



Internal Audit Division

Fiscal Year 2016

Annual Internal Audit Report

October 2016

MISSION

The mission of Internal Audit is to perform objective, independent audit and advisory services that provide timely and relevant information for use in managing risks and achieving more efficient and effective operations of the Health and Human Services Commission (HHSC).

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Introduction

The Fiscal Year 2016 Annual Internal Audit Report for the Texas Health and Human Services Commission (HHSC) Internal Audit Division 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.

The Internal Audit Division 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, Internal Audit provided advice and assistance on governance, risk management, and controls, and management actively engages the Internal Audit Division as they continue to work toward more effective and efficient processes in the agency.

Also included are the Annual Reports for Department of Assistive and Rehabilitative Services (DARS), which was abolished on August 31, 2016, and Department of Aging and Disabilities Services (DADS), which consolidated its internal audit function with HHSC on September 1, 2016.

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Section I

Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

The Health and Human Services Commission (HHSC) posted the HHSC Internal Audit Plan for Fiscal Year 2017 within the Reports and Publications page of the HHSC public home page within 30 days after September 30, 2016, the date the Internal Audit Plan was approved.

The HHSC Annual Report for Fiscal Year 2016 will be posted on the Reports and Publications page of the HHSC public home page within 30 days after October 31, 2016.

Section II

Internal Audit Plan for Fiscal Year 2016

Report Number	Audit/Project Title	Report Date
14-02-008	Oversight and Monitoring of Managed Transportation Services	In Progress Est. Completion 11/2016
15-02-001	Rate Analysis Supplemental Payments	10/20/2015
15-02-003	Managed Care Contract Oversight	12/10/2015
15-02-004	Office of Community Services Subrecipient Monitoring	11/25/2015
15-02-006	Eligibility Operations - Data Integrity Unit Processes	4/11/2016
16-01-005	HHS Oversight of Outsourced Services	7/19/2016
16-02-002	Pay for Quality Program	6/14/2016
16-02-003	Operations Coordination Management Processes	7/12/2016
16-02-004	Access to HHSAS and HCATS	2/03/2016
16-02-006	Medicaid/CHIP Enrollment Broker Contract Monitoring	8/10/2016
16-02-014	Oversight of Statewide Network of Community Partners	In Progress Est. Completion 11/2016
16-02-017	Oversight of Selected Administrative Goods and Services Contracts	In Progress Est. Completion 11/2016
16-02-018	Accounts Receivable Processes	In Progress
16-02-022	HHS Salary Overpayments	In Progress
16-02-023	Inspector General's Investigation Process	In Progress
16-02-024	Contract Processing Times for Selected System Contracts	In Progress
16-03-016	Fiscal Year 2016 Consolidated Follow-Up Audit	4/26/2016
16-03-019	Follow-Up Audit of Organizational Governance	8/22/2016
16-03-020	Follow-Up Audit of Medicaid Eligibility and Health Information Services	8/22/2016
16-03-021	Follow-Up Audit of the Review of Managed Care Payment Process	8/22/2016
	Medicaid/CHIP Division Project Management Office	Removed from Plan

Summary of Completed Projects

15-02-001 Rate Analysis Supplemental Payments

This audit determined that the HHSC Rate Analysis Department (Rate Analysis) has been operating well, and with minimal issues, considering the complexity surrounding the calculations of supplemental payments and identified opportunities to strengthen

controls. Specifically, the control structure should be strengthened to ensure compliance with federal and state requirements for the disproportionate share hospital and uncompensated care supplemental payment process, including advance payments and overpayment recoupments. In addition, Rate Analysis had not established adequate processes for tracking and monitoring overpayments. To ensure compliance with federal rules, the date when an overpayment is identified must be captured and communicated to the provider.

15-02-003 Audit of Managed Care Contract Oversight

An assessment of contract oversight provided for three managed care organizations serving Medicaid clients covered by the STAR program identified that contract oversight needs improvement to ensure key contract outcomes are achieved. Additionally, completion and accuracy of key encounter data fields should be validated to help ensure accuracy of capitation and fee-for-service payments rates.

15-02-004 Audit of Office of Community Services Subrecipient Monitoring

This audit reported that while the Office of Community Services has made improvements to its fiscal year 2015 monitoring processes and has described plans for ongoing improvement, review of monitoring for the Alternatives to Abortion and Family Violence programs identified that additional improvements are needed to ensure subrecipients are providing program services and utilizing federal and state funds in accordance with laws, regulations, and requirements.

15-02-006 Audit of Eligibility Operations - Data Integrity Unit Processes

Client information updates in the Texas Integrated Eligibility Redesign System (TIERS), Medicare Buy-In System (MBIS), and MAPPER performed by the Data Integrity Unit need improvement to ensure that client information updates are appropriate, accurate, and adequately supported. In addition, opportunities to strengthen or improve logical access controls and account management processes and procedures exist.

16-01-005 Audit of HHS Oversight of Outsourced Services

While it was determined that monitoring was performed on the ten contracts selected for this audit, opportunities for improvement were identified. Specifically, risk assessments to focus monitoring efforts are needed; increased monitoring of deliverables and prompt invoice payment should be conducted; and emphasis on meeting requirements for the Certified Texas Contract Manager (CTCM) certification and completing conflict of interest forms is needed.

16-02-002 Audit of Pay for Quality Program

Pay for Quality Program results indicate that quality has improved. However, the degree of improvement did not meet program expectations. Additionally enhancements are needed to incentivize medical and dental managed care organizations (MCOs) to further improve quality. Medical and dental Pay for Quality Program measure selection, methodology, and approval processes should be documented.

16-02-003 Audit of Operations Coordination Management Processes

Adequate segregation of duties was not in place for the functions performed by the Medicaid CHIP Division (MCD) Operations Coordination Division for the calculation of the premium payment amounts. One MCD Operations Coordination employee is responsible for producing payment vouchers and reports for monthly payments of approximately \$1.5 billion to managed care organizations (MCOs). In addition, a review of select management processes in the MCD Operations Coordination unit identified that policies and procedures are not consistently documented, and knowledge transfer is not sufficient to ensure continuity and consistency of operations.

16-02-004 Audit of Access to HHSAS and HCATS

Overall, logical access controls to procurement and contracting capabilities within the Health and Human Services Administrative System (HHSAS) Financials and the HHS Contract Administration and Tracking System (HCATS) are generally appropriate and segregation of duties are enforced. This is a noteworthy accomplishment as HHSAS Financials and HCATS are used throughout the procurement and contracting process, and contain a significant number of user accounts. However, improvements are needed with logical access controls to procurement and contracting capabilities within HHSAS Financials and HCATS.

16-02-006 Audit of Medicaid/CHIP Enrollment Broker Contract Monitoring

Medicaid and CHIP Division's (MCD) contract monitoring processes for the Enrollment Broker contract should be improved to ensure adequate verification and validation of contract deliverables as well as whether contract expenses are allowable prior to payment. Specifically, MCD should consistently perform critical contract monitoring processes such as: (a) reviewing Quality Assurance (QA) plan deliverables, (b) performing QA reviews, and (c) reviewing other contract deliverables. In addition, MCD should clearly define and document the Enrollment Broker contract monitoring roles and responsibilities to ensure review of contract deliverables and expand monitoring of Enrollment Broker activities to verify the accuracy and completeness of contractor information that is reported.

16-03-016 Fiscal Year 2016 Consolidated Follow-Up Audit

Overall, the program areas audited accurately reported the implementation status on internal audit recommendations tested. Of the 16 recommendations reported as implemented from the 7 follow-up audits HHSC Internal Audit completed on previously issued reports, 12 were determined “Fully Implemented” and 4 “In Progress”. For those recommendations that were considered “in progress”, the program areas continued efforts to fully implement the corrective action. The audits included in follow-up were:

- Audit of Eligibility Documentation
- Audit of HEART System Access and Security
- Enterprise Audit of After-the-Fact Purchases
- Audit of Social Services Contract Monitoring

16-03-019 Follow-Up Audit of Organizational Governance

HHSC Office of Social Services accurately reported the implementation status of the recommendation that was included in this review from the “Audit of Organizational Governance” issued on November 19, 2013. This recommendation is considered "Fully Implemented".

16-03-020 Follow-Up Audit of Medicaid Eligibility and Health Information Services

Medicaid and CHIP Division Health Information Technology (MCD-HIT) accurately reported the implementation status of two of the three recommendations previously reported as implemented from the “Audit of Medicaid Eligibility and Health Information Services” issued on May 9, 2013.

For the "In Progress" recommendation, MCD-HIT should ensure Hewlett Packard Enterprise (HPE) implements procedures for capturing, reporting, and reviewing performance measures for established Service Level Agreements. This recommendation has been re-opened and will be monitored as part of our follow-up process.

16-03-021 Follow-Up Audit of the Review of Managed Care Payment Process

Medicaid and CHIP Division (MCD) and HHSC Information Technology (HHSC IT) accurately reported the status of one of the four recommendations from the "Review of the Managed Care Payment Process, Assignment of Medicaid Clients to an MCO, Potential Causes for Decline in CHIP Enrollment" issued on January 27, 2015, as implemented. The remaining three recommendations have been re-opened and will be monitored as part of our follow-up process.

Section III

Consulting Services and Non-audit Services Completed

The HHSC Internal Audit Division completed the following non-audit services during fiscal year 2016:

Report Number	Audit/Project Title	Report Date
16-02-005	Analysis of Sick Leave Bonus	8/03/2016
16-02-015	Study of Select State Agency and State Coalition Family Violence Partnerships	7/11/2016

16-02-005 Analysis of Sick Leave Bonus

Health and Human Services Commission (HHSC) Executive Commissioner requested an analysis of sick leave bonus hours awarded, taken, and lost. Internal Audit researched the history of sick leave bonus, reviewed the HHS policy and performed an analysis of sick leave bonus hours awarded, taken, and lost throughout HHS System.

16-02-015 Study of Select State Agency and State Coalition Family Violence Partnerships

Health and Human Services Commission (HHSC) Office of Social Services Community Access and Services (CAS) requested a study of other state agencies and family violence coalition's partnerships. The purpose of this study was to examine best practices to improve the efficiency and effectiveness of the relationship between the Family Violence Program and its contracted coalition partner.

In general, the contracts and agreements between states and coalitions contain performance measures and require periodic reporting. While technical assistance and training were the focal points for these partnerships, a clear delineation between training or technical assistance does not exist. Coalitions may be requested to provide training or technical assistance on any topic whereas states tend to focus on specific topics related to compliance.

Section IV

External Quality Assurance Review

The Division's External Quality Assurance Review was completed in August 2016, by David MacCabe, LLC, a state contracted vendor. The opinion that was reported was as follows:

*Based on the information received and evaluated during this external QAR, it is the opinion of the reviewer that the internal audit activity at the Texas Health and Human Services Commission **generally conforms** to the IIA Standards, the Government Auditing Standards, and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that policies, procedures, and an internal audit charter are in place, and that the practices that are followed provide reasonable assurance that the audit work conducted is in compliance with the requirements of the applicable professional standards and the Texas Internal Auditing Act.*

Section V

Internal Audit Plan for Fiscal Year 2017

Audit/Project	Est. Budget (Hours)
Contract Processing Times for Selected System Contracts (carryover from FY 16)*	2,200
Inspector General Investigation Process Effectiveness (carryover from FY 16)	1,125
HHS System Audit of Salary Overpayments (carryover from FY 16)	550
Oversight of Selected Administrative Goods and Services Contracts (carryover from FY 16)	200
Oversight and Monitoring of Managed Transportation Services (carryover from FY 16)	200
Oversight of Statewide Network of Community Partners (carryover from FY 16)	100
Accounts Receivable Processes (carryover from FY 16)	100
HHS System Business Continuity and Disaster Recovery	2,500
Information Technology Application Change Management	2,000
Accuracy of TIERS Data	2,000
Asset Management Controls	2,000
Contract Monitoring of Mental Health Substance Abuse Local Mental Health Authorities	2,000
Eligibility Operations – Vendor Operations*	1,750
Vendor Drug Program*	1,500
Contract Compliance and Performance Management Monitoring*	1,500
Construction and Maintenance Project Management*	1,500
Medicaid Health Information Technology (HIT)	1,500
Disaster Case Management Process	1,500
Texas Administrative Code, Chapter 202 Compliance*	750
SB 20 Reporting Requirements Compliance*	750
Blind Children’s Program	125
Job Audit Process	125
Follow-Up on Recommendations Reported as Implemented	1,000
Consulting Services	4,000
Department of Aging and Disability Services	Est. Budget (Hours)
Audit/Project	
Regulatory Survey Citations and Remedies (carryover from FY 16)	1,500
Home and Community Support Service Agency Licensing (carryover from FY 16)	1,500
State Supported Living Center Volunteer Service Councils	1,500
State Supported Living Center Overtime Administration	1,500
State Supported Living Center Electronic Health Records/Electronic Life Records	1,500

Projects above designated with an asterisk address requirements of Senate Bill 20 (84th Legislature).

None of the projects included in the Fiscal Year 2017 Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

The following business processes were ranked as "high risk" but not included in the FY 2017 Audit Plan:

Business Area	Auditable Unit
Consumer Services Support	Comprehensive Rehabilitation Services Program
Medicaid/CHIP - Operations Coordination	Encounter and Enrollment Data Management
Procurement	Contract Oversight and Grant Processes Oversight and HHS Contract Management
Medicaid/CHIP - Vendor Drug Program	MCO Pharmacy Benefit Oversight
Procurement	Services Contracts (Internal & Client)
Business Services	IT Procurement Coordination
Eligibility Operations - Support Services	Eligibility Services Support - Training Development and Delivery
Consumer Services Support	Independent Living
Consumer Services Support	Centers for Independent Living
Eligibility Operations - Field Services	Management and Oversight of MEPD and Texas Works Eligibility Determinations
Contract Services	Office Supply Administration
ECl Performance and Oversight	Programmatic Management & Oversight of Contractors
IT Systems	MAXSTAR - Enrollment Broker
Business Ops, and Support - Contract Management	Management and Oversight of Contracts - Out stationed Workers Program
Consumer Services Support	Independent Living

Risk Assessment Methodology:

HHSC Internal Audit conducted an agency business risk assessment to develop the annual Internal Audit Plan for Fiscal Year 2017. This risk assessment included four major components: (a) business process validation by managers and directors, (b) Internal Auditor rating of risk for assigned business processes, (c) interviews with HHSC executive management, and (d) Internal Audit management review and scoring of business processes.

Internal Audit combined the assessed risks with additional information obtained from prior internal and external audit reports and other data about business risks, to identify the higher risk processes (including processes that support the HHS System) within each activity and business area. These lists were presented to HHSC executives for review, and then combined into a comprehensive list of higher risk HHSC processes.

Section VI

External Audit Services Procured in Fiscal Year 2016

The following is a list of external audit services procured or ongoing in Fiscal Year 2016.

Accenture/TMHP HIPAA Compliance Audit
Accenture/TMHP SSAE-16 Compliance Audit
Data Integrity Unit Processes Audit
Delivery System Reform Incentive Payments
Disproportionate Share Hospital and Uncompensated Care Audit Services
Disproportionate Share Hospital Rates
Document Processing Services Financial Audit
Electronic Benefits Transfer (EBT) SSAE 16
Electronic Health Record (EHR) Incentive Payments
Eligibility Support Services program (ESS), Children's Health Insurance Program (CHIP), and Enrollment Broker Retrospective Cost Settlement Audits
Enrollment Broker
Long Term Care Services and Supports of Selected MCOs
Managed Care Organization (MCO) Financial Statistical Reports (FSR)
Managed Care Organization (MCO) Performance Audits
Medicaid 1115 Waiver IGT Audits
Medical Transportation Program - Financial Statistical Reports (FSR)
NorthgateArinso Performance and Retrospective Cost Settlement
Recovery Audit
TIERS Data Center Prospective Price Redetermination
Uncompensated Care Pool
Xerox (TMHP, PCRA) Retrospective Cost Settlement
Xerox Pharmacy SSAE-16 and HIPAA Compliance Audits

Section VII

Reporting Suspected Fraud and Abuse

The HHSC Internet and Intranet, HHS Circular C-027, and HHS Enterprise Fraud Prevention and Awareness, 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 HHSC Inspector General and the Texas State Auditor's Office (SAO).

To our knowledge, these reports are being made in accordance with Section 7.09, Fraud Reporting, in the General Appropriations Act.

Appendix A

Department of Aging and Disabilities Annual Internal Audit Report



TEXAS HEALTH AND HUMAN SERVICES COMMISSION

CHARLES SMITH
EXECUTIVE COMMISSIONER

Memorandum

To: Jon Weizenbaum
Commissioner, Texas Department of Aging and Disability Services

From: Charlotte Schneemann
Deputy Director of Audit

Subject: Department of Aging and Disability Services (DADS) Internal Audit FY 2016 Annual Activity Report

Date: September 28, 2016

A report on the activity of DADS Internal Audit Division is attached, as required by the Texas Internal Auditing Act. The report describes fiscal year 2016 work performed, including audits completed and other audit activities which added value, improved operations, and helped the agency accomplish its objectives. Audit work for the past fiscal year was directed towards program compliance, management controls, automated system controls, follow-up assessments, and other advisory services. This report also includes the audit plan for fiscal year 2017.

Internal Audit work continues to enhance the effectiveness of risk management, control, and governance processes. Fiscal year 2016 audit work resulted in recommendations to improve work processes, staff accountability, communication and coordination between programs and divisions, compliance with laws and regulations, monitoring activities, and data integrity. Improvements in these areas will enhance the quality and quantity of services provided to the citizens of Texas.

As you are aware effective September 1, 2016, DADS Internal Audit transitioned to a new reporting structure within the Health and Human Services Commission (HHSC) Internal Audit Division. As a result of this transformation, DADS FY 2016 Internal Audit activities will be included as part of the HHSC Annual Activity Report which will be distributed to required external parties including the Governor's Office of Budget and Planning, Legislative Budget Board, State Auditor's Office and Sunset Advisory Commission.



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September 2016

Internal Audit

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Section I

Compliance with Texas Government Code – Section 2102.015

Annual Activity Reports, including the current and previous year's audit plans, are posted on the Department of Aging and Disability Services Internal Audit internet website each November. These reports can be found at:

http://www.dads.state.tx.us/business/internal_audit/reports/index.html

Section II

Internal Audit Plan for Fiscal Year 2016

Report Number	Audit/Project Title	Report Date
2015-014	State Supported Living Center Asset Management	July 29, 2016
2016-007	State Supported Living Center Contracts	August 29, 2016
2016-008	Contract Management and Monitoring – Data Use Agreements	August 1, 2016
2016-010	Regulatory Survey Citations and Remedies	In Progress
2016-011	Vulnerability and Patch Management	planned completion October 2016
2016-012	Home and Community Support Services Agencies Licensing	In Progress

Section III

Consulting Services and Non-Audit Services Completed

Due to confidentiality issues and in accordance with DADS Internal Audit Policy, information on consulting engagements will not be included in this report.

The following non-audit services were completed during fiscal year 2016.

Activity	Work Performed
Continuing Education and Professional Development	Attended training throughout the year to comply with 40 hours per year per auditor requirement. Supported the local chapter of the Institute of Internal Auditors by attending monthly meetings. Held internal staff meetings periodically. Participated in State Agency Internal Audit Forum meetings with a mission of promoting the effective and efficient use of state agency internal audit resources. In addition, the Audit Director and Manager serve as resources and/or mentors to agency staff selected to participate in leadership training.
Workgroups	Participated in various IT, agency and transformation workgroups.
Follow-Up Projects	Requested status of actions taken on issued audits and verified actions taken by management.
Health and Human Services Commission (HHSC) Enterprise Coordination and Activity	Coordinated requests for information, provided assistance, and coordinated management responses for HHSC Enterprise audit projects. Audit Director participates as a member of the Enterprise Audit Council, assisting in identifying and managing Health and Human Services (HHS) Enterprise risk.
External Coordination	Coordinated requests for information, provided assistance and coordinated management responses for state and federal audits.
Risk Assessment and Audit Plan	Developed the annual audit plan by establishing a risk-based approach to determine priorities of internal audit activities.
Annual Activity Reporting	Prepared a fiscal year 2015 report of the activities performed by DADS Internal Audit Division, as required by the Texas Internal Auditing Act.
Business Plan/ Performance Measure Reporting	Provided quarterly reports to HHSC Internal Audit on Internal Audit performance measures.
Internal Audit Automation Systems	Maintained Audit Command Language software used for data analysis. Managed of internal SharePoint site. Performed troubleshooting and upgrades as needed.

Section IV

External Quality Assurance Review

The previous quality assurance (QA) review was conducted in August 2013 and resulted in the following opinion:

*It is the opinion of the reviewer that the internal audit activity at the Texas Department of Aging and Disability Services **generally conforms** to the Texas Internal Auditing Act, the Government Auditing Standards, and the IIA Standards. This opinion, representing the best possible evaluation, means that policies, procedures, and an internal audit charter are in place, and that the practices that are followed provide reasonable assurance that the audit work conducted is in compliance with the requirements of the Texas Internal Auditing Act and all applicable professional standards.*

The next QA review was scheduled to be conducted by August 2016. However, due to transformation efforts and planned changes to internal policies and procedures, an executive decision was made to not undergo a QA review at this time. Legacy DADS internal audit staff are already participating in transformation workgroups and currently integrating to a new electronic working paper system.

Section V

Internal Audit Plan for Fiscal Year 2017

As a result of current transformation efforts recommended by the Sunset Commission and initiated by the 84th Texas Legislature, the entire DADS Internal Audit Division consolidated with HHSC Internal Audit effective September 1, 2016. In addition, many DADS programs and services also transitioned on this date.

The audit plan presented below represents audit coverage for those divisions and programs remaining at DADS until September 1, 2017. This plan was approved by DADS Commissioner on August 12, 2016.

The first two projects listed are carryovers from fiscal year 2016. Although not listed here, we have also reserved hours for DADS consulting projects which may be warranted throughout the year. In coordination with HHSC Internal Audit, we have allocated resources at 80% DADS and 20% System activities.



Texas Department of Aging and Disability Services Audit/Project	Estimated Budget Hours
Regulatory Survey Citations and Remedies (Carryover)	1,500
Home and Community Support Service Agency Licensing (Carryover)	1,500
State Supported Living Center Volunteer Service Councils	1,500
State Supported Living Center Overtime Administration	1,500
State Supported Living Center Electronic Health Records/Electronic Life Records	1,500

A separate risk assessment was performed for the those divisions and programs which transferred to HHSC effective September 1, 2016. Several projects were recommended for review and were provided to HHSC Internal Audit for consideration in their annual audit plan.

Internal Audit used a risk-based approach to determine priorities of internal audit activities and establish the overall work plan. The risk assessment included survey feedback from executives and management, evaluation of issues identified in prior internal and external audits, and consideration of operating environments and management control structures.

The risk assessment focused on business area's significant work processes. Each area's processes were evaluated and scored based on the following nine risk factors: service delivery; potential for fraud, waste or abuse; extent of State/Federal requirements; negative publicity/loss of credibility; fiscal operations; security, confidentiality, privacy; performance indicators; complexity of operations; and extent of oversight/monitoring. Relative weights (likelihood and impact) were assigned to each factor based on impact to agency operations and a cumulative raw score was tabulated to determine overall rankings.

Additional high-risk areas not included in the fiscal year 2017 audit plan include:

- State Supported Living Center nursing, behavioral health, physical and nutritional management, medical services and habilitation services. Quality of care related to these areas

is the focus of ongoing Department of Justice monitoring. Internal Audit does plan to evaluate implementation and utilization of the electronic health records/electronic life records (EHR/ELR) associated with these services.

- State Supported Living Center pharmacy operations – audit issued October 2015. Internal Audit does plan to evaluate implementation and utilization of the electronic health records/electronic life records (EHR/ELR) associated with these services.
- Survey Operations Complaint and Incident Investigations – State Auditor’s Office audit of Nursing Facility Complaint Processing at DADS issued August 2011 with subsequent follow-ups.
- Survey Operations Licensure and Certification Health Surveys – HHSC Inspector General review of Therapy Patterns at Select Nursing Facilities in process

Section VI

External Audit Services

Internal Audit did not procure any external audit services in fiscal year 2016.

Section VII

Reporting Suspected Fraud and Abuse

DADS internet and intranet, DADS Operational Handbook, and HHSC Circular C-027 (HHS Enterprise Fraud Waste and Abuse) provide information on how to report suspected fraud, waste and abuse directly to the State Auditor's Office.

Additionally, DADS reports allegations of fraud, waste, and abuse to HHSC Office of Inspector General (OIG), in accordance with HHSC policies and procedures. HHSC OIG is responsible for coordination in reporting to the State Auditor's Office.

Appendix B

Department of Assistive and Rehabilitative Services Annual Internal Audit Report

DEPARTMENT OF ASSISTIVE AND REHABILITATIVE SERVICES

INTERNAL AUDIT DIVISION

EXCELLENT SERVICE ★ EVERY CUSTOMER ★ EVERY TIME

Fiscal Year 2016

Annual Internal Audit Report

October 2016

MISSION

The Internal Audit Division serves as a resource dedicated to support DARS' mission by providing independent and objective assurance and advisory services to increase agency control awareness, improve the effectiveness of risk management and governance processes, and promote continuous improvement of agency operations.

2016 Team Members

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Section I

Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

As the Department of Assistive and Rehabilitative Services (DARS) was abolished effective September 1, 2016, it does not have an approved audit plan or an Internet site to post the annual report for the Internal Audit Division. Information regarding activities performed in fiscal year 2016 can be obtained from the Health and Human Services Internal Audit Division and audit work planned for programs previously administered by DARS will be reflected in the HHSC and TWC audit plans.

Section II

Internal Audit Plan for Fiscal Year 2016

Report Number	Audit/Project Title	Report Date
15-003	Business Enterprises of Texas	2/11/2016
15-004	Special Project – Goals, Measures, and Evaluations	3/2/2016
15-006	Transition Programs	8/31/2016
16-001	Early Childhood Intervention	8/31/2016
16-002	Blind Children’s Program	Cancelled

Summary of Completed Projects

15-003 Business Enterprises of Texas

This audit identified that management has implemented controls to administer the Business Enterprises of Texas program, but improvements can be made. Specifically it recommended considering risk in identifying locations and focus for the financial review process and improving the follow-up process when administrative actions are taken. In addition, this audit identified that controls over record-keeping of state-owned equipment need strengthening to ensure completeness and accuracy and that controls and functionality in the BET database can be improved.

This program transitioned to TWC effective September 1, 2016.

15-006 Transition Services

This audit identified factors that make assessing the effectiveness of transition services difficult and provided an analysis of the similarities and differences between how transition services were provided by the Division for Rehabilitation Services and the Division for Blind Services.

These services transitioned to TWC effective September 1, 2016

16-001 Early Childhood Intervention

This audit reported that management has established an effective framework of monitoring activities that directly relate to program deliverables and demonstrating a review of progress toward achieving goals.

This program transitioned to HHSC effective September 1, 2016.

Section III

Consulting Services and Non-audit Services Completed

The DARS Internal Audit Division completed the following non-audit services during fiscal year 2016:

15-004 Special Project – Goals, Measures and Evaluations

This project provided a framework for management to consider in ensuring that the goals and measures of divisions were tied to the agency's mission and objectives and evaluations report on the success of meeting established goals and measures.

Participation on Work Groups/Task Forces

Staff from the Internal Audit Division participated on work groups/task forces throughout the year. These assignments included:

- Providing guidance on controls and risk assessment processes for the Division for Blind Services vocational rehabilitation and blind children's programs and the Division for Rehabilitation Services comprehensive rehabilitation services program.
- Participating on the Data Reliance work group as an advisor on controls.
- Attendance at application change control board meetings to answer questions regarding requests made in response to audit findings.
- Participating in activities related to the transition of DARS programs to TWC and HHSC.

In addition to the above assignments, Internal Audit staff are often called upon to discuss governance, risk, and control activities as part of the day-to-day operation of the agency.

Section IV

External Quality Assurance Review

The Division's External Quality Assurance Review was completed in July, 2013, by an independent consultant. The opinion that was reported was as follows:

*Based on the original work and the follow up work outlined above, it is the opinion of the reviewer that the internal audit activity at the Texas Department of Assistive and Rehabilitative Services **generally conforms** to the IIA Standards, the Government Auditing Standards, and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that policies, procedures, and an internal audit charter are in place, and that the practices that are followed provide reasonable assurance that the audit work conducted is in compliance with the requirements of the applicable professional standards and the Texas Internal Auditing Act.*

The next review was due by July 2016. However, due to the abolishment of DARS and transfer of programs and staff to the Health and Human Services and the Texas Workforce Commissions this review was not conducted.

Section V

Internal Audit Plan for Fiscal Year 2017

Due to the abolishment of DARS effective September 1, 2016, a risk assessment and annual audit plan was not conducted or prepared.

Section VI

External Audit Services Procured in Fiscal Year 2016

The Department of Assistive and Rehabilitative Services did not contract for audit services during fiscal year 2016.

Section VII

Reporting Suspected Fraud and Abuse

The DARS Internet and Intranet, and HHS Circular C-027, HHS Enterprise Fraud Prevention and Awareness, 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 Health and Human Services Commissions Office of Inspector General and the Texas State Auditor's Office (SAO).

To our knowledge, these reports are being made in accordance with Section 7.09, Fraud Reporting, in the General Appropriations Act.