HEALTH AND HUMAN SERVICES

A Progress Report on Consolidation

March 2005

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Fellow Texans:

The passage of H.B. 2292 during the 78th Legislative Session established a clear directive to transform the delivery of health and human services in our state. The consolidation of 12 agencies into a network of 4 new departments under the leadership of the Texas Health and Human Services Commission (HHSC) is one of the most significant reorganization efforts in recent U.S. history. Texas is providing a model for other states on how to transform operations to provide meaningful, lasting, and measurable changes in the delivery of health and human services and, ultimately, in the lives of those we serve.

Through the enactment of H.B. 2292, state leaders envisioned a coordinated system of services and programs that is rationally organized, effectively managed, accountable for results, and most importantly, centered on the needs of clients. HHSC has been charged with overseeing this newly integrated system and translating this vision into reality. As outlined in the H.B. 2292 Transition Plan, our efforts are guided by three key principles:

- **A Focus on Client Needs and Program Delivery** — Realigning our programs around the people we serve.
- **Effective Stewardship of Public Resources** — Streamlining our administrative operations and redirecting savings into services.
- **Cultural Change and Accountability** — Changing the organizational culture to a single-entity, outcome-focused philosophy across the entire system and strengthening our accountability to the taxpayer.

Since September 2003, we have made significant progress in transforming health and human services. On September 1, 2004, we reached a major milestone by successfully completing the realignment and transfer of more than 46,000 staff into the new health and human services structure while continuing to deliver the services Texans rely upon. We have implemented fundamental changes to the health and human services delivery system that have resulted in tangible benefits for Texans.

Creating this new structure is an important step in gaining efficiencies and breaking down barriers for clients, but it is just the beginning. This report also outlines the vision and plan for the future of health and human services. We will realize this vision by building upon the organizational framework now in place. The best measure of our success is how our efforts improve the lives of the Texans we serve.

I would like to thank the state employees who have worked to implement H.B. 2292. In particular, I want to thank those who work every day on the frontlines serving Texans in need. Across the state, millions of Texans count on the delivery of our programs every day. The dedication, commitment, and hard work of our employees allowed us to make significant progress toward transforming health and human services while continuing to deliver services. Together, we are making Texas a model of efficient, effective, accountable, and client-centered government.

Sincerely,

Albert Hawkins
Executive Commissioner
Health and Human Services Commission

A PROGRESS REPORT ON CONSOLIDATION

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VISION FOR HEALTH AND HUMAN SERVICES

OUR VISION

For more than 140 years, the State of Texas has been providing health services and human services for its citizens, initially serving persons who were blind or deaf and hard of hearing and those with mental illness. Since that time, the number, size, and scope of state agencies administering health and human services have grown steadily.

By 2003, health and human services accounted for approximately one-third of Texas government, spending more than $19.6 billion and providing services to millions of Texans. The state's efforts to provide health services and human services involved 12 agencies and more than 48,000 employees operating more than 200 programs from more than 1,000 facilities and offices across the state. Occurring over many decades and without an overall plan, the growth of health and human services agencies and programs resulted in a confusing, disjointed, and redundant system, much like a house built one room at a time without the overarching vision of a single architect.

The enactment of H.B. 2292, 78th Legislature, 2003, provided Texas with a rare opportunity to comprehensively redesign and transform a broad array of critical government services. With the passage of H.B. 2292, Texas is engaged in a far-reaching effort to restructure and revamp the administration and delivery of health services and human services. This comprehensive effort is improving client services and better using taxpayer dollars through reorganization of agencies, realignment of programs, streamlining of operations, deployment of modern technology, and a focus on accountability.

UNDER THE OLD STRUCTURE

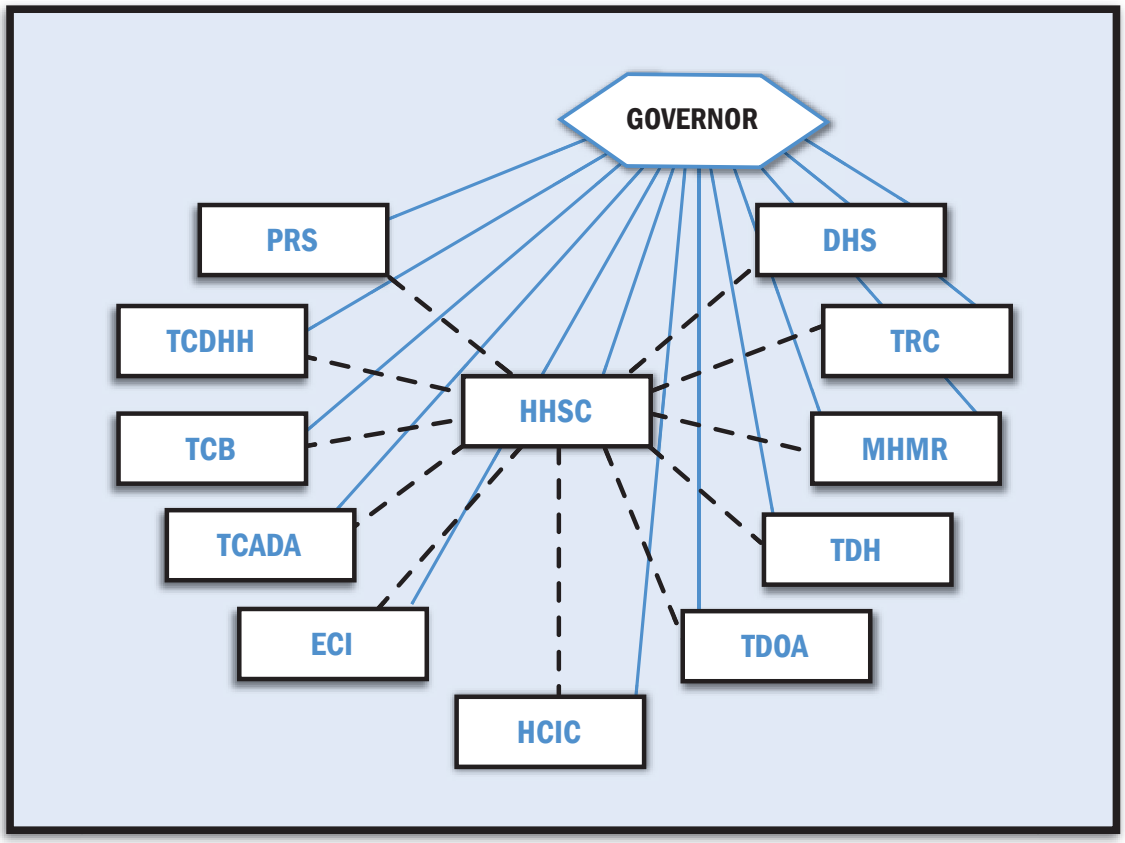
WHERE WE WERE

The health and human services component of state government, with its separate agencies and numerous programs, often did not function as an integrated system. This produced a number of specific problems including:

- **Clients had to navigate between multiple agencies to receive services.** For example, a client with mental illness would be served by one agency for the mental illness, a second agency for physical health problems, and a third agency if the client also had substance abuse problems.
- **Integrated programmatic and policy approaches were difficult to achieve.** Health and human services agencies operated in a loose-knit framework, making it a challenge to deal with such issues as streamlining and integrating eligibility processes across programs or increasing coordination between related programs.
- **Administrative structures were redundant and inefficient.** Each agency had its own administrative and support functions, facilities, and technology systems, all of which increased administrative costs.
- **The public had difficulty accessing the complex array of agencies.** Local governments, community groups, and advocacy organizations had to navigate the complex structures of multiple agencies to impact policy or service delivery.
- **Lines of authority and accountability were blurred.** The heads of most of the 12 prior health and human services agencies were accountable to both the Health and Human Services Commissioner and to a governing board for their agency. This made it difficult for these agencies to function as an integrated system pursuing a common vision.

where we were

Health and Human Services System Before H.B. 2292



Recognizing the difficulties that resulted from the complex and fragmented structure of the health and human services system, the 78th Legislature determined that fundamental reform was needed to:

- enhance client services;
- provide coordinated and integrated health services and human services;
- eliminate duplicative administrative systems and services;
- increase accountability to clients, providers, and taxpayers;
- streamline decision-making processes and procedures; and
- improve cost-effectiveness.

THE HEALTH AND HUMAN SERVICES SYSTEM CREATED BY H.B. 2292

Health and Human Services Commission (HHSC)

H.B. 2292 gives four types of responsibility to HHSC. First, HHSC now has clarified responsibility and enhanced authority for leading and overseeing the health and human services agencies and ensuring that they function as a system. Second, HHSC has a strengthened mandate to consolidate and administer most administrative support services for the health and human services agencies. Third, HHSC now has expanded responsibilities for administering programs. Programmatic responsibilities at HHSC now include Medicaid, the Children's Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), family violence services, refugee services, and early childhood coordination programs. In addition, H.B. 2292 directs HHSC to integrate eligibility determination for many health and human services programs. Finally, H.B. 2292 created an independent Office of Inspector General within HHSC. This office is responsible for the investigation of fraud and abuse in the provision of health and human services and the enforcement of state law relating to the provision of those services.

Department of Family and Protective Services (DFPS)

DFPS began operations February 1, 2004. DFPS consists of the programs previously administered by the Department of Protective and Regulatory Services. DFPS provides protective services to children, people with disabilities, and the elderly. DFPS' mission is to protect vulnerable people from abuse, neglect, and exploitation through the Adult Protective Services, Child Protective Services, Child Care Licensing, and Child Abuse Prevention and Intervention programs.

Department of Assistive and Rehabilitative Services (DARS)

DARS began operations March 1, 2004, with the merger of the Texas Rehabilitation Commission, the Commission for the Deaf and Hard of Hearing, the Interagency Council on Early Childhood Intervention, and the Texas Commission for the Blind. The agency's mission is to work in partnership with Texans with disabilities and families with children with developmental delays to improve the quality of their lives and to enable their full participation in society.

Department of State Health Services (DSHS)

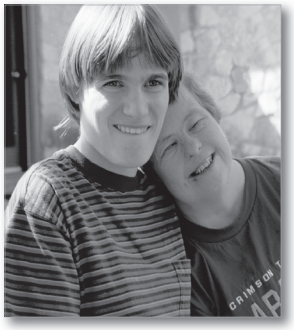
DSHS began operations September 1, 2004, combining the Texas Department of Health, the Texas Commission on Alcohol and Drug Abuse, and the Texas Health Care Information Council, as well as the mental health responsibilities of the Texas Department of Mental Health and Mental Retardation. The agency's mission is to promote optimal health for individuals and communities through the provision of effective public health services, clinical services, mental health services, and substance abuse services.

where we were

Department of Aging and Disability Services (DADS)

DADS began operations September 1, 2004, through consolidation of numerous programs and activities that had been administered by three predecessor agencies. These programs and activities include: community mental retardation services and state school programs of the Department of Mental Health and Mental Retardation; community care and nursing home services of the Department of Human Services; and the services and programs of the Texas Department on Aging, including the responsibilities and requirements associated with the Older Americans Act. DADS' mission is to provide a comprehensive array of aging, disability, and mental retardation services and supports that are easily accessed in local communities. DADS also licenses and regulates providers of these services.

STREAMLINING AND MODERNIZING THE SYSTEM



WHERE WE ARE TODAY

H.B. 2292 envisioned structural change as an important element of transforming health and human services in Texas into an efficient and coordinated client-focused system. These structural changes involved consolidation of agencies, a related realignment of programs, and consolidation of administrative and support services.

Agency Consolidations and Program Realignments

H.B. 2292 mandated that 10 of the 12 previously existing health and human services agencies be abolished with their powers and duties transferring to 3 new agencies and to the Health and Human Services Commission. A fourth agency retained most of its prior responsibilities but was renamed and placed under a new governance structure.

Under the leadership of the Health and Human Services Commission and with the guidance of the Transition Legislative Oversight Committee, established pursuant to H.B. 2292, the consolidation of agencies and the organizational realignment of services were completed as of September 1, 2004. The fact that this reorganization of hundreds of programs was completed on time and without disruptions in services is a testament to the dedicated efforts of thousands of employees in the health and human services system.

The new structure of the health and human services system streamlines accountability. The Health and Human Services Executive Commissioner is appointed by the Governor and confirmed by the Senate. Under H.B. 2292, the Health and Human Services Executive Commissioner appoints the commissioners of the four agencies under HHSC's oversight with the consent of the Governor. Previously, the heads of these agencies were accountable to both the Executive Commissioner and separate governing boards. Under H.B. 2292, each agency also has an Agency Council appointed by the Governor to advise the agency commissioners and their staffs on rule-making and other policy matters. These changes were important to help ensure that the agencies can work together as a system.

H.B. 2292 also directed HHSC to pursue the consolidation of administrative and support services. Before the passage of H.B. 2292, each of the 12 agencies was responsible for providing the full range of administrative support services necessary for an agency to operate. This created costly duplicative investments in staff and technology. The different systems, policies, and procedures used by the various agencies for their administrative functions also presented barriers to the agencies functioning as an integrated and coordinated system.

HHSC now serves as the central provider to the other health and human services agencies for administrative support services, including human resources, civil rights, procurement, strategic planning, ombudsman, and leasing and facilities management functions. In the cases of information technology and legal services, only specific functions that supported all agencies were consolidated.

where we are today

On June 1, 2004, all health and human services agencies began operating under the same human resources policies. Since September 1, 2004, all health and human service agencies have been using the same software system for key administrative functions, such as financial services and human resources. Originally considered a seven-year project, the consolidation of administrative and financial systems was accelerated and completed three years early to facilitate the reorganization of the health and human services system.

Ongoing efforts may result in further consolidation of support services, such as certain financial functions. HHSC also will work to achieve additional efficiencies within the framework of the consolidated administrative services now in place.

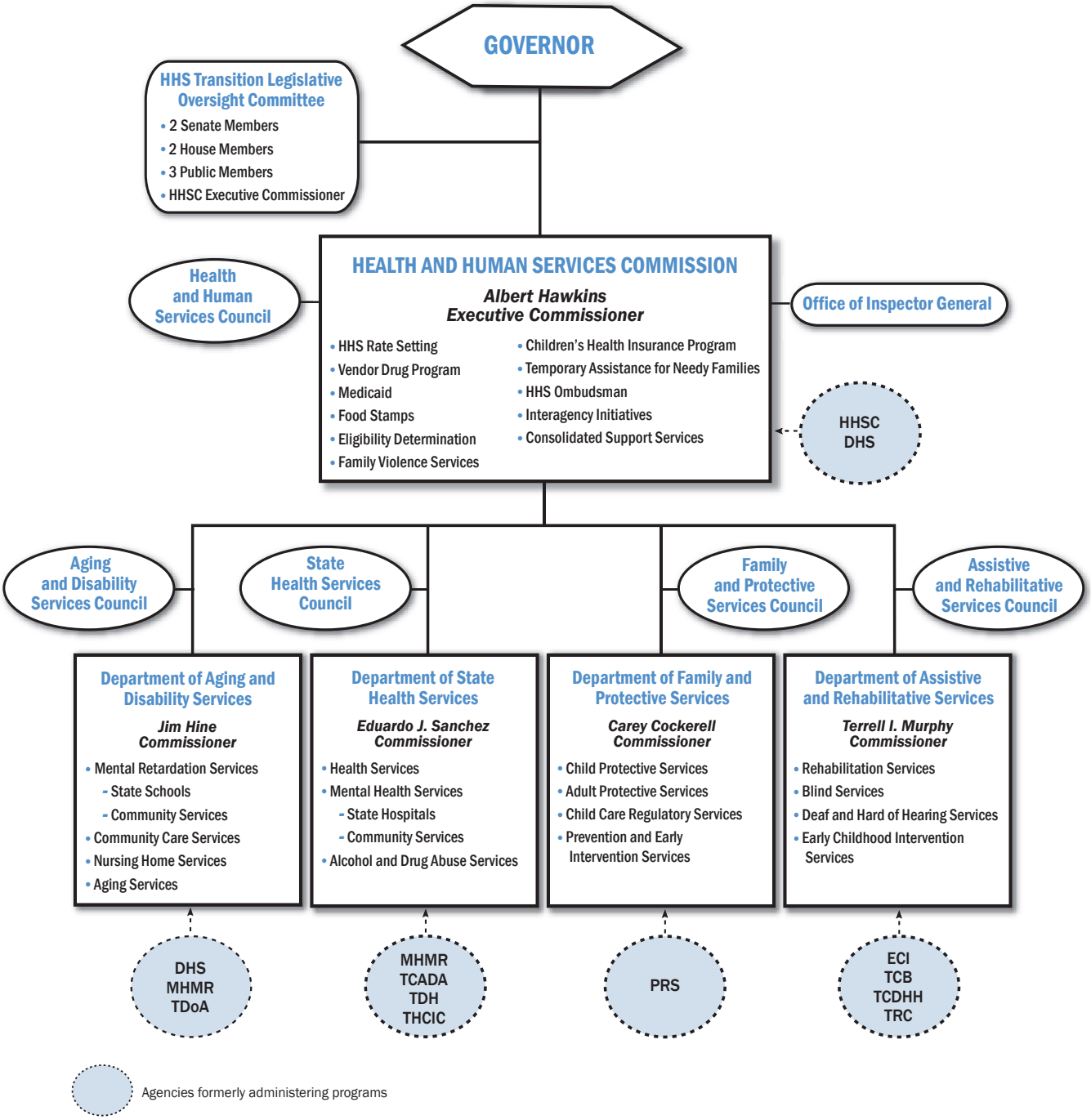
A Foundation for Transformation

The successful consolidation of health and human services agencies and administrative support services has produced a number of benefits and created a foundation for future improvements.

- Eligibility determination for closely related services is now located in one agency, the Health and Human Services Commission.
- A single agency, the Department of State Health Services, is now able to address physical and mental health needs in a coordinated way. Services relating to mental health and substance abuse, which are often co-occurring disorders, are now closely aligned within the new health agency.
- A single agency, the Department of Aging and Disability Services, now has long-term care services as its primary focus. These services are functionally similar and often involve the same providers and clients. The new agency will be able to provide a more comprehensive and efficient approach to delivery of these services, and to more broadly emphasize such concepts as prevention, aging well, and partnerships with communities and stakeholders.
- A single agency, the Department of Assistive and Rehabilitative Services, is now in a position to leverage resources to enhance the assistive and rehabilitative services provided to several client groups.
- The Department of Family and Protective Services, while maintaining essentially the same responsibilities as its predecessor agency, can now enhance its focus on client services due to the consolidation of administrative support functions.
- A new structure of governance and accountability promotes the goal of functioning as an integrated system rather than a loosely related group of independent agencies.

The Consolidated Texas Health and Human Services System

as directed by H.B. 2292, 78th Legislature



where we are today

BENEFITS OF CONSOLIDATION

H.B. 2292 was intended to produce two types of benefits that would begin in the short term and increase over the longer term. Benefits in the quality, accessibility, and coordination of services were expected as the new agencies increasingly function as an integrated system with a common vision. Financial benefits resulting from greater efficiency would result in savings and create opportunities to redirect dollars from administrative supports into direct services.

IMPROVING SERVICES FOR TEXANS

While the cost savings associated with consolidation are important and substantial, they are only one dimension of the benefits of consolidating agencies and implementing H.B. 2292. Ultimately, the greatest benefit may be the improvements in service quality, accessibility, and coordination.

Working as a System to Improve Services

Historically, health and human services agencies in Texas have operated independently, even though their objectives, programs, and clients overlap. Operating in a disjointed manner prevented the state from improving the delivery of services comprehensively across agency lines. With the passage of H.B. 2292, HHSC now has the capability to comprehensively investigate problems, coordinate across agency lines, and deploy resources to implement changes effectively.

Protecting Society's Most Vulnerable

Concerns about the state's Adult Protective Services and Child Protective Services programs prompted the Governor to direct HHSC to conduct a comprehensive review of these programs. To accomplish this review, HHSC was able to assemble resources from throughout the health and human services system.

The Office of Inspector General coordinated reviews of case files for both of those programs and identified areas requiring further examination. HHSC took this information and assembled multi-disciplinary teams from across the health and human services system to conduct a comprehensive examination of these programs and identify needed improvements, including training, community involvement, and retention of experienced caseworkers.

In addition, when concerns about the use of psychotropic medications for children were raised, resources throughout the health and human services system were used to help examine the issue. An examination based on limited Medicaid claims data indicated that there might be a high incidence of use of psychotropic drugs among some children; however, Medicaid billing data alone do not present a complete medical picture. As a result, the medical experts at HHSC and the Department of State Health Services were called upon

to help address the issue. These experts, with input from other medical professionals, health and human services professionals, and child advocates, will establish clinical guidelines and protocols for the use of these medications and determine the best way to monitor the use of psychotropic medications for children in foster care.

Improving Contract Management Throughout the System

Millions of Texans receive services each year from providers under contract to health and human services agencies. Health and human services agencies spend more than $14 billion per year to procure goods and services. This makes strong procurement practices and contract management vital to client services and accountability for the system's resources. Consequently, strengthening contract management is a top priority for the health and human services system.

An important early step in improving contract management was the formation of a consolidated contract and procurement division within HHSC in October 2003. This division directs and manages all administrative procurements (purchasing and contracting) for health and human services agencies. Contracting for client services remains the responsibility of each agency because of the specialized knowledge required, but HHSC is also working to improve these contracting practices.

HHSC has mandated that all contracts, including contracts for services, must contain clear performance standards and enforcement provisions. Agencies are required to ensure that they have clearly established lines of accountability for contract management, and agencies must ensure that contracting staff and contract managers have strong qualifications.

Each agency has established a centralized executive-level contracts unit. These units will provide support for and oversight of each agency's contracting activities. The Executive Commissioner also has established an interagency Contract Council with representation of the chief operating officer of each agency and other officials with contract expertise. This council will ensure a coordinated approach to continuous improvements in contract management within the health and human services system.

Combining Resources to Strengthen Investigation Capacity

H.B. 2292 created the Office of the Inspector General (OIG) to detect and reduce fraud, waste, and abuse throughout the health and human services system. The OIG became fully operational on September 1, 2004. Consolidating the investigative functions of 12 agencies has created an investigative arm that can bring deeper expertise and expanded resources to bear on high priority needs or issues. Already the OIG has established priorities for investigations from a system-wide perspective, whereas previously such prioritization was done by individual agencies.

The OIG has consolidated multiple toll-free fraud hotlines into a single hotline and launched an online fraud referral system on the HHSC website. These tools make it easier for clients, providers, and employees to report potential cases of abuse and fraud.

OIG uses nationally recognized technology to monitor and improve the quality of care, and to detect waste, abuse, fraud, and pursue recovery of funds. Relationships with federal and state law enforcement and the state regulatory boards have been strengthened. In addition, information that was previously not accessible to HHSC is now used to identify, investigate, and prosecute insurance-related fraud and abuse in health and human services programs. These efforts have resulted in a 23 percent increase in productivity under the newly consolidated structure.

Building the System Culture

The consolidation of health and human services agencies in Texas has created a unique opportunity to foster the development of new organizational cultures that will reinforce other efforts to improve services to clients. In a people-focused environment like health and human services, the culture of an organization (the attitudes, behaviors, beliefs, and values of its employees) is a mission-critical component of effective management. Sharing a common, strategically developed culture is a key to maintaining a satisfied, collaborative, and productive workforce that is continually seeking better ways to provide services.

Health and human services leadership recently conducted an assessment of the culture of the HHS agencies. The centerpiece of the assessment was a survey of employees gauging their perceptions of culture in their agencies. The survey was built around 15 common cultural attributes: client focus, accountability, awareness of external environment, commitment to results, control, involvement, support for innovation, action orientation, collaboration, communication, risk tolerance, procedure, teamwork, shared goals, and encouragement of learning. More than 11,000 employees, representing 25 percent of the health and human services workforce, responded to the survey. The results of the survey indicated that employees generally perceived a very strong focus on client needs as a core component of culture. The survey also revealed a continuing opportunity to develop the kind of culture that is most optimal for enhancing the delivery of client services.

In December 2004, HHS leadership conducted a meeting involving more than 50 executive managers from across the health and human services system to review survey results, define priorities for the system, and initiate development of action plans to develop the desired attributes of organizational culture. Leadership is committed to encouraging and developing a workplace environment that supports a core set of cultural attributes and values for employees across all agencies and programs. This core set of cultural values includes a focus on clients,

commitment to results, accountability, and collaboration. Beyond this core set of cultural values, the individual agencies are now undertaking efforts to define which additional aspects of organizational culture should be promoted and rewarded within each agency to best meet the needs of their unique client populations and service delivery models.

Focusing on Clients

The reorganization has created the framework for an integrated, effective, and accessible health and human services system that protects public health and brings high-quality services and supports to Texans in need. These structural and systemic changes will benefit clients across the state.

Streamlining Consumer Access to Long-Term Care Services and Supports

Before the creation of DADS, long-term care consumers were served by three separate agencies, each with its own local service delivery structure. Each of these service delivery structures had its own processes and requirements for people seeking to access services. In effect, consumers faced three different "front doors" into three different sets of programs and services relating to long-term care and supports. In many instances, this fragmented, complex service delivery system resulted in consumers not receiving services best suited to their needs.

While initially operating with the local service delivery structures inherited from its predecessor agencies, DADS is working to create a consistent, integrated, and accessible "front door" to services. These points of access will be designed to make it easier and more convenient for Texans to learn about the services available to them and to apply for those services. Initial work on this major initiative has begun. DADS will work closely with state leadership and stakeholders in streamlining the local service delivery structure for long-term care services and supports and will be guided by direction from the 79th Legislative Session.

Regulating Long-Term Care More Efficiently and Effectively

Responsibility for long-term care services and supports previously was split among DADS' three predecessor agencies. The services and supports provided by the three agencies served various client populations. Since they were all long-term care services, many of the same financial and regulatory issues were encountered. The agencies often addressed these issues in different ways and with limited coordination. This detracted from the efficient and effective use of state regulatory resources, and it sometimes created added effort and expense for providers who often served multiple agencies.

DADS will use its broad authority over long-term care services to create a more efficient regulatory structure by ensuring that standardized approaches based on best practices are

used across its array of services wherever feasible. Provider contracts and contracting processes, service definitions, financial oversight, and monitoring and quality assurance will be reviewed to identify best practices and standardized approaches. While these efforts will assure best use of limited state dollars and more effective oversight of services, they also will help providers by eliminating conflicting or redundant regulatory requirements and processes.

Expanded Opportunities to Promote Successful Aging

DADS is extending the Aging Texas Well initiative and its philosophy across the spectrum of DADS programs and services and across communities in partnership with other public and private entities. The Aging Texas Well initiative, which was developed by the Texas Department on Aging, promotes successful aging by focusing on both the individual actions needed for aging well and the community's role in supporting the individual's efforts. The initiative places special emphasis on prevention and on individual and community capacity building.

By extending Aging Texas Well across the services DADS provides and the communities it reaches, the consolidated agency structure is enhancing quality of life and reducing demand for long-term care services and supports. For example, TEXERCISE, one component of Aging Texas Well, is a statewide fitness campaign developed to educate and involve older Texans and their families in physical activities and proper nutrition. The TEXERCISE campaign promotes physical activity as well as community events and policies that support fitness in all areas of life. Through DADS, the TEXERCISE campaign has a direct link to all of the clients served by the agency, increasing opportunities to disseminate information and sponsor promotional activities throughout Texas.

Linking Eligibility Processes to Improve Client Experiences

Consolidation has facilitated improved coordination of the eligibility determination processes for CHIP and children's Medicaid. Before consolidation, HHSC was responsible for CHIP eligibility determination, and the Department of Human Services had responsibility for determining eligibility for children's Medicaid. H.B. 2292 placed responsibility for eligibility determination for both programs at HHSC.

HHSC is examining ways to fully integrate the eligibility processes. In the meantime, short-term solutions to improve coordination between the two programs were identified. Federal law requires all CHIP applicants to be screened for Medicaid eligibility, and a child cannot qualify for CHIP if he or she is Medicaid eligible. As a result of the separate eligibility processes for each program, a single application would sometimes be passed back and forth between the two processes, resulting in delays and increasing the likelihood that the application might be misrouted.

To address this situation, state Medicaid eligibility employees are now co-located with CHIP eligibility staff. The transfer of the application between the two processes is now automated and paperless which reduces the amount of time clients must wait between initial referral and enrollment in either CHIP or Medicaid.

Integrating and Modernizing Eligibility Determination Processes

Texas currently relies on a system designed in the 1960s to determine if people qualify for services such as Medicaid, food stamp benefits, Temporary Assistance for Needy Families (TANF), and long-term care services. Most transactions are handled in person after requiring multiple office visits for a single case. HHSC's integrated eligibility project will incorporate modern business processes and new technology to become more efficient and provide consumers with more options.

H.B. 2292 directs HHSC to determine if call centers would be a cost-effective method for determining eligibility for services. In addition, a rider in the General Appropriations Act states that it is the intent of the Legislature that the initial certification and recertification for children's Medicaid be determined without a face-to-face interview. Streamlining and modernizing these processes will result in easier access for clients and savings that could be better spent on direct client services.

On March 25, 2004, HHSC released a cost-effectiveness study that laid out a new model for delivering these services. HHSC's proposed redesign of the state's eligibility determination processes would allow clients to apply for state services in person, through the Internet, over the phone, and by fax or mail. The state would establish call centers to receive and process applications, and consumers would be able to track the progress of their applications through an automated phone system.

Improving the Lives of Abused and Neglected Children

The Department of Family and Protective Services (DFPS) has launched two initiatives to help ensure that children in temporary care are placed in safe, permanent, and stable homes as quickly as possible.

One initiative allows family members and close friends to have a voice in planning for a child's future. Family and community resources are brought together in a family group decision-making conference resulting in a customized service plan to best meet the child's safety needs. This often results in placement with a relative. This approach is being implemented in pilot sites across the state, and the long-term goal is to include family conferences as an integral aspect of service delivery throughout the state.

DFPS also has launched an initiative to help expedite adoptive placements for children. Previously, adoption matching only occurred within regional service delivery boundaries. With the establishment of intensive adoption program specialists, statewide adoption matching efforts are now in place. This will enable more children to be adopted, and it will allow adoptions to occur more quickly. That means children will spend less time in foster care.

Expanding Services for the Deaf and Hard of Hearing

The Department of Assistive and Rehabilitative Services (DARS) received feedback from consumers who are deaf and hard of hearing that the array of vocational rehabilitation and early childhood services provided by its predecessor agencies was not well known. In response to that feedback, DARS is working to ensure that services from multiple divisions within the agency (early childhood intervention, rehabilitation services, and blind services) are well publicized throughout the deaf and hard of hearing community.

Services to people who are deaf and hard of hearing have been further improved by integrating the Division for Deaf and Hard of Hearing Services and the Division of Rehabilitation Services to coordinate services and avoid duplication. This also allows DARS to draw down additional federal funds to expand the resources available to provide services to people who are deaf and hard of hearing. DARS is expected to draw down an additional $1 million annually during the initial stages of consolidation.

In these efforts to expand services for people who are deaf and hard of hearing, DARS is capitalizing on its broad responsibility and authority over assistive and rehabilitative services. DARS will seek to similarly leverage its combined resources on behalf of other client communities it serves.

Opportunities for Coordinating Health Services

A key part of the vision for the Department of State Health Services (DSHS) is to allow a single agency to plan for and deliver integrated health, mental health, and substance abuse services. Clients will benefit as integration of these services occurs.

As an initial step toward integrating these services, DSHS is examining its regional and local structure for delivering public health, mental health, and substance abuse services. DSHS is developing options for increased coordination of client services to streamline access to public health, mental health, and substance abuse services.

Making Health Information More Accessible

Before the formation of DSHS on September 1, 2004, compiling comprehensive health information required obtaining information separately from four agencies. Researchers, policy makers, and the general public trying to access data from multiple agencies had to follow different procedures to request the data, and they received the information in a variety of formats. There also were inconsistent approaches to charging customers for these reports.

DSHS has created the Center for Health Statistics to serve as the central point for collecting and disseminating information to improve health in Texas. A wide variety of health information such as vital statistics, health professions information, hospital data, and mental health information is now available from one source. Most of the information is user friendly and is available through the DSHS website. DSHS is also developing a consistent approach for charging for reports.

Improving Services to Individuals Who are Blind by Sharing Technology

Before consolidation, clients receiving vocational rehabilitation services from the Texas Rehabilitation Commission (TRC) had access to a software tool that helped the client and the vocational rehabilitation counselor examine the client's vocational interests and strengths. When these agencies were consolidated into DARS, best practices were shared and adopted across client populations. Software that provides assessment tools for vocational aptitude, which was previously being used only for TRC clients, is now also used to serve clients with visual impairments.

Improvements to the software also are underway. In 2005, a web-based software system that is more accessible for people who are blind will be implemented. Sharing this best practice will result in better employment outcomes for Texans served by DARS.

Integration of Preparedness and Response Functions

As the state's public health agency, DSHS provides services that benefit all Texans. One of the agency's responsibilities is to respond to disasters and emergencies in Texas. The newly formed Community Preparedness section of DSHS combines bioterrorism preparedness, mental health disaster response, and infectious disease tracking. This integration better facilitates the identification of and response to disease outbreaks and provides a coordinated response from the health and mental health systems in the event of an emergency. In addition, this section coordinates with other key partners, such as the Department of Public Safety and Department of Homeland Security.

Managing Resources Effectively

The examination of business practices within the health and human services system has identified many opportunities to operate more efficiently and effectively, focusing resources on those who matter the most, Texans in need.

Integrating Management of Health Facilities

DSHS has achieved an early success in integrating mental health and physical health services in the Lower Rio Grande Valley. Although they shared a location in Harlingen, the South Texas Health Care System and the Rio Grande State Center operated as separate entities under the Texas Department of Health and the Texas Department of Mental Health and Mental Retardation. DSHS has consolidated the management structure and support services of these facilities.

DSHS has streamlined the operations of its four laboratories. Before consolidation, four laboratories - two in Austin, one in San Antonio, and one in Harlingen - were operated independently by two DSHS predecessor agencies. Now, these labs are coordinating their operations and will benefit from combined purchasing power to reduce costs for a number of items, including laboratory tests and courier services.

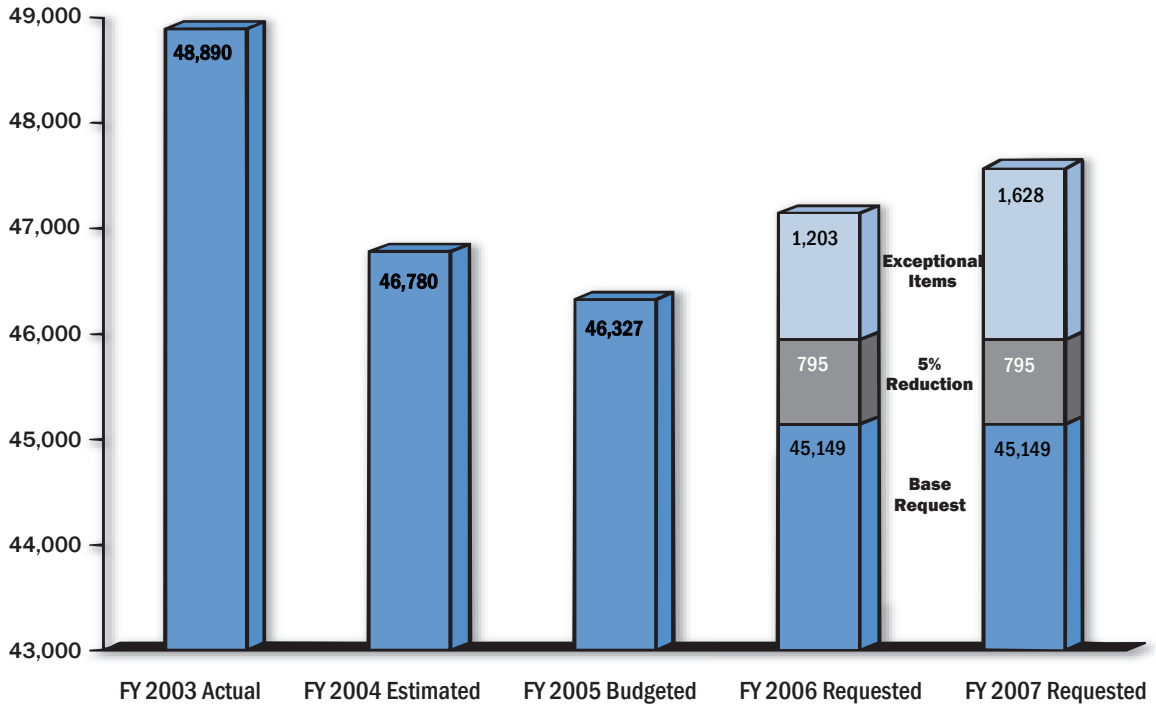
Reducing Paperwork for Rehabilitation Counselors

DARS found that management reports used by its largest predecessor agency to monitor counselor performance had proliferated over time. As a result, unnecessary reports created a paperwork burden for workers. By identifying and improving key reports and eliminating those that did not contribute critical information, DARS staff is now able to devote more time to clients while spending less time on paperwork.

FINANCIAL BENEFITS: ACHIEVED AND PROJECTED

Since consolidation efforts began at the end of fiscal year 2003, the health and human services system has achieved significant savings. In fiscal year 2005, agencies are operating with 2,563 fewer approved positions throughout the system in comparison to the actual number of FTEs in fiscal year 2003. In the Legislative Appropriations Request for the 2006-07 biennium, the requested staffing level (including both the base request and restoration of the mandated 5 percent reduction) represents a reduction of 2,945 positions, or 6 percent from the fiscal year 2003 pre-consolidation staffing levels (Fig. 1).

FIG. 1: HEALTH AND HUMAN SERVICES SYSTEM POSITIONS, FISCAL YEAR 2003-07



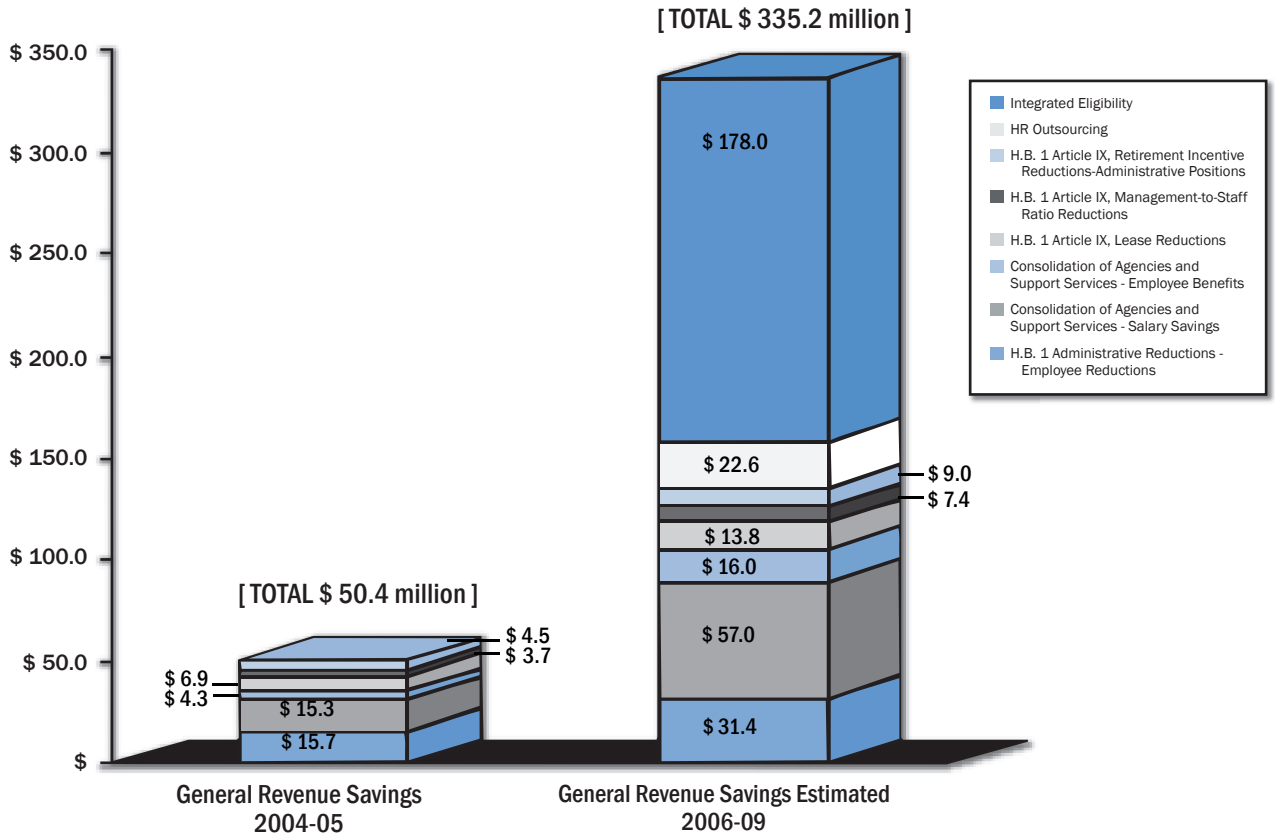
These reduced staffing levels are being achieved through a number of cost-cutting measures, including administrative consolidation and reductions of management positions.

Consolidation-Related Savings

The consolidation of agencies and of administrative and support functions will save $50.4 million in general revenue in the 2004-05 biennium. As illustrated by Figure 2 the $50.4 million savings estimate has several components. Most notably, the $15.3 million identified as directly resulting from consolidation of agencies and support services represents savings of funds appropriated to HHS agencies in H.B.1, the General Appropriations Act. The other $35.1 million of projected general

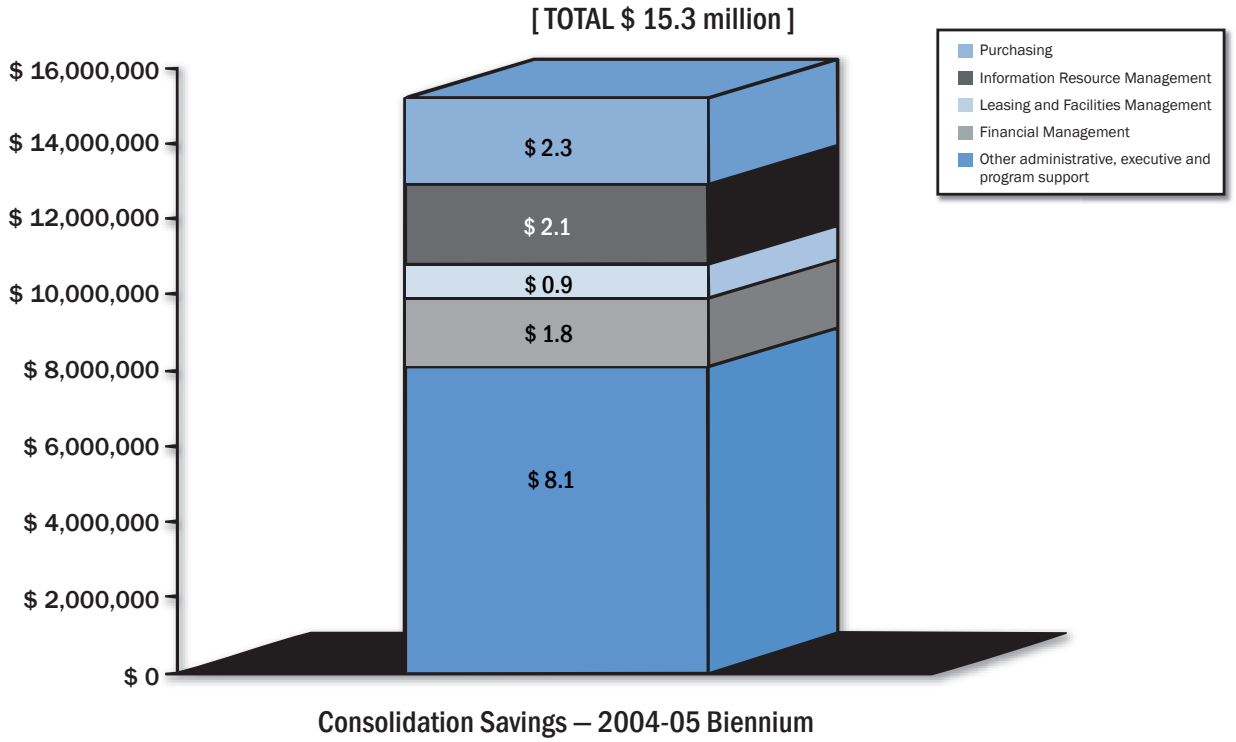
revenue savings reflects the fact that consolidation of agencies and support services was essential to fulfilling several other requirements for HHS agencies to achieve savings. Figure 2 also reflects that much larger future savings are expected due to the full biennial effect of savings measures that were in place for only part of the 2004-05 biennium and the implementation of other major initiatives that will produce savings. The Appendix provides a complete picture of savings expectations and savings achieved in relation to both H.B.1 and H.B. 2292 while the following section on future benefits describes the two major consolidation related initiatives under development that contribute substantially to future savings estimates.

FIG. 2: CONSOLIDATION-RELATED GENERAL REVENUE SAVINGS
2004-05 Biennium and Four-Year Projections (2006-09)



The $15.3 million of general revenue savings relating to consolidation of agencies and support services largely reflects the elimination of 671 positions. This reduction in staffing levels was achieved through attrition and retirements and was made possible by elimination of redundant positions and better use of technology. Figure 3 provides a breakdown of the $15.3 million saved from current appropriations due to consolidation of agencies and administrative and support services.

FIG. 3: CONSOLIDATED SUPPORT SERVICES — SALARY SAVINGS



With respect to consolidation of administrative and support services, financial benefits will be achieved beyond the savings resulting from elimination of redundant positions. For example, while the centralization of purchasing resources has allowed a 40 percent reduction in staffing, further financial benefits will result from application of best purchasing practices, strategic sourcing initiatives, and volume discounts. The new purchasing group achieved an early success in fiscal year 2004 when it renegotiated a multi-year contract for purchasing pharmaceuticals, allowing the state to avoid some general revenue expenditures.

Future Cost-Saving Opportunities

Further efficiencies and savings are expected to result from the consolidation of administrative support services. Consolidation and outsourcing of human resources and payroll are expected to save $22.6 million in general revenue between fiscal year 2006 and fiscal year 2009. Building on the foundation achieved by consolidating these functions, HHSC conducted an analysis that compared the costs and benefits of providing these services in-house with the costs and benefits of outsourcing them. This analysis and a subsequent procurement process led to a decision to outsource these functions.

In addition, HHSC has determined that modernizing eligibility services and adding call centers to the state's system would save an estimated $178 million in general revenue between fiscal years 2006

SAVINGS ACCOMPLISHMENTS

- $50.4 million in General Revenue consolidation-related savings in fiscal years 2004-05
- Projected savings of $335.2 million between fiscal years 2006-09
- Reduced management positions by 13 percent

and 2009. The new system also would result in greater convenience and more choices for consumers. HHSC is currently reviewing proposals to operate some functions within the eligibility determination system and could award a contract for some services if it would achieve additional savings.

Another area of potential administrative savings relates to the consolidation of financial functions. This potential consolidation, which is now under analysis, has been enabled by the implementation in September 2004 of an integrated, system-wide financial system, which was rolled out early and under budget, resulting in cost-avoidance of $12.8 million in general revenue. This new system provides the health and human services agencies with a tool that allows standardized business processes, consistent financial information, and improved reporting capabilities. This improvement allows for more efficient and effective use of financial personnel.

Reducing Management Positions

The consolidation of agencies provided an opportunity to reduce the number of management positions. Each new agency uses a similar organizational model that established streamlined and efficient management structures to allow more cost-effective direction of health and human services programs. Agencies also organized their programs around major functions, providing opportunities to combine management positions. By the beginning of fiscal year 2005, there were 165 fewer filled management positions in the health and human services agencies than there were at the end of fiscal year 2003, a reduction of 13 percent.

TRANSFORMATION HIGHLIGHTS

Major Accomplishments to Date

- Creation of four new departments while continuing to deliver client services.
- Consolidating major administrative services and programs under HHSC, resulting in increased efficiency.
- Implementing a standardized finance and human resources system for all five agencies, providing more effective management of resources throughout the system. This project was completed ahead of schedule and under budget.

Initiatives Underway

- **All Agencies** — Studying the client populations served by health and human services agencies to identify additional ways to integrate and improve service delivery and measure customer service satisfaction under the new agency structure.
- **HHSC** — Modernizing and integrating eligibility determination.
- **DADS** — Creating integrated points of access for long-term care clients in Texas.
- **DSHS** — Integrating disaster preparedness and response functions.
- **DFPS** — Improving the Adult Protective Services and Child Protective Services programs.
- **DARS** — Expanding services for people who are deaf and hard of hearing.

Potential Future Opportunities

- Creation of a universal benefits card to support integration of services.
- Expansion of integrated eligibility to include additional programs.
- Optimizing pharmacy benefit management to reduce drug costs.
- Using digital signatures to automate paper-driven processes.
- Modernizing service delivery processes for vital statistics to better meet customer needs.
- Using mobile dictation technology to improve documentation of inspections, case management, and other regulatory activities.

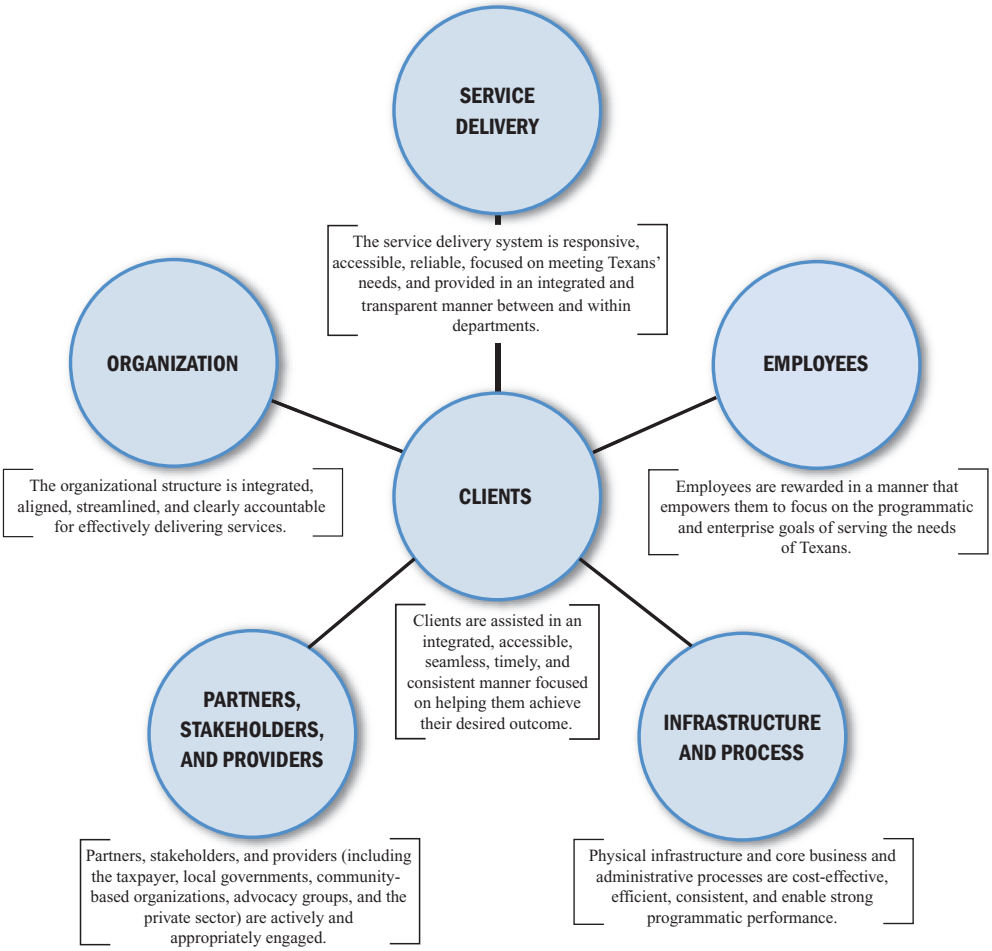
A SYSTEM TRANSFORMED

WHERE WE WILL BE

While there have been many accomplishments to date, a continued focus on building the health and human services system over the next three to five years will result in additional improvements for Texans. Our goal is to create a fundamentally transformed health and human services system based on:

- **client services and needs;**
- **integrated and coordinated services;**
- **a culture emphasizing accountability and continuous improvement;**
- **rewards for innovation and results that can be measured; and**
- **public input and public involvement.**

Future Vision for Health and Human Services



where we will be

H.B. 2292 provided a foundation for a health and human services system that would use resources more efficiently and improve the services delivered to Texans. With that foundation now in place, we have an opportunity to make even more improvements. The future vision will serve as a guide and a blueprint for the continuing efforts to build a model health and human services system for the 21st century. As we move forward to achieve this vision, we will continue to rely on careful planning, input from employees and stakeholders, and the extraordinary efforts of employees devoted to progress that will improve the lives of Texans.

VISION FOR HEALTH AND HUMAN SERVICES

A Focus on Clients and Program Delivery: The new system is operating as a united organization, continuously striving to improve performance and manage costs through innovation, creativity, and deployment of technology-based solutions.

Effective Stewardship of Public Resources: The realignment of programs provides opportunities for more cost-effective operations.

Cultural Change and Accountability: Our leadership is working to create a new organizational culture that values a unified health and human services system with mutual interests, common goals, and shared responsibility for client outcomes.

FOR FURTHER INFORMATION

For more on the benefits achieved during consolidation or more information regarding the transformation effort, please contact:

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To receive regular updates on the progress on the HHS transformation effort, please sign up for the E-news service at www.hhs.state.tx.us.

www.hhs.state.tx.us

where we will be

APPENDIX

H.B. 2292 FISCAL IMPACTS

In enacting H.B. 2292, the Legislature estimated a general revenue savings of $1.1 billion during the 2004-05 biennium. The bill included policy and program changes related to health and human services, in addition to mandates to consolidate agencies and support services. Among the major policy or programmatic changes were modifications to Medicaid and CHIP eligibility requirements, implementation of a preferred drug list, and transfer of client transportation to the Texas Department of Transportation. Since the enactment of H.B. 2292, implementation of these changes has occurred in parallel with consolidation activities.

Current estimates are that in the 2004-05 biennium, $927 million, or approximately 82 percent of the estimated savings target, will be achieved due to H.B. 2292 implementation activities.

An important point to consider is that savings estimates developed during the 78th Legislative Session included several items that resulted in duplication of funding reductions related to H.B. 2292. For example, H.B. 1, the General Appropriations Act, already included administrative reductions in HHS agencies based on the initial general revenue appropriation requests. These reductions were also incorporated into savings estimated in the H.B. 2292 fiscal note. In addition, H.B. 1 reductions related to the retirement incentive, lease savings, and management-to-staff ratios all overlap with the administrative savings assumed in relation to H.B. 2292. These items effectively increased the amount HHS agencies were expected to save by an estimated $70.1 million, placing an added burden on the health and human services system.

The following table provides a detailed listing of the initial assumptions and currently identified savings related to H.B. 2292 consolidation and policy changes, including both general revenue savings and FTE impact.

General Revenue Savings — Projected as of January 2005
2004-05 Biennium (in millions)

The table below describes savings related to H.B. 2292. Sections 1-3 relate to the $180 million savings target that was included in a rider (Art. II, Special Provisions, Sec. 28) to H.B. 1, General Appropriations Act, that required HHS agencies to make budget reductions beyond the appropriated levels. Section 4 is a listing of the reductions related to H.B . 2292 initiatives that were already included in the H.B. 1 appropriations for HHS agencies for the 2004-05 biennium.

I. H.B. 1, Sec. 28 Saving Initiatives	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Consolidated Support Savings — The timing of human resources outsourcing and of consolidating other administrative functions has limited the potential savings for the current biennium. In addition, the Sec. 28 target included duplication of approximately $15.7 million of administrative reductions that were already included in initial agency appropriations for the 2004-05 biennium, and approximately $15.4 million in funding reductions related to employee benefits. Although employee benefits are not appropriated to HHS agencies, this amount was included in the savings target for HHS agencies. More detail on these items is provided below. Savings identified are related to budget reductions taken by all HHS agencies for fiscal year 2005 based on work performed by the executive management of HHS agencies to project savings resulting from agency consolidations.	$ 38.2	814	$ 15.3	671
Call Centers and Integrated Eligibility — A Request for Proposals (RFP) for integrated eligibility and enrollment services was published in July 2004 with a response date of September 2004. Responses have been received, and evaluation is underway. The proposal evaluation includes comparing the models proposed to the optimized in-house model to determine best value for the state. Because of the timing of the procurement process, no savings have accrued for the 2004-05 biennium. The FTE reduction reflects vacancies in eligibility staff compared to appropriated levels.	26.7	1,376	—	1,115
Duplicative Reductions included in H.B. 1 — These five items are areas where the Sec. 28 savings target was effectively increased based on the application of other H.B. 1 provisions to HHS agencies. The combined impact of these items is $70.1 million.	—	—	—	—
Administrative reductions already included in revised appropriation requests submitted to the 78th Legislature, 2003.	—	—	*15.7**	—
Employee benefits related to administrative reductions which are not appropriated to HHSC but were assumed to be part of Sec. 28 reduction target.	15.4	—	—	—
Art. IX, Sec. 12.03, Retirement Incentive Reductions.	—	—	*28.4**	—
Art. IX, Sec. 11.60(a), Lease reductions as calculated by LBB/TBPC.	—	—	*6.9**	—
Art. IX, Sec. 12.01, Management to staff ratio reductions (TDH, PRS).	—	—	*3.7**	—

* These items are reductions taken elsewhere in H.B. 1 and are not counted toward the Sec. 28 reduction total in this table.

II. H.B. 2292 Medicaid Cost Containment Initiatives	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
H.B. 2292 included several policy and programmatic changes related to Medicaid. Many of these changes resulted in reduced Medicaid appropriations in H.B. 1, while others were assumed to produce savings to apply toward the Sec. 28 target. The following section contains the Medicaid-related items that were included in the Sec. 28 target. While not all of these initiatives will result in reductions that can be applied to Sec. 28, in many cases the benefits of these efforts are reflected in the Medicaid cost trends. For example, without the efforts described below to reduce Medicaid fraud or to control costs in drug spending, the costs in the Medicaid program would be significantly higher.				
Recovery of Third Party Reimbursements — H.B. 2292 requires HHSC to bill all Medicare intermediaries for post-payment recovery of Medicaid funds and requires HHSC to ensure that Medicaid providers bill private insurance prior to billing Medicaid. The analysis of these items indicated that current third party recovery activities materially meet these requirements. The largest remaining opportunity for recovery was identified in pharmacy claims. The recovery effort from Medicare for pharmacy claims is currently being performed through a contract with the University of Massachusetts Medical Center. Through this contract HHSC is recovering funds paid for Medicaid prescription drug claims of dual eligible recipients where the claims have been determined to be the primary responsibility of Medicare.	$ 3.3	—	$ 5.1	—
Office of Inspector General Use of Technology — H.B. 2292 directed HHSC to (1) perform a prepayment review of a claim for reimbursement under Medicaid to determine whether the claim involves fraud or abuse; and (2) contract with an entity that could assist HHSC in identifying the most error prone diagnosis related group (DRG) assignment and recoup overpayments. It was determined that implementing prepayment review for acute care claims is not feasible at this time. The claims payment system already has multiple built-in edits and audits that are used to review claims prior to finalization. For example, there are filing deadline edits, payment deadline edits, duplicate payment edits, prior authorization edits, eligibility edits, and procedure code audits. These edits and audits are based on program policy, medical policy, and dental policy and are reviewed and revised to help ensure correct adjudication of claims. For the second initiative related to DRG validation and recoupment OIG staff continue to explore options to incorporate this concept into the current inpatient hospital utilization review activities. Initial efforts to identify a contractor to assist in this effort were unsuccessful due to the potential risk to the state related to the contingency fee rate structure of the contractor and other factors. As a result of the combination of OIG efforts during the 2004-05 biennium, HHSC has projected $12.4 million in savings in the Medicaid Acute Care program. The $12.4 million projections assumes that 70 percent of the increase in OIG recoveries is attributed to consolidation activities. In addition, $10.1 million related to three settlements received from drug manufacturers is included in the savings identified.	25.4	—	22.5	—

II. H.B. 2292 Medicaid Cost Containment Initiatives (continued)	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Medicaid Integrity Pilot — As required by H.B. 2292, HHSC implemented a pilot project in six counties using biometric imaging to prevent fraud in the Medicaid program. Types of fraud this technology will reduce include phantom services (claims for services never provided), third party billing fraud, up-coding (billing for more expensive services), and card swapping or unauthorized use of a Medicaid identification card. Savings related to this effort will be reflected in Medicaid cost trends.	$ 3.7	—	—	—
Medicare Repricing — H.B. 2292 requires HHSC to limit payments to the Medicaid allowable rate for services in nursing facilities in cases where the Medicare rate equals or exceeds the Medicaid rate. This process is called repricing. Medicare Part A hospital services are already repriced. Due to an inability to relate all Medicaid and Medicare nursing facility services as comparable, implementation of this provision was not possible. In addition, this change would have resulted in a significant decrease in Medicare Part B service rates, potentially limiting the services available to nursing home residents; and thus creating an access to care issue for the elderly population. This change originated from the Comptroller's e-Texas report of January 2003. At the time of the report, Medicare rates were approximately $56 less per day than the applicable Medicaid rate.	17.9	—	—	—
Medicaid Managed Care Expansion — H.B. 2292 required HHSC to provide acute care medical assistance through the most cost-effective model of Medicaid managed care. Roll-out of managed care expansion, PCCM, and HMO, has been delayed until fiscal year 2006. HHSC assumed roll out of PCCM to 194 additional counties in its Legislative Appropriations Request for the 2006-07 biennium.	6.0	—	—	—
Four brand/34-day supply prescription limit — H.B. 2292 required HHSC to, if cost-effective, limit Medicaid and CHIP recipients to no more than four different outpatient brand name prescription drugs during a month or no more than a 34-day supply of a brand name prescription drug at any one time. HHSC determined it would not be cost-effective to implement a four-brand limit given Texas' other cost containment initiatives, including the Medicaid Preferred Drug List (PDL) and clinical edits. Essentially savings from PDL and clinical edits subsume any savings that could have been achieved from the four brand limit. Clinical edits will control spending on Medicaid prescription drugs by encouraging prescribing of the most cost-effective drugs. HHSC began rolling out clinical edits for the Medicaid nursing home population in August 2004 and for the general Medicaid population in September 2004. Preliminary estimates indicate savings of up to $22 million in state funds in the current biennium with a potential for greater savings in the 2006-07 biennium. These efforts will be reflected as decreases in cost trends in the Medicaid Vendor Drug Program.	27.5	—	—	—

II. H.B. 2292 Medicaid Cost Containment Initiatives (continued)	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Prior Authorization for High-Cost Medical Services — H.B. 2292 directed HHSC to evaluate and implement, as appropriate, procedures, policies, and methodologies to require prior authorization for high-cost medical services and procedures. Five vendor proposals were received in response to the RFP to perform this function in the spring of 2004. Upon completion of evaluations, it was determined that implementation of proposed vendor solutions would exceed the estimated cost savings.	$ 0.5	—	—	—
Medicaid Estate Recovery — H.B. 2292, requires HHSC to develop and implement a Medicaid estate recovery program, pursuant to 42 U.S.C., Section 1396p(b)(1). This federal law requires states to recover the costs of Medicaid coverage for certain long-term care services after the death of Medicaid recipients ages 55 years or older. Due to timing of implementation, including rule development and approval by CMS, no savings are anticipated in the 2004-05 biennium. Savings would begin in fiscal year 2006 and continue annually in the future.	4.8	—	—	—
Unspecified Savings Assumed in Sec. 28 Reductions — Section 28 included savings that could not be tied to any specific initiatives in H.B. 2292.	10.7	—	—	—
Subtotal Savings Assumed in H.B. 2292	**$ 180.1**	**2,190**	**$ 42.9**	**1,786**

III. Additional Savings Identified by HHSC	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Revenue Maximization — This initiative includes two items. (1) ECI retroactive claims ($4.0 million) – Additional federal financial participation for claims for services that were previously inappropriately denied or claims that were never submitted due to lack of knowledge of the child's Medicaid enrollment. (2) TANF Section 1931 delinking ($18.1 million) – To assist the states in assuring that all Medicaid-eligible recipients continue to have access to Medicaid following welfare reform, Congress appropriated $500 million that was then formula allocated to states. It allowed states to claim enhanced funding above the normal 50 percent FMAP rate (either 75 percent or 90 percent depending on the qualifying expenditures).	—	—	$ 22.1	—
NHIC Settlement — HHSC received a settlement of $24.5 million from National Heritage Insurance Company (NHIC) related to performance issues under the Texas Medicaid Claims Administrator contract. Performance issues included reimbursement to HHSC for financial related audits for the periods September 1, 2000, through August 31, 2001, and September 1, 2001, through August 31, 2002. Performance issues also included erroneous payments resulting from computer system failures, liability for uncollected accounts receivable, and reimbursement for state-related expenses incurred in connection with certain software licenses.	—	—	9.5	—

H.B. 2292 fiscal impacts

III. Additional Savings Identified by HHSC (continued)	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Unexpended Balances — Includes unexpended balances across HHS agencies, primarily for fiscal year 2004.	—	—	$ 14.9	—
Star+Plus Recoupment — Fiscal year 2001 experience rebate received from United Healthcare Corporation pursuant to the STAR+Plus Medicaid contract	—	—	0.6	—
Worker Safety Improvements — State Office of Risk Management assessments were reduced for HHS agencies from fiscal year 2004 to fiscal year 2005 based on improved worker safety. This is an indication of continuing progress, particularly in state schools and state hospitals, to employ proven intervention programs, policies and procedures in order to control both injuries, and workers' compensation expense. Well-established case management and return-to-work programs, close collaboration with the State Office of Risk Management, and strong safety and accident prevention programs contribute to HHS agencies' success in this area. One example is an 11 percent reduction in lifting injuries in state hospitals and state schools, resulting from injury prevention and case management programs.	—	—	4.3	—
Subtotal Additional Savings Identified	—	—	$ 51.4	—
Total Sec. 28 Savings	$ 180.1	2,190	$ 94.3	1,786

IV. Initiatives with Savings included in H.B. 1	H.B. 1 GR Savings Target	H.B. 1 FTE Impact	GR Savings Achieved	FTE Impact
Medicaid Continuous Eligibility	$ 284.2	—	$ 284.2	—
Preferred Drug Lists*	150.8	—	140.0	—
Six-Months Continuous Eligibility for CHIP	144.5	—	144.5	—
Third-Party Information to Verify Assets	118.2	—	—	—
HHS Client Transportation Transfer	104.3	—	104.3	—
Premium Tax	41.3	—	36.7	—
Quality Assurance Fee	33.0	—	40.0	—
TANF Payment for Performance	29.1	—	29.1	—
Licensing Fees	23.8	—	10.5	—
Repeal of Certain Medicaid Provisions	12.8	—	43.1	—
Medicaid Cost-Sharing	12.4	—	—	—
Subtotal Savings Included in H.B. 1	$ 954.4	—	$ 832.4	—
Total H.B. 2292 Related Savings	$1,134.5	2,190	$ 926.7	1,786

*Savings estimated for Preferred Drug List is on an incurred basis, not a cash basis.


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Services Commission