



## STATE OF COLORADO

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### MEMORANDUM

Date: December 7, 2006

To: Members of the Legislative Audit Committee

From: Sally Symanski, CPA  
State Auditor

Re: 2006 Executive Summary on Performance Audits of Tobacco Settlement Programs

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The purpose of this memo is provide an executive summary on evaluations conducted on tobacco settlement programs as required under Section 2-3-113(5), C.R.S., for evaluations completed in 2006. Section 2-3-113(2), C.R.S., requires the Office of the State Auditor (OSA) to conduct or cause to be conducted program reviews and performance evaluations of each state program receiving funding from the tobacco settlement agreement. The purpose of the reviews is to assess whether the tobacco settlement program meets its stated goals efficiently and effectively. Pursuant to this statute, the OSA is to submit an annual executive summary of the program reviews to the Legislative Audit Committee, the Governor, the Attorney General, the Joint Budget Committee, the House and the Senate Health, Environment, Welfare, and Institutions Committees, and various state agencies.

During 2006 the OSA completed evaluations of the Nurse Home Visitor Program (May 2006) and Read to Achieve (July 2006). The report summaries and recommendation locators for both reports are attached to this memo. In 2007 the OSA plans to complete evaluations of the Comprehensive Primary and Preventive Care Grant Program and the Children's Basic Health Plan Trust.

The list below summarizes the programs and the dates of the most recent evaluations conducted by the OSA. Reports on the subsequent status of implementation are available upon request.

- Children's Basic Health Plan Trust (July 2000)
- Read to Achieve (July 2006):
- Nurse Home Visitor Program (May 2006)
- Veterans Trust Fund (June 2003)
- Comprehensive Primary and Preventive Care Grant Program (June 2003)
- Dental Loan Repayment Program (April 2004)
- Tobacco Education, Prevention, and Cessation Grant Program (December 2004)<sup>1</sup>

All reports are available on the OSA Web site at [www.state.co.us/auditor](http://www.state.co.us/auditor).

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<sup>1</sup> Funding for this program with Tobacco Settlement monies was eliminated beginning in Fiscal Year 2006 and replaced with funding from the Tobacco Excise Tax authorized by Amendment 35.



# PACEY ECONOMICS GROUP

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## REPORT SUMMARY

### NURSE HOME VISITOR PROGRAM

#### Performance Audit

May 2006

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This performance audit of the Nurse Home Visitor Program (Program) was conducted under the authority of Section 2-3-113, C.R.S., which requires the State Auditor to conduct or cause to be conducted program reviews and evaluations of the performance of each tobacco settlement program to determine if that program is effectively and efficiently meeting its stated goals. The Office of the State Auditor contracted with Pacey Economics Group to perform this audit. Office of the State Auditor staff also performed audit work related to Medicaid reimbursements and cost information. The audit was conducted in accordance with generally accepted government auditing standards. The audit work was performed between May 2005 and March 2006, and included gathering information through document review, interviews, and analysis of data. We also visited a sample of the local sites to gather information regarding the overall administration of the Program, the application process, budgeting issues, Medicaid reimbursement procedures, and reporting requirements.

We would like to acknowledge the efforts and assistance extended by the Department of Public Health and Environment; the National Center for Children, Families, and Communities; the Nurse-Family Partnership, Inc.; Invest in Kids; the Department of Health Care Policy and Financing; and Program grant recipients.

#### **Overview**

The Nurse Home Visitor Program offers home visits by specially trained nurses to first-time, low-income mothers during pregnancy and through the child's second birthday. The Program, based on the Nurse-Family Partnership model developed by Dr. David Olds, was established to improve pregnancy outcomes as well as child health and development outcomes. The Program also provides assistance and education to improve the economic self-sufficiency of families. The Program uses local agencies, including county health departments, hospitals, and not-for-profit organizations, to provide the regular, in-home visiting nurse services. The Department of Public Health and Environment (Department) administers the Program with the assistance of the National Center for Children,

Families, and Communities (National Center). The National Center, working with two subcontractors, the Nurse-Family Partnership, Inc. and Invest in Kids, monitors and evaluates the implementation of the Nurse Home Visitor Program throughout the State.

Section 24-75-1104.5, C.R.S., sets forth the funding formula that determines the annual appropriation amount for all tobacco settlement programs, including the Nurse Home Visitor Program. The Program will receive an increasing amount of tobacco settlement funds, which began with 3 percent of total tobacco settlement funding in Fiscal Year 2001 (about \$2.4 million). For Fiscal Year 2005, the Program received 9 percent (\$7.7 million) and the funding is scheduled to increase by 1 percent per year through Fiscal Year 2014. For Fiscal Year 2015 and forward, the Program is scheduled to receive 19 percent of total tobacco funds per year. Statutes provide that the Program can receive a maximum of \$19 million in any fiscal year. Between Fiscal Years 2001 and 2006, when the State began using tobacco settlement monies to fund the Nurse Home Visitor Program, 18 local sites serving 50 counties used a total of \$34.9 million in grant funding. As of June 30, 2005, almost 5,100 women and their children have received services through the Program.

## Summary of Audit Comments

We reviewed the Department of Public Health and Environment's practices for ensuring that tobacco settlement and Medicaid dollars are used efficiently and effectively. We also examined the processes used by local sites to determine eligibility for the Program. We found:

- **The Department needs to work with the National Center and its subcontractors and local sites to maintain funded caseloads and reduce attrition.** We found that during Fiscal Years 2004 and 2005, on average, actual caseloads were about 85 percent of funded caseloads with 6 of 17 sites averaging below 80 percent of funded caseload. When sites do not achieve their full caseloads, the Program's cost per family increases from about \$8,100 to just over \$9,500. High attrition rates also impact the Program's ability to maintain funded caseloads. Analyses performed by the National Center indicate that Colorado's Nurse Home Visitor Program has about a 64 percent attrition rate. The analyses indicate that approximately one-half of participants leave the Program due to issues that could be addressed by local sites. Maintaining funded caseloads reduces the service cost per family and frees up tobacco settlement monies for new sites or those sites seeking to serve additional families.
- **The Department does not have objective criteria to determine whether the indirect costs charged to the Program are reasonable and necessary.** This was also a concern in our 2002 audit. The Program caps the amount of indirect costs that can be charged to the tobacco-funded portion of the Program. The indirect cost caps range from 25 to 30 percent of direct costs. For Fiscal Years 2005 and 2006, indirect costs represented 20 percent of the local sites' total Program costs. The majority of these costs are covered through either tobacco

settlement monies or Medicaid reimbursements. As sites spend more on indirect costs, more tobacco settlement and Medicaid monies are used to fund indirect, rather than direct costs.

- **The Department needs to work with the Department of Health Care Policy and Financing to reexamine the methodology for reimbursing targeted case management services.** As requested by the General Assembly through Senate Bill 00-71, targeted case management services provided to Medicaid-eligible recipients through the Program are billed to Medicaid. We found that the Medicaid reimbursement rates varied by 200 percent (from about \$100 to \$303 per client per month) even though targeted case management services are strictly defined and should be relatively consistent across all local sites. Medicaid reimbursement rates need to reasonably reflect the cost of providing the service to Medicaid-eligible participants to ensure that both tobacco settlement monies and federal funds are being used appropriately.
- **The Department needs to ensure that Medicaid reimbursements are maximized so that tobacco dollars are not used unnecessarily.** Data reported to the National Center indicate that 75 percent of Program participants are Medicaid-eligible at intake. As a result, we estimate annual reimbursements for Medicaid targeted case management services should total about \$3.1 million. Our audit found that in Fiscal Year 2005 reimbursements for Medicaid services totaled just under \$2.2 million, indicating that sites are billing for far fewer participants. The Department and local sites provided several reasons why not as many Medicaid units were billed as anticipated, including the fact that Fiscal Year 2005 was the first year sites could bill for targeted case management services, the temporary elimination of presumptive eligibility for Medicaid recipients, and problems with the implementation of the Colorado Benefits Management System.
- **Local sites do not determine or verify that a mother's income eligibility is in compliance with statute and Program standards.** These issues were also raised during the 2002 audit. Statutes require Program income eligibility to be based on the mother's income alone. We found that one of six sites we visited continued to include other sources of income including the husband/boyfriend's or the mother's parents. The Department's Program application form also notes that if a mother is working, she should provide a paycheck stub. Although the sites are using the application form, staff at five sites reported that they do not ask mothers who work to provide a pay stub as evidence of income.

A summary of the recommendations and responses can be found in the Recommendation Locator on page 5. Our complete audit findings and recommendations and the responses of the Departments of Public Health and Environment and Health Care Policy and Financing can be found in the body of the audit report.

## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	19	Address program costs by: (a) determining why local sites are not achieving and maintaining caseload standards; (b) establishing guidelines for reducing caseloads and funding when sites do not meet standards; and (c) providing attrition analyses to local sites and developing strategies to reduce attrition.	Public Health and Environment	a. Agree b. Agree c. Agree	a. Ongoing b. July 2007 c. Ongoing and July 2006 for Year-End Letter
2	22	Work to control administrative costs by developing a basis for indirect cost caps.	Public Health and Environment	Partially Agree	July 2007 and Ongoing
3	24	Improve oversight of budget requests and cost information by: (a) ensuring budget requests and contract budgets are complete and detail the total cost of the Program; (b) documenting support for changes to expenditures approved in the contract budget; and (c) ensuring budget requests and contract budgets calculate correctly.	Public Health and Environment	Agree	July 2006
4	28	Periodically reexamine the methodology used to calculate the Medicaid reimbursement rate for targeted case management services and consider: (a) methodologies used to develop reimbursement rates for other targeted case management services; (b) developing one statewide reimbursement rate; (c) using funded caseload rather than actual caseload; (d) including data on a site's total costs; and (e) revising the Medicaid State Plan to include the rate-setting methodology.	Public Health and Environment  Health Care Policy and Financing	a. Agree b. Agree c. Agree d. Agree e. Agree  Agree	a. January 2007 b. July 2007 c. January 2007 d. January 2007 e. January 2007  December 2006

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	33	Ensure Medicaid reimbursements are maximized by: (a) visiting local sites and reviewing a sample of client files to verify proper billing; (b) sharing aggregate Medicaid billing data with local sites; (c) ensuring that all Medicaid-eligible participants are identified and enrolled; and (d) providing sites with additional training regarding Medicaid client enrollment and billing procedures.	Public Health and Environment	a. Disagree b. Agree c. Agree d. Agree	a. Not provided b. Ongoing c. Ongoing d. January 2007
6	36	When determining income eligibility, ensure that local sites consider only the mother's income, verify the reported income, and provide training on eligibility requirements.	Public Health and Environment	Partially Agree	Ongoing and July 2007 for verification
7	38	Focus on administrative oversight of local sites, including income eligibility determinations and Medicaid billings. Clearly document responsibilities in an Interagency Agreement.	Public Health and Environment  Health Care Policy and Financing	Partially Agree  Partially Agree	Contingent upon receipt of additional resources  December 2006

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## REPORT SUMMARY READ TO ACHIEVE PROGRAM Performance Audit July 2006

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### **Authority, Purpose, and Scope**

This performance audit of the Read to Achieve Grant Program (Program) was conducted under the authority of Section 2-3-113, C.R.S., which requires the State Auditor to conduct or cause to be conducted program reviews and evaluations of the performance of each tobacco settlement program to determine if it is effectively and efficiently meeting its stated goals. The Office of the State Auditor contracted with Pacey Economics Group to perform this audit. The audit was conducted in accordance with generally accepted government auditing standards. The audit work was performed between July 2005 and July 2006, and included gathering information through document review, interviews, and analysis of data. We evaluated the overall administration of the Program, the grant application and award process, and Program oversight and assessment.

We would like to acknowledge the efforts and assistance extended by the Department of Education, the Read to Achieve Board members, and grant recipients.

### **Overview**

In 2000, the General Assembly created the Read to Achieve Program within the Colorado Department of Education (Department) to fund intensive reading programs for students whose literacy and reading comprehension skills are below levels established by the State Board of Education and who are in second or third grade or are between third and fourth grades. The Program is funded with a portion of the monies the State receives under the 1998 Tobacco Master Settlement Agreement.

According to statute [Section 22-7-506, C.R.S], any public school in Colorado may apply for Read to Achieve grants for programs such as reading academies, after school literacy programs, summer school clinics, tutoring services, or extended-day reading programs, lasting up to three years. Statute also created an 11-member Read to Achieve Board to collect and review grant applications and recommend grant funding to the State Board of Education. In making funding decisions, statute requires the Read to Achieve Board to consider the number of second- and third-grade pupils in the school that have below grade level reading skills; whether the proposed program is based on a research model that has proven successful in other schools; and the per-pupil cost of the program. Statute

also requires the Read to Achieve Board to ensure, to the extent possible, that grants are awarded to schools in a variety of geographic areas of the State.

From Fiscal Year 2001 through Fiscal Year 2005, statute authorized the Read to Achieve Program to receive 19 percent of the total amount of tobacco settlement funds received by the State each year, not to exceed \$19 million annually. Beginning in Fiscal Year 2006, the statute reduced the amount to 5 percent of tobacco settlement funds, not to exceed \$8 million annually. Statute [Section 22-7-506(4), C.R.S.], also allows the Read to Achieve Board to retain up to one percent of the Read to Achieve cash fund for administrative expenses. Between Fiscal Years 2001 and 2006 the Department distributed over \$97 million in grant funding to schools and spent about \$712,000 to administer the Program. An average of 515 schools received grant funds each year during the first grant cycle (January 2001 through June 2004) and served between 22,000 and 28,000 students annually. An average of about 360 schools have received funding in the first two years of the second grant cycle (which will extend from July 2004 through June 2007) and have served between 15,000 and 17,000 students annually.

## **Key Findings**

### **Student Needs**

A primary goal of the Read to Achieve grant program is for all Colorado students to read at grade level by the third grade. We found that although schools served about 58 percent of eligible students through the Program between Fiscal Years 2003 and 2005, the percent of all students in second through fourth grade who read below grade level has not changed substantially since the Read to Achieve Program began in Fiscal Year 2001. Specifically, in Fiscal Year 2000, about 26 percent of all students in grades two through four were reading below their grade levels and in Fiscal Years 2001 through 2005, after the Program began, about 27 percent of second through fourth graders were reading below grade level. In total, the Department has distributed about \$97 million in Read to Achieve grants since the Program's inception, but does not target grant monies toward those schools with the highest percentage of students reading below grade level. We identified several problems that prevent the Department from directing funds where they are most needed, including:

- **Grant reviewers and the Read to Achieve Board do not have comprehensive information on applicants.** Specifically, information on student attributes, such as the percentage of English Language Learners, are not compiled from grant applications or used by grant reviewers or the Read to Achieve Board in making funding decisions. In addition, the current reading level of each student to be served by the Program, which indicates the relative need of the schools applying for grants, is not included in the applications.
- **Geographic distribution is not specifically considered in the grant application review process.** Although statute requires the Read to Achieve Board to “ensure that grants are awarded to schools in a variety of geographic areas of the state,”

we found that in Fiscal Years 2003 through 2005, over 70 percent of eligible students in the Northeast Region were served while in the Southwest Region between 33 and 58 percent were served.

### **Performance Measurement**

Data provided by the Department indicate that about half the students who completed a Read to Achieve program in Fiscal Years 2003 through 2005 improved their reading skills to grade level. This statistic indicates that the Read to Achieve Program is helping some students improve their reading skills as intended. However, we found that the Department does not collect or compile certain important information to comprehensively evaluate the Program, including the following:

- **The Department has not historically collected data to individually identify all students who read below grade level.** As a result, the Department cannot determine the long-term effects of the Program. The Department only began collecting information to individually identify students who read below grade level, including those in the Program, in the Spring of 2005. To date, the Department has not analyzed these data to isolate the effect of Read to Achieve on students' reading skills.
- **The Department does not compile key data to track information about grant recipients.** The Department does not compile information on the types of literacy programs schools plan to offer or breakdowns of their program budgets. Further, the Department does not compare planned to actual data such as the number of students eligible to participate in Read to Achieve programs, the number of students schools plan to serve, and the number actually served. Analyzing these types of data would allow the Department to evaluate the effectiveness and cost-efficiency of the programs funded with Read to Achieve monies.
- **Program data assembled by the Department contain numerous errors.** We found Program data lacked achievement results for some schools; contained errors related to numbers of students funded and amounts awarded; and included calculations (e.g., funding per student) that were inaccurate.

### **Program Outcomes**

Statute [Section 22-7-506(3)(e), C.R.S.], states that schools may not receive continued Read to Achieve funding unless at least 25 percent of participating students from the prior year improved their reading skills to at least grade level, or were "proficient" on the state assessment (CSAP). Department data for Fiscal Years 2003 through 2005 indicate that, statewide, about half of Program participants improved their reading skills to grade level each year. However, over the same period, between 4 and 11 percent of individual schools did not achieve the 25 percent standard. We evaluated Department processes related to the 25 percent standard and found problems in several areas:

- **The Department awarded additional grant funds to schools that did not meet the 25 percent statutory standard.** We found the Department funded 15 schools in Fiscal Year 2003; 10 schools in Fiscal Year 2004; and 10 schools in Fiscal Year 2005 that did not meet the statutory standard at the end of the prior year.
- **The Department does not have information on students who do not complete their Read to Achieve programs.** Students who drop out of the Read to Achieve Program are not included in the 25 percent statutory standard. For Fiscal Years 2003 through 2005, some schools had high numbers of students dropping out of the Program, with between 5 and 24 schools having at least half their students drop out before completing the Program. The Department does not require schools to report why or when students dropped out and schools receive full payment for all students, including those who drop out.

### **Program Funding and Cost**

We reviewed the methods used by the Department to evaluate and hold schools accountable for controlling costs and identified a number of problems:

- **The Department lacks an empirical basis for its standard per-pupil grant funding rates of about \$1,000 per pupil per year.** The Department did not evaluate cost data from successful programs or compare costs among the different program structures to arrive at its standard per-pupil rate. For Fiscal Year 2005 we found no clear correlation between the amount of per pupil Read to Achieve funding provided and the percentage of students improving to grade level. Overall, about half of the students in the Program improved their reading to grade level regardless of the amount of per pupil Read to Achieve funding the schools received.
- **The Department does not have criteria to determine when grant monies should be refunded for serving substantially fewer students than planned.** We found that of the 309 grantees for Fiscal Year 2005 (schools in a consortium are identified as one grantee), about half served fewer students than were funded and almost one-quarter served less than 80 percent of the students for whom they received funding. During Fiscal Year 2005, grantees served a total of about 700 fewer students than funded and we estimate the Department ultimately distributed about \$686,000 to fund students that were not served.

## **Program Administration and Monitoring**

As discussed throughout the report, Program administration and oversight need to be strengthened. Currently, the Department is not appropriated any FTE specifically for Read to Achieve but has assigned one staff member who spends an estimated one-third of her time overseeing the Program's administration. To implement our recommendations, the Department should establish an oversight and monitoring function to verify data provided by schools; compile and analyze Program data over time; and prepare quantitative data for the Read to Achieve Board and review teams. The Department could consider reallocating its resources to accomplish our recommendations or requesting additional resources from the General Assembly.

A summary of the recommendations and the Department's responses can be found in the Recommendation Locator. Our complete audit findings and recommendations and the responses of the Department of Education can be found in the body of the audit report.

**RECOMMEDATION LOCATOR**  
**Agency Addressed: Department of Education**

<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Response</b>	<b>Implementation Date</b>
1	21	Ensure that Read to Achieve funds are directed toward schools and students with the greatest needs for intensive literacy services and consider the geographic distribution of funds in awarding grants.	Agree	July 2007
2	26	Improve data for assessing Read to Achieve Program performance and strengthen methods for evaluating and disseminating the results of the Program.	Agree	September 2006
3	30	Improve accountability for the Program and comply with statute by ensuring that only schools that improve at least 25 percent of their participants' reading skills to grade level receive continuation funding.	Agree	July 2006
4	32	Improve oversight of schools with participants who do not complete the full instructional cycle by collecting, verifying, and analyzing data on dates of service and assessment scores.	Agree	July 2007
5	37	Improve accountability for Program costs by considering alternatives to the per pupil funding standards; obtaining and verifying additional cost information from schools; and establishing written agreements to hold schools accountable for serving the students identified in their applications.	Agree	July 2007
6	40	Establish a monitoring process to ensure the Program is effectively administered and evaluated and consider reallocating existing resources or requesting additional resources as appropriate.	Agree	July 2006

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