



Health and Human Services Commission

Internal Audit Division

Internal Audit Plan

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AUDIT PLAN

Internal Audit used the results of the agency business risk assessment to identify audit projects that address areas of highest risk. In selecting audit projects, Internal Audit also considered audit work planned or underway by other audit entities that might also address some of the highest risk areas, including the State Auditor's Office, Federal Office of Inspectors General, and the HHSC Office of Inspector General (OIG).

Although the Internal Audit Plan contains a wide range of audit projects, it does not provide coverage for all HHSC divisions, processes, or activities. While the Internal Audit Plan is not intended to cover every risk, it attempts to maximize limited internal audit resources and provide reasonable coverage of the business processes rated as high risk. HHSC management understands the limitations of audit coverage and the risks assumed by management in the areas not audited.

In recognition that operating environments and risks are subject to change, Internal Audit may adjust its Internal Audit Plan to address significant changes that occur throughout the year. In response to unanticipated changes in the operating environment, the performance of additional projects may be required. Consequently, some of the projects included in the plan may not be performed. Proposed modifications to the Internal Audit Plan will be communicated to the Executive Commissioner for approval.

Audit Services

Audits provide an independent assessment of processes or activities based on evaluation of management controls, testing of transactions, and review of evidence. Internal Audit management determines the nature and scope of each audit.

To further evaluate risks noted during the annual risk assessment process, a project risk assessment will be conducted during each audit that is performed. The project risk assessment is designed to ensure that the final project scope and objectives are appropriately focused on the highest risks within the activity under review.

Internal Audit projects conclude with written reports that provide information to management detailing the results of the audit and offer suggestions and recommendations for improvement. The audit projects planned for fiscal year 2016, including projects begun in a previous fiscal year and planned to be completed in fiscal year 2016, are listed below with a brief description of each project.

Audit Projects

Pay for Quality Program

- Evaluate the effectiveness of the administration of the Pay for Quality Program to determine whether:
 - The program is achieving the intended financial and performance results.
 - Guidelines that have been set are reasonable and achievable.
 - Metrics for quality are effectively defined within the contract.

Operations Coordination Management Processes

- Evaluate the effectiveness of selected management processes in Operations Coordination to determine whether:
 - Policies and procedures are documented and appropriate.
 - Roles and responsibilities are appropriately defined and segregated.
 - Appropriate planning for succession has occurred.
 - Coordination and communication with other HHS Divisions are efficient and effective to achieve overall HHS goals.

Medicaid/CHIP Division Project Management Office

- Evaluate the effectiveness of the Project Management Office in overseeing and coordinating the timely and successful implementation of federally-required, legislative, and HHS leadership directed initiatives.
- Determine whether the policies and procedures are documented and appropriate to ensure the Office's responsibilities are effectively addressed.

Medicaid/CHIP Enrollment Broker Contract Monitoring

- Evaluate whether Medicaid and CHIP Division contract monitoring processes ensure enrollment broker contract outcomes are achieved.

Oversight of Selected Administrative Goods and Services Contracts

- Determine whether contract oversight activities effectively support HHS enterprise compliance with state requirements for contracting and procurement, including requirements over competitive bidding and obtaining the best value for the state.

HHSC Oversight of Outsourced Services

- For selected outsourced contracts, determine whether the contract monitoring process effectively supports the achievement of outsourcing objectives.

Access to HHSAS and HCATS

- Determine whether authorized and appropriate individuals possess access to procurement and contracting related capabilities within HHSAS and HCATS.
- Determine whether segregation of duties is in place over the procurement and contracting related capabilities within HHSAS and HCATS.

Accounts Receivable Processes

- Evaluate the effectiveness of processes in the Accounts Receivables to determine whether:
 - Policies and procedures are documented and will ensure appropriate processing of receivables.
 - Roles and responsibilities are appropriately defined and segregated.
 - Appropriate planning for succession has occurred.
 - Receivables are being processed timely and in accordance with laws, regulations, and internal procedures.

Oversight of Statewide Network of Community Partners

- Evaluate whether Office of Social Services monitoring and oversight of the Community Partner Program is effective and provides assurance that desired program outcomes are achieved.
- Determine whether:
 - Memorandums of understanding with community partner organizations include adequate provisions and performance measures associated with protecting confidential HHSC client information.
 - Logical security controls at community partner organizations effectively protect HHSC systems and client data from unauthorized access.

Carry-Forward Audits

Office of Community Services Subrecipient Monitoring

- Determine whether Office of Community Services monitoring activities effectively ensure subrecipients are providing program services and utilizing federal funds in accordance with grant requirements, laws, and regulations.

Eligibility Operations – Data Integrity Unit Processes

- Determine whether Data Integrity Unit processes and controls ensure client information updates in TIERS are appropriate, accurate, and adequately supported.
- Evaluate processes and controls for:
 - Managing database update privileges in TIERS.
 - Logging and establishing accountability for client information updates.
 - Monitoring and validating database update activities.

Managed Care Contract Oversight

- Assess the integrity and accuracy of encounter data to adequately support managed care results and decisions.
- Evaluate whether contract monitoring processes ensure managed care contract outcomes are achieved.

Rate Analysis Supplemental Payments

- Determine whether Rate Analysis processes and controls ensure supplemental payments are appropriately allocated and calculated in accordance with federal and state requirements.

Oversight and Monitoring of Managed Transportation Services

- Evaluate whether contract monitoring processes support the managed transportation delivery model and ensure contract outcomes are achieved, including delivery of transportation services to eligible clients and accurate payments to managed transportation organizations.

Requested Audits

Perform audit projects that are requested by HHS Enterprise or HHSC management and approved by the Executive Commissioner.

Follow Up Projects

Perform follow up on judgmentally selected prior audit recommendations that will be determined at a later date.

Requested Follow Up Projects

Perform follow up projects that are requested by HHS Enterprise or HHSC management and approved by the Executive Commissioner.

Consulting Services

Internal Audit performs consulting services intended to add value and improve governance, risk management, and control processes. Consulting services are advisory in nature and are generally performed at the specific request of management. The work performed is subject to Internal Audit's agreement with management regarding project scope and objectives and is based on Internal Audit's consideration of potential impairments to independence and objectivity. When performing consulting services Internal Audit maintains independence and objectivity and does not assume management responsibilities. Consulting services include:

- Performing management advisory projects which provide analyses and recommendations on a specific subject.
- Conducting assessments that address topics agreed upon with management.

- Providing expertise and independent analyses as management controls are designed, such as through (a) auditor facilitation of business risk assessments and controls analyses and (b) participation in committees and workgroups as a non-voting, advisory member.

Requested Management Advisory Projects

Perform management advisory projects that are requested by HHS Enterprise or HHSC management and approved by the Executive Commissioner.

Ongoing Committees and Workgroups

- HHS Enterprise Audit Council
- Contract Management Workgroup

State External Audit Coordination

Internal Audit provides an external audit liaison service that includes coordinating and providing a single point of contact for audits of HHSC by external state audit entities. Internal Audit also assists management in coordinating management responses for all HHSC state external audits and some HHS external state audits.

Required Projects

Statutes, auditing standards, and agency policies mandate the completion of certain projects. Required projects for fiscal year 2016 include:

- Annual HHSC Business Risk Assessment
- Annual Audit Plan
- Annual Internal Audit Report

BACKGROUND

The Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors require internal auditors to prepare annual audit plans. The Texas Internal Auditing Act requires that a state agency's Internal Audit Director develop an annual audit plan for approval by the agency's governing board or by the administrator of that agency if the agency has no governing board. In accordance with these requirements, this document provides the Internal Audit Plan for the Health and Human Services Commission (HHSC) for fiscal year 2016.

HHS Enterprise

The Health and Human Services (HHS) Enterprise consists of five agencies, including HHSC and four agencies under the oversight of HHSC. The four agencies are the Department of Aging and Disability Services (DADS), Department of Assistive and Rehabilitative Services (DARS), Department of Family and Protective Services (DFPS), and Department of State Health Services (DSHS).

HHSC

In addition to providing oversight of the HHS Enterprise, HHSC is responsible for operational programs including Medicaid, Children's Health Insurance Program (CHIP), Disaster Assistance, Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, and the Medical Transportation Program. HHSC also supports HHS agencies through enterprise-wide services, such as procurement, human resources, and regional administration.

Internal Audit

The HHSC Internal Audit Division (Internal Audit) provides independent, objective assurance and consulting services designed to add value and improve operations. Internal Audit's responsibilities include coverage of both HHSC and the HHS Enterprise¹. Audit coverage consists of assessments of programs, processes, and systems under the operational responsibility of HHSC and those programs, processes, and systems (a) under the oversight of HHSC deputy executive commissioners or (b) that involve two or more HHS agencies.

As required by professional auditing standards², Internal Audit is organizationally independent, and operates free from interference in determining the scope of internal audits, performing work, and communicating results.

¹ Each HHS agency has an internal auditing function that reports to its respective Commissioner. DADS, DARS, DFPS, and DSHS Internal Audit Divisions are responsible for audit coverage of programs, processes, and systems within their respective agencies.

² Standard 1110, Organizational Independence, *International Standards for the Professional Practice of Internal Auditing*, issued by The Institute of Internal Auditors requires annual confirmation to its board of the organizational independence of the internal audit activity.

INTERNAL AUDIT ACCOUNTABILITY

Audit Charter

The Texas Internal Auditing Act requires agency internal auditors to follow professional auditing standards³. Those standards require that the governing board approve a formal, written audit charter, detailing the purpose, authority, and responsibility of the internal audit function. The Texas Internal Auditing Act indicates that when an agency does not have a governing board, the administrator of the state agency performs the roles related to the internal audit function otherwise carried out by the governing board. The Executive Commissioner approved the current HHSC Internal Audit Charter in September 2015.

Internal Audit Oversight Committee

HHSC established an Internal Audit Oversight Committee in fiscal year 2008 to provide guidance to the internal audit function. Membership has historically included the Executive Commissioner, the deputy executive commissioners, and the Chief of Staff. Membership was expanded in 2010 to include the HHSC Council Chair, in recognition of governance best practices which suggest that an internal audit committee is most effective when it includes some members that are independent of the organization. Membership was further expanded in 2012 to include the Chief Deputy Executive Commissioner, and in 2013 to include the Deputy Executive Commissioner for Procurement and Contracting Services.

The Internal Audit Oversight Committee holds quarterly meetings, during which topics such as the following are discussed: (a) significant audit results, (b) Internal Audit performance measure results, (c) progress toward completion of the annual audit plan, (d) proposed changes to the annual audit plan, and (e) the status of management's actions to address audit recommendations. The group increases accountability of both the internal audit function and management, which is responsible for timely resolution of operational issues identified during audits.

Independent Quality Assurance Review

In accordance with professional standards, Internal Audit is required to undergo an external quality assurance review at least once every three years. Internal Audit received a Quality Assurance Review in August 2013 by the independent CPA firm, Honkamp Krueger & Co., P.C. The firm rendered an unqualified opinion and reported the results to the Executive Commissioner. The next external quality assurance review is due this year in fiscal year 2016.

³ *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States and *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

RISK ASSESSMENT METHODOLOGY

Internal Audit conducted an agency business risk assessment to develop the annual Internal Audit Plan. The risk assessment included three major components: (a) auditor consideration of the current operating environment and management control structure, (b) input from executives, and (c) evaluation of issues identified during prior audits.

Internal Audit received input from interviews of HHS Enterprise and HHSC executives and managers representing key operational and support functions. The activities, business areas, and processes and the systems that are mission critical to HHSC operations were considered during the annual risk assessment.

Executives and managers provided input that included:

- Validation of the most significant processes, activities, and functions within each division or operational area.
- Identification of risk factors that have the highest potential to prevent achievement of objectives.
- Assessment of the effectiveness of the management control structure to mitigate identified risks.
- Assessment of the effectiveness of services supporting operational areas, including functions such as human resources, information technology, contract development, regional administration, and budgeting.
- Evaluation of the risk of fraud and awareness of fraud referral requirements and 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 Enterprise) within each business area and auditable unit.