

Annual Internal Audit Report

**As Required by
Texas Government Code,
Section 2102.009**

Fiscal Year 2020

October 2020



TEXAS
Health and Human
Services

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Introduction

The Fiscal Year 2020 Annual Internal Audit Report for the Texas Health and Human Services (HHS) Internal Audit Division (HHS Internal Audit) is provided in accordance with the [Texas Internal Auditing Act](#) requirements for internal auditors to prepare and distribute an annual report of activities and complies with the guidelines set forth by the State Auditor's Office. HHS Internal Audit completed audit work and provided management with information and analyses to assist in initiating improvements to operations and to strengthen internal controls. In addition to audit work, HHS Internal Audit provided advice and assistance on governance, risk management, and controls, and management actively engages HHS Internal Audit as they continue to work toward more effective and efficient processes in the agency.

1. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the Website

Texas Health and Human Services posts the approved audit plan and the Annual Audit Report to the [Reports and Presentations](#) page of the HHS public home page within 30 days of approval as required by statute. The [Fiscal Year 2021 Audit Plan](#) signed by the Executive Commissioner and Director of Audit and Compliance on September 4, 2020, was posted to the Reports and Presentations page in September 2020. The [Fiscal Year 2019 HHS System Internal Audit Annual Report](#) dated October 2019 was posted to the Reports and Presentations page in October 2019. Based on the results of the internal quality assessment, HHS Internal Audit improved processes to ensure updates to the HHS Internal Audit Plan are posted to the Reports and Presentations page of the HHS public home page within 30 days of approval. The second FY2020 Audit Plan update was posted timely.

2. Internal Audit Plan for Fiscal Year 2020

Health and Human Services System (HHSC and DSHS)

| Report Number | Audit/Project Name | Report Date |
|---------------|---|------------------------------------|
| 19-01-020 | Protected Health Information for Select Systems (formerly Health Record Data) | April 30, 2020 |
| 19-01-016 | Criminal Background Checks (formerly Background Checks) | October 21, 2019 |
| 19-01-027 | Contract Expenditures | Reporting – Expected November 2020 |
| 19-01-023 | Inventory Processes | February 11, 2020 |
| 20-01-019 | Information Security Office Exceptions | Planning – Expected February 2021 |
| 20-01-017 | Network Access for Terminated Employees | August 14, 2020 |
| 20-01-018 | Data Use Agreements | September 30, 2020 |
| 20-01-014 | Regional Human Resources Policies and Procedures | Cancelled – See Explanation Below |
| 20-01-022 | Decommissioned Systems | July 20, 2020 |
| 20-01-015 | IT Preparedness for Malware Threats and Malicious Software | Reporting – Expected October 2020 |
| 20-01-008 | PCS Approvals | June 5, 2020 |
| 20-01-009 | Substance Use Disorder Contracts | June 3, 2020 |
| 20-01-020 | Office of Civil Rights | Fieldwork – Expected November 2020 |

Health and Human Services Commission (HHSC)

| Report Number | Audit/Project Name | Report Date |
|---------------|--|------------------------------------|
| 19-01-025 | Construction | December 10, 2019 |
| 20-01-027 | Office of Inspector General's Benefits Program Integrity | September 16, 2020 |
| 20-01-029 | Rate Analysis – School Health and Related Services (SHARS) | Fieldwork – Expected December 2020 |
| 20-01-023* | Access and Eligibility Services' Community Access | Fieldwork – Expected December 2020 |
| 20-01-030 | Circular C-061 External Data Sharing Compliance | Planning – Expected February 2021 |

*Project was paused during the fiscal year and has since resumed. Audited area required all available resources to ensure efficient response to COVID-19.

Department of State Health Services (DSHS)

| Report Number | Audit/Project Name | Report Date |
|---------------|--|--|
| 19-01-022 | Maternal and Child Health Grant Management | January 27, 2020 |
| 20-01-031* | Consumer Protection – Business Filing and Verification | Planning – Expected March 2021 |
| Cancelled | Tuberculosis Program Services and Coordination | Cancelled – See Explanation Below |
| 20-01-016 | DSHS Pharmacy | On Hold (COVID-19 Response) – Expected August 2021 |

*Project was paused during the fiscal year and has since resumed. Audited area required all available resources to ensure efficient response to COVID-19.

Explanation of Deviations from 2020 Internal Audit Plan

As noted below in Section V. Internal Audit Plan for Fiscal Year 2021, the HHS Internal Audit risk assessment process is a perpetual process. As a result, the audit plan may change quarterly due to more frequent identification of, and response to,

shifts in risk. The following projects were removed from the FY2020 Audit Plan for the following reasons:

- *Regional Human Resources Policies and Procedures*: COVID-19 response is required at the regional level. An audit could impede the ability to quickly respond to COVID-19.
- *Tuberculosis Program Services and Coordination*: COVID-19 response is required by the DSHS. This project would involve assessing regional coordination efforts and it is not feasible to complete this work as the regions are heavily involved in COVID-19 efforts.

3. Consulting Services and Nonaudit Services Completed

HHS Internal Audit staff presented on the audit process, risk assessment, and control frameworks at staff meetings and leadership academies as requested by management. In addition, HHS Internal Audit completed the following consulting services during fiscal year 2020:

| Report Number | Project Name | Completion Date |
|---------------|--|-----------------|
| 19-04-026 | Centralized Accounting and Payroll/Personnel System (CAPPS)/System of Contract Operation and Reporting (SCOR) 9.2 Enhancements | September 2019 |
| 19-04-028 | Hospital Finance and Waiver Program | September 2019 |
| 20-04-010 | Rate Analysis – Long-Term Services and Support (LTSS) | December 2019 |
| 20-04-024 | Cost Allocation Process – Phase I | July 2020 |
| 20-04-025 | Cost Allocation Skilled Professional Medical Personnel (SPMP) | March 2020 |
| 20-00-000 | Management Assistance | |
| | Analysis of Open-Ended Contracts | November 2019 |
| | STAR+PLUS Procurement Review | March 2020 |
| | STAR+PLUS Email Review | March 2020 |
| | DSHS COVID Lab Reporting Process | May 2020 |

CAPPS/SCOR 9.2 Enhancements

Objective: Review process enhancements relating to SCOR and CAPPS Financials 9.2 to identify risks or gaps that could be addressed by management prior to implementation.

Scope: Any enhancements made to current workflows and anticipated changes to the SCOR and CAPPS Financials 9.2 systems.

Observations and Results:

- Design and coding modification approvals were not completely populated.
- Training materials allowed users to receive certification of completion without meeting certain criteria (such as answering review questions).
- Training for certain roles was in development.

Hospital Finance and Waiver Program

Objective: Review the system requirements for quarterly reporting of Local Provider Participation Fund (LPPF) to Centers for Medicare and Medicaid Services and identify risks, gaps, other opportunities for improvement that could be addressed by management before implementation.

Scope: Current Code of Federal Regulations related to the Local Provider Participation Fund reporting and documentation processes.

Observations and Results:

- Potential 42 Code of Federal Regulations §433.74 compliance gaps were identified and suggestions to address the gaps were communicated.
- Suggestions were offered to improve the system in development to collect information from local governments on LPPFs.

Rate Analysis – Long Term Services and Support

Objectives:

- Review LTSS processes for development of rates and identify areas for improvement based on any misalignment of risks and controls; and
- Perform a risk assessment of LTSS Programs to help prioritize areas to improve the quality assurance and quality control processes.

Scope: Current processes for rates developed using cost reports, models, and combination of the two methodologies for all LTSS programs listed on the HHS website as of October 1, 2019.

Observations and Results:

Objective 1: Review of LTSS processes for development of rates identified three main areas for improvement:

1. *Quality Control* – The Quality Review Checklist could include relevant/detailed review items tailored to LTSS processes and Quality Review procedures could be developed for consistent use of the checklist.

2. *Documentation* – Procedures for documentation and organization of key documents within shared drive and SharePoint could be developed, access to resources and records could be limited to authorized individuals, and accountability for custody and use of resources and records could be assigned and maintained.
3. *Internal Control System* - Standardized policies and procedures could be developed for LTSS rates using management knowledge and legislation documents, meetings could be held throughout the rate development process to obtain approval of logic used and guidance, and succession and contingency plans and training could be created.

Objective 2: The audit team performed a risk assessment of the LTSS programs to help prioritize areas to improve the quality assurance and quality control processes. The assessment considered the following seven factors:

- Are there any issues with the program’s rates?
- How old is the program?
- How many clients are enrolled to the program?
- How many rates for different services are developed for the program?
- How complex is the rate development method for the program?
- Does information/method used for this program affect other programs?
- How many funding sources does this program have?

Based on the results of the risk assessment performed, the following programs were identified as potentially high-risk areas:

1. Home and Community Based Services
2. 24-Hour Residential Child Care & Supervised Independent Living
3. Community Living Assistance & Support Services
4. Texas Home Living
5. Nursing Facility Rehabilitative & Specialized Services

Cost Allocation Process – Phase I

Objective: Review support for selected HHS administrative costs and determine the reasonableness of the cost allocation methodologies based on services performed.

Scope: Thirty-four departments within the Office of Chief Operating Officer, Financial Services, Information Technology Services, Performance, System Support Services, and Transformation and Innovation.

Observations and Results:

- *Department Cost Allocation Method Review* – Of the 34 HHSC departments reviewed, alternatives to further enhance alignment of cost allocation with services and work performed were developed for 27 departments.
- *General Items for Consideration* – Costs associated with direct services and a proportionate share of indirect costs could be calculated separately as an alternative cost allocation method. This would require a documented agreement amongst HHSC, DFPS, and DSHS management regarding direct and indirect costs. Additionally, transparency and communications in the cost allocation process could be improved.
- *Monthly Invoice and Assessment Review* – HHSC management could strengthen accounting processes and controls to ensure amounts within the invoices and assessments are complete and accurate.
- *HHSC, DFPS, and DSHS Cost Plan Comparison* – Of the 33 HHSC departments compared with DFPS/DSHS departments, 24 departments shared similar cost allocation methods as DFPS. Only two departments shared similar cost allocation methods as DSHS. Some differences were affected by the organizational structure differences between agencies, which made it harder to compare equivalent functions.

Cost Allocation Process – SPMP

Objective: Review the timekeeping process for skilled professional medical personnel to identify potential gaps in the cost allocation procedures.

Scope: Limited to Office of Inspector General personnel (OIG).

Observations and Results:

- Timekeeping records that show different tasks performed by OIG's SPMP were not available for review.
- Potential gaps in the SPMP cost allocation procedures could not be determined as no individual with historical knowledge or any supporting documentation could be located.
- Consultants were hired to review HHSC's SPMP cost allocation in August 2017 including OIG, but recommendations have not yet been implemented.

4. External Quality Assurance Review

The HHS Internal Audit External Quality Assurance Review was completed in August 2019, by Postlethwaite & Netterville, a state contracted vendor. Excerpts from the Executive Summary of the resulting report include the following opinions:

Postlethwaite & Netterville, APAC (P&N) is pleased to have provided the Texas Health and Human Services system (HHS) with a full external Quality Assurance Review (QAR) of its Internal Audit Division (Internal Audit) for the period of September 1, 2016 through August 31, 2019.

The QAR assessed Internal Audit's compliance with the following:

- 1. International Standards for the Professional Practice of Internal Auditing (Standards);*
- 2. Generally Accepted Government Auditing Standards (GAGAS); and*
- 3. Texas Internal Auditing Act (TIAA)*

OPINION AS TO CONFORMANCE WITH THE STANDARDS, CODE OF ETHICS AND TEXAS INTERNAL AUDITING ACT

*It is our overall opinion that the Internal Audit Division at HHS **Generally Conforms** with the following for the period of September 1, 2016 through August 31, 2019:*

- 1. The Standards and the Code of Ethics promulgated by the Institute of Internal Auditors (IIA); and*
- 2. The Texas Internal Auditing Act codified by Texas Government Code 2102.*

There were no opportunities for improvement identified that would be considered reportable items.

OPINION AS TO CONFORMANCE WITH THE GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

*It is our overall opinion that the Internal Audit Division at HHS receives a Peer Review Rating of **Pass** for the period of September 1, 2016 through August 31, 2019 with the Generally Accepted Government Auditing Standards (GAGAS) distributed by the Government Accountability Office (GAO) (2011 Revision). There were no opportunities for improvement identified that would be considered reportable items.*

5. Internal Audit Plan for Fiscal Year 2021

The audit plan below includes 24 total audits (11 carried over from fiscal year 2020) and will be added to throughout the year based on risk and agency needs. In addition, HHS Internal Audit staff will conduct verification work on recommendations reported by management as implemented and address management requests as possible. The Fiscal Year 2021 Internal Audit Plan was approved by the HHS Executive Commissioner on September 4, 2020.

Projects

| Health and Human Services System | Budget (Hours) |
|---|-----------------------|
| IT Preparedness for Malware Threats and Malicious Software | 300 |
| Procurement Cards | 2,500 |
| Texas Administrative Code, Chapter 202 Requirements | 2,000 |
| Information Technology Infrastructure | 2,500 |
| Centralized Accounting and Payroll/Personnel System (CAPPS) Procurement Scoring* | 2,500 |
| Select Contracts* | 2,500 |

| Health and Human Services Commission | Budget (Hours) |
|--|-----------------------|
| Contract Expenditures | 200 |
| Data Use Agreements | 200 |
| Office of Civil Rights | 1,700 |
| Office of Inspector General's Benefits Program Integrity | 100 |
| Rate Analysis - School Health and Related Services (SHARS) | 1,000 |
| Access and Eligibility Services' Community Access | 1,000 |
| C-061 External Data Sharing Compliance | 1,500 |
| Information Security Office Exceptions | 2,000 |

| Health and Human Services Commission | Budget (Hours) |
|--|-----------------------|
| Healthcare Regulation | 2,500 |
| Women's Infant, and Children's Program (WIC)* | 2,000 |
| State Plan for Independent Living* | 2,000 |
| Premiums Payable System | 2,500 |
| Adult Mental Health and Crisis Services* | 2,500 |
| Utilization Review* | 2,500 |
| Provider Finance (formerly Rate Analysis) – Hospital Supplemental Payments | 2,500 |

| Department of State Health Services | Budget (Hours) |
|--|-----------------------|
| Consumer Protection-Business Filing and Verification | 2,000 |
| DSHS Pharmacy | 2,500 |
| Texas HIV Medication Program (TMHP) | 2,500 |

Projects with a "*" indicate projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2021 Internal Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

High Risks Unaddressed by Plan

The following business processes were ranked as "high risk" but not included in the Fiscal Year 2021 Internal Audit Plan either due to recent audit activity, management priorities, or resource limitations:

Health and Human Services Commission

| Business Area | Auditable Unit |
|--------------------------------|--|
| State Supported Living Centers | <ul style="list-style-type: none"> ● Programs ● Quality Assurance ● State Supported Living Centers (recently audited) |

| Business Area | Auditable Unit |
|----------------------------|---|
| State Hospitals | <ul style="list-style-type: none"> State Hospitals |
| Behavioral Health Services | <ul style="list-style-type: none"> Substance Abuse (recently audited) Texas Targeted Opioid Response (TTOR) Children’s Mental Health |
| Regulatory Services | <ul style="list-style-type: none"> Long Term Care Regulation Child Care Regulation (recently audited) |

Department of State Health Services

| Business Area | Auditable Unit |
|--------------------------------------|--|
| Regional and Local Health Operations | Health Emergency Preparedness and Response |
| Program Operations | Contract Management |

Risk Assessment Methodology

To facilitate more timely response to shifting risks, HHS Internal Audit has implemented a continuous risk assessment process and plans to update the audit plan as needed throughout the fiscal year. The process description for audit plan approval follows:

- 1. Define the audit universe.** Develop a comprehensive list of "auditable units" (i.e., program areas/units, activities, processes, etc.). This includes an ongoing review of organizational charts, agency reports, and the Health and Human Services Commission and Department of State Health Services Strategic Plans. Criteria for selecting "auditable units" includes: level of contribution to HHS Goals and Strategies, the magnitude of impact on the organization, the level of importance to justify the cost of control, and the efficiency in minimizing auditable units when possible.

Select and weight risk factors. Risk factors are specific and identifiable sources of uncertainty or potential negative consequences. Risk is inherent to every auditable unit -what varies among units is the degree or level of risk. Level of risk is determined by the extent of impact to the agency as a whole, should the specific risk occur. Risk factors are selected by consideration of current issues by the Director of Internal Audit and Compliance. Contract processes and monitoring agency contracts related to Texas Government

Code, Section 2102.005(b) are considered as part of the custom risk factors used to assess all auditable units.

2. In addition, HHS Internal Audit **staff assesses risk on five additional risk factors** based on the Committee of Sponsoring Organizations' (COSO) Internal Control Framework:

- Control Environment
- Assessing Risk
- Control Activities
- Information and Communication
- Monitoring Activities

Texas Administrative Code, Section 202 (TAC 202) risks are assessed (when applicable) within the Information and Communication factor and are also considered within individual project risk assessments. Additionally, a TAC 202 Audit will be conducted by HHS Internal Audit in fiscal year 2021.

3. **Prioritize auditable units to assess overall risk level.**

- **Score:** HHS Internal Audit scored each auditable unit using the Internal Audit Risk Factors and Scoring Guide.
- **Additional Points:** Areas identified as of interest or concern by executive management team members or the Director of Internal Audit and Compliance received additional points at the discretion of the scoring team.
- **Rank:** Calculate based on the sum of all scores and rank all units relative to one another. Identify high, medium, and low risk areas.

4. **Monitoring and Updating Risk Assessment.** Information is gained and added to the risk assessment tool through routine meetings with agency management, information learned during audit work, external report and notifications, and other sources that identify risks. Risks are perpetually monitored, and the risk assessment is updated as often as needed, to address the most current risks at HHS. The audit plan is monitored and assessed routinely, and amendments are proposed as appropriate.

5. **Identify Areas of Audit for the Propose Fiscal Year 2021 Internal Audit Plan.** Based on available staff hours, review of audit history, input from executive management, and other factors develop a proposal for the Executive Commissioner's review and input.

6. External Audit Services Procured in Fiscal Year 2020

HHS Internal Audit included the external audit services listed in the following table within quarterly reporting to the State Auditor's Office:

| Description | Q1 | Q2 | Q3 | Q4 |
|--|----|----|----|----|
| Audits of Medicaid Providers | x | x | x | x |
| Document Processing Services Financial Audit | x | x | x | x |
| Disproportionate Share Hospital and Uncompensated Care Audit Services | x | x | x | x |
| Managed Care Organization (MCO) Financial Statistical Reports (FSRs) | x | x | x | x |
| Medical Transportation Organization - FSRs | x | x | x | x |
| Texas Medicaid and Healthcare Partnership (TMHP) SOC-1 Audit | x | x | | x* |
| Electronic Health Record (EHR) Incentive Payments | x | x | x | x |
| Vendor Drug SOC-1 Audit | x | x | | x* |
| Related Party Administrative Testing | x | x | x | x |
| NorthgateArinso Retrospective Cost Settlement Audit | x | x | | |
| Delivery System Reform Incentive Payments | x | x | x | x |
| Eligibility Support Services program (ESS), Children's Health Insurance Program (CHIP), and Enrollment Broker Retrospective Cost Settlement Audits | x | x | x | x |
| MCO Performance Audits | x | x | x | |
| Vendor Drug Program HIPAA Audit | x | x | | |
| TMHP – Retrospective Cost Settlement Audit | x | x | x | |
| Medicaid Recovery Audit Contractor (RAC) | x | x | x | x |
| MCO Self-Reported Data | | x | x | x |
| Audit of Vendor Drug Program Drug Rebate Analysis and Management System (DRAMS) | | x | x | x |

*Delegations were obtained in September 2020 after fourth quarter report was submitted.

7. Reporting Suspected Fraud and Abuse

The HHS Internet and Intranet home pages and HHS Circular C-027 provide information on how to report suspected fraud, waste, and abuse. Employees must report suspected fraud, waste, or abuse in health and human services programs to the HHS Inspector General and the Texas State Auditor's Office.

To our knowledge, these reports are being made in accordance with Section 7.09, Fraud Reporting, in the [General Appropriations Act](#) and [Texas Government Code, Section 321.022](#).