 on the next page).

Figure 4



Source: East Texas Council of Governments.

In fiscal year 2008, the Council's first full year of direct operations, expenditures totaled \$2,733,427, a 67.4 percent increase from fiscal year 2007. In fiscal year 2009, expenditures totaled \$4,068,938, a 48.9 percent increase from fiscal year 2008. The largest increases were in three areas: salaries and total benefits, fuel and maintenance, and capital equipment.

All 25 expenditures that auditors tested for the Rural Transportation Program were allowable in accordance with the contract and applicable regulations. See Appendix 3 for additional information about the Council's Rural Transportation Program.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the East Texas Council of Governments (Council) procures and provides services funded through the State in compliance with applicable statutory and contractual requirements.

Scope

The scope of this audit included an analysis of the Council's management of its Senior Nutrition Program, Child Care Services Program, and Rural Transportation Program from October 1, 2007, through September 30, 2009.

Methodology

The audit methodology included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating test results, additional documentation, and data; and interviewing management and staff at the Council.

Information collected and reviewed included the following:

- Council budget plans and annual financial reports.
- Policies and procedures from the Council, the Council's Transportation Division, the Council's Area Agency on Aging, and Workforce Solutions East Texas.
- Financial data from the Council's accounting database.
- Request for proposal submissions from various entities.
- Contracts between the Council and the providers.
- Expenditure invoices, journal vouchers, and payroll records.
- Reports documenting results of contract performance targets.
- Various committee meeting minutes.

Procedures and tests conducted included the following:

- Sampled and tested expenditure invoices, journal vouchers, and payroll records.

- Tested request for proposal and contract documentation.
- Analyzed expenditure data from the Council's accounting database.
- Analyzed data related to the services provided to consumers by the Council's Senior Nutrition Program, Child Care Services Program, and Rural Transportation Program.

Criteria used included the following:

- Policies and procedures from the Council, the Council's Transportation Division, the Council's Area Agency on Aging, and Workforce Solutions East Texas.
- Contracts between the Council and the providers.
- *Office of Management and Budget Circular A-87.*
- *Office of Management and Budget Circular A-122.*
- Code of Federal Regulations, Title 48, Part 31.
- Texas Local Government Code.
- *State of Texas Contract Management Guide.*
- *State of Texas Procurement Manual.*
- Governor's Office of Budget and Planning *Uniform Grant Management Standards.*

Project Information

Audit fieldwork was conducted from March 2010 through June 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

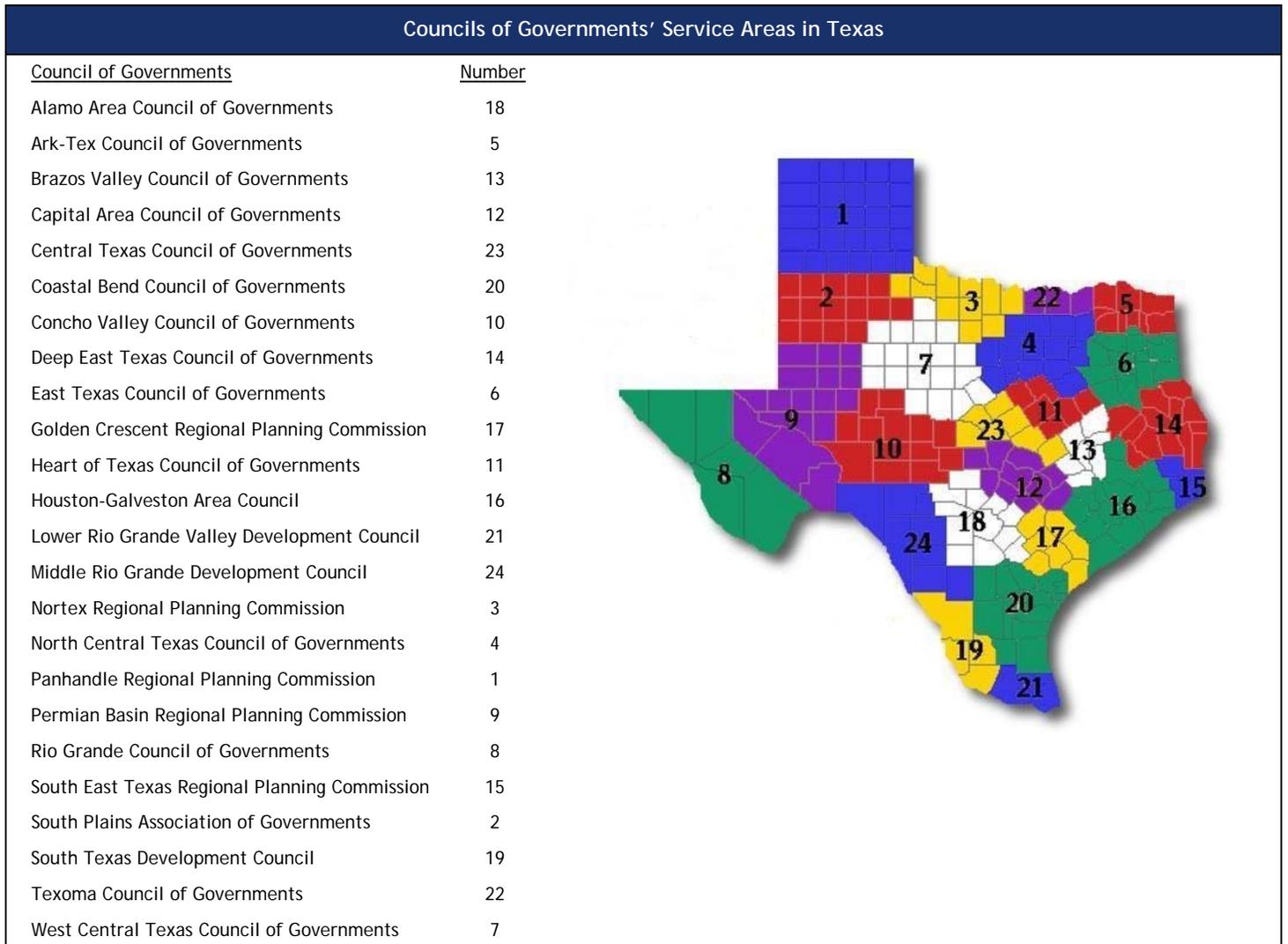
- Tony White, CFE (Project Manager)
- Jeremy Schoech (Assistant Project Manager)
- W. Chris Ferguson, MBA
- Kenneth Manke

- Ellie Thedford
- J. Rachelle Wood, MBA, CISA
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Nicole Guerrero, MBA, CIA, CGAP, CICA (Audit Manager)

Map of Councils of Governments' Service Areas

Councils of governments are voluntary associations of local governments formed under Texas law. These associations deal with the problems and planning needs that cross the boundaries of individual local governments. Figure 5 shows the service areas of the 24 councils of governments in Texas.

Figure 5



Source: Texas Association of Regional Councils' Web site at www.txregionalcouncil.org.

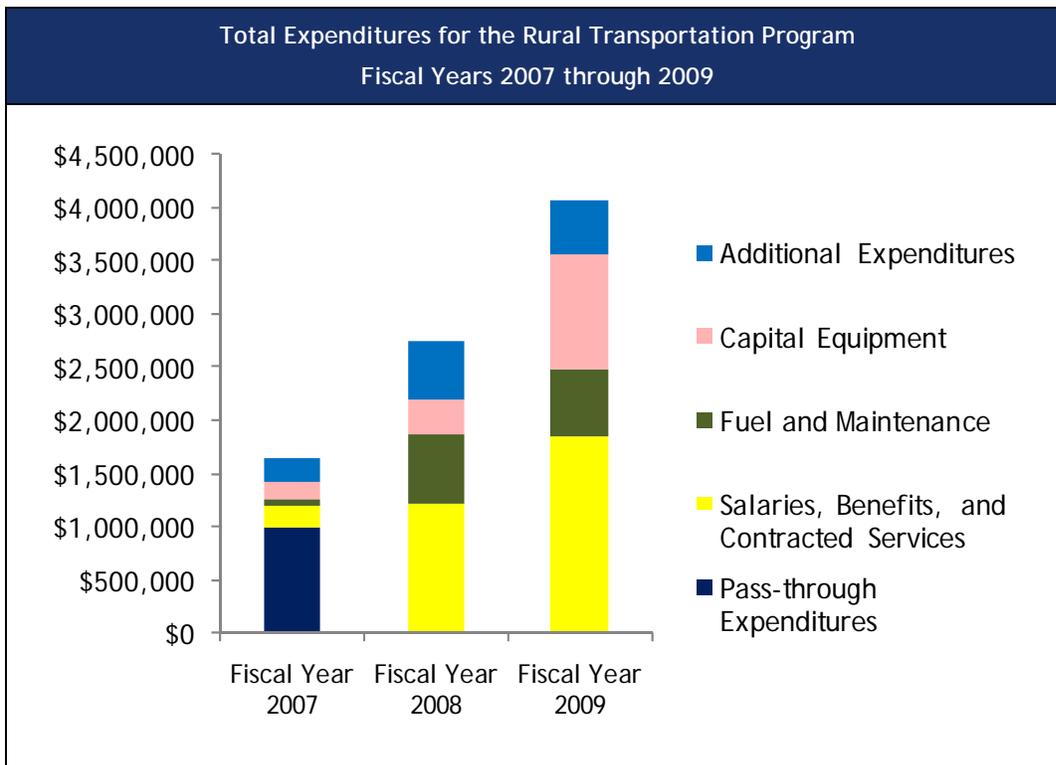
Rural Transportation Program Expenditures

In September 2007, to improve and expand existing transit services, the East Texas Council of Governments (Council) began directly providing Rural Transportation Program services. Since the Council took over the direct providing of services, total program expenditures have increased; however, those increases were proportional to the expansion of the Council's operations, including the increase in the number of buses operated and the total number of miles driven. The largest increases were in three areas: salaries and total benefits, fuel and maintenance, and capital equipment (see Figure 6 on the next page).

Specifically:

- The Council's Rural Transportation Division added 41 employees; most of them bus operators. As a result, the Council's expenditures for salaries, total benefits, and contracted services (for temporary employees) increased from \$206,406 in fiscal year 2007 to \$1,841,756 in fiscal year 2009.
- The Council spent \$655,611 on fuel and maintenance in fiscal year 2009. The final contract with the previous contractor budgeted \$522,148 for those items.
- The Council purchased 19 buses and 2 staff vehicles to supplement its fleet and replace a portion of its aging inventory. It used federal funds for a portion of this purchase, including \$559,510 in American Recovery and Reinvestment Act funds. At the end of fiscal year 2010, the Council planned to have a fleet of 51 buses and 45 full-time equivalent bus operators.

Figure 6



Source: East Texas Council of Governments.

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