



Internal Audit Division

# **Internal Audit Annual Report**

Fiscal Year 2015

October 2015

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## EXECUTIVE SUMMARY

### Purpose

The purpose of this report is to provide information about the benefits and effectiveness of the internal audit function at the Health and Human Services Commission (HHSC). The report details internal audit activity at HHSC during the fiscal year that ended on August 31, 2015, and communicates internal audit activities to be performed in the fiscal year ending August 31, 2016. The report fulfills the annual reporting requirements set out in the Texas Internal Auditing Act (Texas Government Code, Section 2102.009) in the format prescribed by the State Auditor's Office.

### Background

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 Health and Human Services (HHS) Enterprise<sup>1</sup>. 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.

### Fiscal Year 2016 HHSC Internal Audit Plan

The Fiscal Year 2016 HHSC Internal Audit Plan is based on a business risk assessment focused on identification and evaluation of risks related to each major activity in HHSC and the HHS Enterprise. Internal Audit received input from 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.

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<sup>1</sup> Each HHS agency has an internal auditing function that reports to its respective Commissioner. 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) Internal Audit Departments are responsible for audit coverage of programs, processes, and systems within their respective agencies.

## **EXECUTIVE SUMMARY**

- 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.

The projects planned as a result of the business risk assessment cover a wide array of risks and opportunities, and are intended to maximize limited internal audit resources and provide reasonable coverage of the business processes rated as high risk.

Internal audit activities include assurance and consultative services. The role of Internal Audit also includes coordinating state external audit activities and advising management with respect to internal control and audit-related matters.

### Contact Information

For further information about the contents of this report please contact Nicole Guerrero, HHSC Director of Internal Audit, by email at [Nicole.Guerrero@hhsc.state.tx.us](mailto:Nicole.Guerrero@hhsc.state.tx.us) or by telephone at (512) 428-1953.

**SECTION I**  
**COMPLIANCE WITH TEXAS GOVERNMENT CODE**  
**SECTION 2102.015**

**COMPLIANCE WITH TEXAS GOVERNMENT CODE §2102.015**

Reference	Actions Taken
<p><b>Posting Materials to Agency Internet</b></p> <p>House Bill 16, 83rd Legislature, Regular Session, 2013, amended Chapter 2102, Government Code by adding Section 2102.015 to require each state agency to post the agency's approved Internal Audit Plan and Annual Report on the agency's Internet website, at the time and manner prescribed by the State Auditor's Office (SAO).</p> <p>The SAO, in its instructions for the Fiscal Year 2015 Annual Report, directed state agencies to post this information within 30 days of approval.</p> <p>House Bill 16 also requires state agencies to update the postings at the time and manner communicated by the SAO to include detailed summaries, if any, raised by the audit plan or annual report, consisting of:</p> <ul style="list-style-type: none"> <li>• Weaknesses</li> <li>• Deficiencies</li> <li>• Wrongdoings</li> <li>• Other Concerns</li> </ul> <p>Agencies are also to include a summary of actions taken to address the concerns, if any, raised by the audit plan or annual report.</p>	<p>HHSC posted the HHSC Internal Audit Plan for Fiscal Year 2016 within the Reports and Publications page of the HHSC public home page within 30 days after September 22, 2015, the date the Internal Audit Plan was approved.</p> <p>The HHSC Annual Report for Fiscal Year 2015 will be posted within the Reports and Publications page of the HHSC public home page within 30 days after October 30, 2015.</p> <p>HHSC included detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report for Fiscal Year 2015 on the HHSC public internet home page.</p>

## **SECTION II**

### **COMPLIANCE WITH BENEFITS PROPORTIONALITY AUDIT REQUIREMENTS FOR HIGHER EDUCATION INSTITUTIONS**

## **COMPLIANCE WITH BENEFITS PROPORTIONALITY AUDIT REQUIREMENTS FOR HIGHER EDUCATION INSTITUTIONS**

Internal Audit does not perform audits of higher education. Therefore, no work is planned related to the proportionality of higher education benefits.

**SECTION III**

**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2015**



# Health and Human Services Commission

## *Internal Audit Division*

### **Internal Audit Plan**

Fiscal Year 2015

October 28, 2014

Mary M. Braden, CPA  
Acting Internal Audit Director

Kyle L. Janek, M.D.  
Executive Commissioner

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## INTRODUCTION

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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 2015.

## BACKGROUND

### 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 Enterprise<sup>1</sup>. 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 standards<sup>2</sup>, Internal Audit is organizationally independent, and operates free from interference in determining the scope of internal audits, performing work, and communicating results.

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<sup>1</sup> 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.

<sup>2</sup> 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 standard<sup>3</sup>. 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 October 2014.

### 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 Commissioner, in 2013 to include the Deputy Executive Commissioner for Procurement and Contracting, and in 2014 to include the Director of HHS Risk and Compliance Management.

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

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<sup>3</sup> 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.

CPA firm, Honkamp Krueger & Co., P.C. The firm rendered an unqualified opinion and reported the results to the Executive Commissioner.

## 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) input from executives and management, (b) consideration of the current operating environment and management control structure, and (c) evaluation of issues identified during prior audits.

Internal Audit received input from 318 surveys and 16 interviews of HHS Enterprise and HHSC executives and managers representing key operational and support functions. The activities, business areas, and processes (See Appendix A) and the systems that are mission critical to HHSC operations (See Appendix B) 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 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.

## 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 2015, including projects begun in a previous fiscal year and planned to be completed in fiscal year 2015, are listed below with a brief description of each project.

## Audit Projects

### *Managed Care Contract Management*

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

### *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.

### *HHS Enterprise Tracking of Complaints and Inquiries in HEART*

- Evaluate the use of the HHS Enterprise Administrative Report and Tracking (HEART) System for tracking benefits-related complaints and inquiries related to HHS program areas.
- Determine the effectiveness of HEART in supporting HHS agency business areas in:
  - Providing complete and reliable information and management reporting of complaints and inquiries.
  - Ensuring complaints and inquiries are tracked and handled in accordance with federal, state, and agency requirements.

### *Oversight of Statewide Network of Community Partners*

- Determine whether:
  - Logical security controls at community partner organizations effectively protect HHSC systems and client data from unauthorized access.
  - Memorandums of understanding with community partner organizations include adequate provisions and performance measures associated with protecting confidential HHSC client information.
- 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.

### *Medicaid/CHIP Enrollment Broker Contract Monitoring*

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

### *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.

### *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.

### Carry-Forward Audits

#### *Premium Payment Processes*

- Evaluate the effectiveness of automated controls and related business processes designed to:
  - Support complete, accurate, and effective processing, approval, and validation of premium payments and adjustments.
  - Produce reliable and complete reports on (a) clients enrolled in each managed care plan, (b) clients served by each medical transportation provider, and (c) the type of services to which clients are entitled.
  - Protect the Premiums Payable System (PPS) and related applications, databases, and operating systems from unauthorized access.
  - Manage PPS system changes, including modifications and enhancements.

#### *Claims Administrator Contract Monitoring*

- Evaluate whether HHSC and DADS contract monitoring processes ensure claims administrator contract outcomes are achieved.

#### *Eligibility Documentation*

- Evaluate the effectiveness of processes designed to achieve compliance with federal and state requirements and HHSC policies for obtaining, verifying, and retaining support for eligibility determinations.

*HHS Enterprise Administrative Report and Tracking (HEART) System Access and Security*

- Determine whether access, security, and management controls adequately protect the confidentiality, availability, and integrity of information maintained in HEART.

*Non-Routine Procurements and Purchases*

- Determine whether sole source/proprietary and emergency procurements are appropriate, justified, and approved in accordance with guidance and requirements established by the state, HHS Procurement and Contracting Services, and HHS agencies.
- Determine whether after-the-fact purchases over \$5,000 are appropriate and met competitive procurement requirements.

*Texas Integrated Eligibility Redesign System (TIERS) Data Processing and Integrity*

- Determine whether system and process controls are adequate to reasonably ensure the accuracy of eligibility determinations and the calculation of benefits.
- Determine whether system and process controls are adequate to reasonably ensure the confidentiality, integrity, and availability of client eligibility data.

*Security Incident Management*

- Determine whether HHSC activities and technologies that support computer security incident management effectively and efficiently result in:
  - Timely detection and response to actual and potential security incidents.
  - Identification of root causes and implementation of corrective actions to minimize impact and prevent recurrence.
  - Submittal of security incident reports in accordance with laws and requirements.

*Medical Transportation Program Contract Monitoring of Transportation Services*

- Evaluate whether contract monitoring processes ensure contract outcomes related to medical transportation service delivery and accurate contractor payments are achieved.

### *Medicaid and CHIP Division Delivery System Reform Incentive Payment (DSRIP) Program*

- Assess the effectiveness of controls over the approval, funding, monitoring, and payment of DSRIP projects in ensuring:
  - Intended outcomes are achieved.
  - Compliance with federal and state guidelines.

### Requested Audits

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

### Follow Up Projects

#### *Follow Up of HHS Enterprise Information Security*

- Determine whether actions implemented to address issues and risks communicated in the prior Internal Audit report on HHS Enterprise Information Security, issued December 23, 2011, achieved the intended results.

#### *Follow Up of Data Center Services Security Issues*

- Determine whether actions implemented to address logical security issues and risks associated with the data center services contractor and communicated in prior Internal Audit reports achieved the intended results.

### Carry-Forward Follow Up Projects

#### *Follow Up of Regional Administrative Services*

- Determine whether actions implemented to address issues and risks reported in the prior Internal Audit report on Regional Administrative Services, issued February 16, 2011, achieved the intended results.

### 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

### **Required Projects**

Statutes, auditing standards, and agency policies mandate the completion of certain projects. Required projects for fiscal year 2015 include:

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

## APPENDIX A

### ACTIVITIES, BUSINESS AREAS, AND PROCESSES

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Governance</p>	<ul style="list-style-type: none"> <li>• Chief Counsel                             <ul style="list-style-type: none"> <li>○ System Services</li> </ul> </li>   <li>○ General Counsel</li>   <li>○ System Oversight</li>   <li>○ Administration</li>   <li>• HHS Communications</li>   <li>• Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Appeals and Hearings (Fair Hearings, Administrative and Contested Cases, Employee Grievance)</li> <li>• Federal Appeals</li> <li>• Regional Legal Services</li>   <li>• HHSC Litigation and Hearings</li> <li>• Open Records Coordination</li>   <li>• System Contract Legal Support</li> <li>• Human Resources and Civil Rights System Support</li> <li>• System Project Coordination</li> <li>• System Litigation</li> <li>• Data Privacy and Security</li>   <li>• Case Management and Performance Measurement</li>   <li>• Agency Website Management</li> <li>• Communications                             <ul style="list-style-type: none"> <li>○ Media</li> <li>○ Employees</li> </ul> </li> <li>• Client Materials Review</li> <li>• Manage Outreach Campaigns for Children’s Medicaid, CHIP, and SNAP</li>   <li>• Audits and Consulting</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• HHS Risk and Compliance Management</li>   <li>• Policy</li>   <li>• Office of Inspector General                             <ul style="list-style-type: none"> <li>○ Chief Counsel</li> </ul> </li>   <li>○ Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Privacy Office</li> <li>• Risk and Control Analysis</li> <li>• Data Analytics</li> <li>• External Audit Coordination</li>   <li>• Policy Analysis, Development, and Coordination – DSHS</li> <li>• Rule Development – DSHS</li> <li>• Policy Analysis, Development, and Coordination – DFPS/DARS</li> <li>• Rule Review – DFPS/DARS</li>   <li>• Overpayment Recoupment and Penalties</li> <li>• Administrative Litigation</li> <li>• Payment Holds, including Credible Allegation of Fraud (CAF) Holds</li> <li>• Exclusions/ Reinstatements</li> <li>• Other Sanctions</li> <li>• OIG Administrative Actions</li> <li>• Accounting for Overpayments</li> <li>• Legal Services for OIG</li>   <li>• Audit Services                             <ul style="list-style-type: none"> <li>○ Cost Report Review</li> <li>○ Subrecipient Finance Review</li> <li>○ Contract Audits</li> <li>○ Hospital Audit Unit</li> <li>○ Managed Care Organization</li> </ul> </li> <li>• Compliance/Quality Review                             <ul style="list-style-type: none"> <li>○ WIC Vendor Monitoring</li> <li>○ Utilization Review</li> <li>○ Lock-In Program (Medicaid Recipients)</li> </ul> </li> </ul>



**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Chief of Staff</p>	<ul style="list-style-type: none"> <li>• Office of the Ombudsman</li>   <li>• External Relations</li>   <li>• Special Projects</li>   <li>• Women's Health Program</li>   <li>• Mental Health Services Coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Complaints Management</li> <li>• Customer Support for Medicaid Clients</li> <li>• Agency and Enterprise-wide Complaint Reports</li>   <li>• Communications                         <ul style="list-style-type: none"> <li>○ Federal Government</li> <li>○ State Government</li> <li>○ HHSC Council</li> <li>○ Stakeholders</li> </ul> </li>   <li>• Sunset Review Coordination</li> <li>• Critical Projects Meeting</li>   <li>• Organize Women's Health Policies and Procedures Enterprise-Wide</li> <li>• Client Enrollment and Services Reports</li> <li>• Client Education and Outreach</li> <li>• Provider Education and Outreach</li>   <li>• Mental Health Coordination - Cross-agency</li> <li>• Technical Assistance and Consulting</li> <li>• Policy Development</li> <li>• Mental Health Complaint Management</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Chief Commissioner      Deputy</p>	<ul style="list-style-type: none"> <li>• Medical Transportation Program</li>   <li>• Medicaid/CHIP Division                             <ul style="list-style-type: none"> <li>○ Healthcare Transformation Waiver and Cost Containment</li>   <li>○ Medicaid Health Information Technology</li>   <li>○ Operations Coordination</li>   <li>○ Program Operations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Call Center Operations</li> <li>• Contract Monitoring</li>   <li>• Managed Transportation Organizations</li> <li>• Open Enrollment of Certain Provider Types</li> <li>• Claims Processing and Recoupment</li> <li>• Advance Funds</li> <li>• Service and Data Integrity</li> <li>• Automation Services</li>   <li>• Delivery System Reform Incentive Payment (DSRIP) Program Implementation and Operations</li> <li>• Cost Containment</li>   <li>• Electronic Health Records Incentives Program Administration</li> <li>• Medicaid Eligibility and Health Information Services (MEHIS) Contract Management</li>   <li>• Encounter and Enrollment Data Management</li> <li>• Vendor Operations Oversight</li> <li>• Vendor Technology Coordination</li> <li>• Enrollment Broker Contract Management</li>   <li>• Claims Administrator Contract Compliance</li> <li>• Financial Analysis</li> <li>• Health Plan Management</li> <li>• Contract Management</li> <li>• 1115 Waiver Reporting (Managed Care)</li> <li>• Quality Assurance</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Vendor Drug Program</li>   <li>○ Office of Policy</li>   <li>● Frew Oversight</li>   <li>● Policy</li>   <li>● Veterans' Services</li> </ul>	<ul style="list-style-type: none"> <li>● Program Oversight</li> <li>● Contract Management</li> <li>● Rebate Administration</li> <li>● MCO Pharmacy Benefit Oversight</li>   <li>● Policy Analysis, Development, and Implementation</li> <li>● Rule Development and Processing</li> <li>● State Plan Development and Federal Negotiations</li> <li>● Waiver Development and Federal Negotiations</li> <li>● Stakeholder Relations</li> <li>● MCD Records Management</li> <li>● Clinical Policy Development (includes Medical Benefits Policy and Office of the Medical Director)</li>   <li>● Technical Assistance</li> <li>● Policy and Program Analysis, Development, and Coordination</li>   <li>● Policy Analysis, Development, and Coordination – DADS</li> <li>● Rule Development – DADS</li>   <li>● Coordination of Veterans' Services</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Health Policy and Clinical Services</p>	<ul style="list-style-type: none"> <li>• Texas Institute for Health Care Quality and Efficiency – Quality Unit</li>   <li>• Healthcare Quality Analytics, Research, and Coordination Support</li>   <li>• Health Coordination and Consumer Services</li>   <li>• Informal Dispute Resolution</li>   <li>• Office of e-Health Coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Quality Management</li>   <li>• Quality Policy Development, Coordination and Implementation</li> <li>• Contract and Grant Oversight</li> <li>• Interagency Quality Coordination</li>   <li>• Health Coordination and Consumer Services               <ul style="list-style-type: none"> <li>○ Financial Management</li> <li>○ Contract Management</li> <li>○ Monitoring and Compliance</li> <li>○ Policy Analysis, Development, and Coordination</li> </ul> </li> <li>• Policy and Program Coordination               <ul style="list-style-type: none"> <li>○ Contract Management</li> <li>○ Policy Analysis, Development, and Coordination</li> </ul> </li> <li>• Texas Home Visiting               <ul style="list-style-type: none"> <li>○ Contract Management</li> <li>○ Budget Management</li> <li>○ Grant Management</li> </ul> </li>   <li>• Informal Dispute Resolution Process</li> <li>• Independent Informal Dispute Resolution Process (federal process for nursing facilities only)</li> <li>• Informal Reconsideration</li>   <li>• Health IT Planning, Development, Coordination, and Policy Analysis</li> <li>• Contract Management</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"><li>• Office of Acquired Brain Injury</li></ul>	<ul style="list-style-type: none"><li>• Contract Management</li><li>• Program Management</li><li>• Policy Analysis and Development</li></ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Social Services</p>	<ul style="list-style-type: none"> <li>• Eligibility Operations                             <ul style="list-style-type: none"> <li>○ Eligibility Services – Field</li> <li>○ Eligibility Services – Vendor</li> <li>○ Eligibility Services – Support</li> </ul> </li> <li>• Business Operations and Support                             <ul style="list-style-type: none"> <li>○ Contract Management and Administration</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Management and Oversight of MEPD and Texas Works Eligibility Determinations</li> <li>• Coordination of Support Activities for Field Staff</li> <li>• Data Integrity</li> <li>• Community Partner Interviewer Project</li> <li>• Oversight and Management of Vendor Activities</li> <li>• Policy Implementation and Support</li> <li>• Quality Assurance State Office</li> <li>• Quality Assurance Field Services</li> <li>• Quality Control</li> <li>• Training Delivery and Curriculum Development</li> <li>• Data Management Reporting</li> <li>• Appeals and Requests for Reviews, Preparation, and Management</li> <li>• State/Federal Reporting Liaison</li> <li>• Contract Management                             <ul style="list-style-type: none"> <li>○ Contract Monitoring</li> <li>○ Procurement Development Coordination</li> <li>○ Contract Maintenance</li> </ul> </li> <li>• Contract Administration – Official Contract Correspondence Process</li> <li>• Management and Oversight of Contracts – Outstationed Workers Program</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Business Operations and Financial Management</li>   <li>● Community Access and Services                             <ul style="list-style-type: none"> <li>○ Community Access</li> </ul> </li>   <li>○ Community Services</li>   <li>● Policy Strategy, Analysis, and Development</li>   <li>● Change Management and Communication</li> </ul>	<ul style="list-style-type: none"> <li>● Financial Management</li> <li>● Electronic Benefits Transfer (EBT) Issuance and Settlement Review and Reconciliation</li>   <li>● Community Training</li> <li>● Community Outreach (includes Outreach / Food Bank)</li> <li>● Community Relationship Development</li> <li>● Statewide Network of Community Partners to Support Eligibility Determination</li> <li>● Faith and Community-based Liaison</li> <li>● Healthy Marriage</li>   <li>● Management of Community Programs                             <ul style="list-style-type: none"> <li>○ Computers for Learning</li> <li>○ Community Resource Coordinating Groups</li> </ul> </li> <li>● Management and Oversight of Community-Based Contracts                             <ul style="list-style-type: none"> <li>○ Alternatives to Abortion</li> <li>○ Supplemental Nutrition Assistance Program Education (SNAPed)</li> <li>○ Management of Other Community Contracts</li> </ul> </li>   <li>● Policy Analysis, Development, and Coordination – Eligibility and Social Services</li> <li>● Rule Review – Eligibility and Social Services</li>   <li>● Change Management and Communication</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Program Innovation</li>   <li>• Results Management Office</li> </ul>	<ul style="list-style-type: none"> <li>• Business Process Analysis and Improvement</li> <li>• Information Technology Strategy and Development</li>   <li>• External Relations and Audit Coordination</li> <li>• OSS Strategic Planning</li> <li>• Legislative Coordination</li> <li>• Project Management</li> </ul>



**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Emergency Services</li>   <li>○ Regional Administrative Services</li>   <li>● Civil Rights</li>   <li>● Operations and Program Support</li>   <li>● Contract Oversight and Staff Services</li> </ul>	<ul style="list-style-type: none"> <li>● Coordination of Emergency Services                             <ul style="list-style-type: none"> <li>○ Ice and Water</li> <li>○ Other Needs Assistance Program</li> <li>○ Disaster Case Management</li> <li>○ Repatriation Program</li> </ul> </li>   <li>● Asset Management</li> <li>● Contract Management</li> <li>● Mail Services</li> <li>● Warehouse Services</li> <li>● Fleet Management</li> <li>● Facility Management</li> <li>● Incident Management</li> <li>● Facility Leasing Requests, Office Space Planning, and Moves</li> <li>● Cost Pool Management</li>   <li>● Discrimination Complaints (Employee and Client)</li> <li>● Reasonable Accommodation Requests</li> <li>● Conflict Resolution (Mediation, Facilitation)</li> <li>● Accessibility – Language Services and Electronic Information Resources</li> <li>● Administrative Complaints</li> <li>● Civil Rights Training</li>   <li>● Asset Management</li> <li>● Records Management</li> <li>● Business Continuity and Emergency Preparedness</li> <li>● Administrative Contracts</li> <li>● HHSC Survey of Employee Engagement</li> <li>● Wellness Program</li>   <li>● Contract Management</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Training, Organizational, and Leadership Development</li>   <li>• Human Resources</li>   <li>• Center for the Elimination of Disproportionality and Disparities</li>   <li>• Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership Development Programs</li> <li>• Management and Staff Development</li>   <li>• Hiring/Separation</li> <li>• Benefits Administration</li> <li>• Salary Administration</li> <li>• Performance Management</li> <li>• Records Management</li> <li>• Employee Relations</li> <li>• Technical Assistance</li>   <li>• Grant and Contract Management</li> <li>• Training / Presentations, Technical Assistance, and Consultative Services</li> <li>• Grant Application and Processing</li>   <li>• Operations Reviews</li> <li>• Business Process Analyses and Development</li> <li>• Interagency and Intra-agency Project Management</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Procurement and Contracting Services	<ul style="list-style-type: none"> <li>• Administration</li>   <li>• Enterprise Historically Underutilized Business (HUB) Program Office</li>   <li>• Procurement</li> </ul>	<ul style="list-style-type: none"> <li>• HHSAS and HCATS Support</li> <li>• Requisition Intake</li> <li>• Requisition Processing</li>   <li>• HUB Program Services</li>   <li>• Administrative Goods and Services Contracts (all agencies)</li> <li>• Client Services Contracts (all agencies)</li> <li>• Requests-for-Proposals (RFP)</li> <li>• Procurement Card</li> <li>• Office Supply</li> <li>• Strategic Sourcing</li> <li>• Contract Oversight and Grant Processes Oversight</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Information Technology</p>	<ul style="list-style-type: none"> <li>• Office of the Chief Information Officer</li>   <li>• Applications</li>   <li>• Enterprise and Customer Support Services</li>   <li>• Data Center Services</li> </ul>	<ul style="list-style-type: none"> <li>• IT Governance Process</li> <li>• Customer Service Satisfaction</li>   <li>• Demand Management</li> <li>• Secure Software Development Lifecycle</li> <li>• Oversight and Monitoring of Outsourced Services</li> <li>• Change Management</li> <li>• Software Quality Assurance</li>   <li>• Enterprise Help Desk</li> <li>• TIERS Help Desk</li> <li>• Regional IT support</li> <li>• Messaging and Collaboration (Office 365)</li> <li>• Seat Management For PC's and Laptops</li> <li>• Mobile Communications Support</li> <li>• Software and Hardware Testing</li> <li>• Electronic Software Distribution</li> <li>• PC Image Development and Maintenance</li> <li>• Access Provisioning</li> <li>• Enterprise Infrastructure and Statewide Network Services</li> <li>• Infrastructure Services (Local Office Infrastructure, Active Directory, Storage Solutions)</li> <li>• Telecommunications</li>   <li>• Texas Integrated Eligibility Redesign System (TIERS) Production Operations</li> <li>• State Data Center Services</li> </ul>



**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Financial Services</p>	<ul style="list-style-type: none"> <li>• Forecasting</li>   <li>• Rate Analysis</li>   <li>• Actuarial Analysis</li>   <li>• Chief Financial Officer                             <ul style="list-style-type: none"> <li>○ Budget Management Office</li>   <li>○ Fiscal Management Office</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Caseload and Cost Forecasts</li> <li>• Analytical Support for Actuarial/Rate Development</li> <li>• Informing Policy Changes through Forecast Scenarios</li> <li>• Reporting Budget Neutrality for 1115 Waiver</li> <li>• Analytical Support for Program Changes and Development</li>   <li>• Cost Reporting</li> <li>• Acute Care Services Rate Determinations</li> <li>• Hospital Services Rate Determinations</li> <li>• Long-Term Services and Supports Rate Determinations</li> <li>• Processing of Supplemental Payments</li>   <li>• Managed Care Capitation Rating</li> <li>• Managed Transportation Rating</li> <li>• Legislative Actuarial Analysis Requests</li> <li>• Other Ad Hoc Actuarial Analysis Requests</li>   <li>• Budget Development, Tracking, and Reporting</li>   <li>• Financial Reporting</li> <li>• Accounts Payable</li> <li>• Travel Reimbursement</li> <li>• Accounts Receivable</li> </ul>

**ACTIVITIES, BUSINESS AREAS, AND PROCESSES**

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>● HHS System Budget and Fiscal Policy</li>   <li>○ Payroll</li>   <li>● Strategic Decision Support</li> </ul>	<ul style="list-style-type: none"> <li>● Consolidated Budget Development</li> <li>● State/Federal Reporting and Compliance Monitoring</li> <li>● Fiscal Policy Development</li> <li>● Federal Cost Allocation Plan Development and Maintenance</li> <li>● Major Contract Review and Advisory</li> <li>● Payroll, Time, Labor, and Leave</li>   <li>● Data Analysis               <ul style="list-style-type: none"> <li>○ Strategic Planning</li> <li>○ Internal/External Reporting</li> <li>○ Program Evaluation</li> <li>○ Fiscal Impact Estimation and Cost Model</li> </ul> </li> <li>● Coordination and Development of Enterprise Data Warehouse</li> <li>● Policy Development - Enterprise Data Governance</li> </ul>

## ACTIVITIES, BUSINESS AREAS, AND PROCESSES

### APPENDIX B

#### MISSION CRITICAL SYSTEMS

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Mission critical systems to HHSC operations.

- Medicaid Management Information System (MMIS)
- Texas Health Steps (THSteps) Medical and Dental Checkups
- Vendor Drug Systems including,
  - OS+
  - Drug Rebate Administrative Management System (DRAMS)
- Premiums Payable System (PPS)
- TexMedCentral
- MAXSTAR Enrollment Broker
- NorthSTAR Operational
- Medicare Buy-In and Part-A Payor
- Texas Medical Transportation System (TMTS)
- Texas Integrated Eligibility Redesign System (TIERS) including,
  - Beneficiary and Earnings Data Exchange (BENDEX)
  - Beneficiary Earnings Exchange Record (BEER)
  - Wired Third Party Query (WTPY)
  - Social Security Administration Online Query (SOLQ)
- Electronic Benefits Transfer (EBT)
- 2-1-1 Internet System
- Health and Human Services Administrative System (HHSAS) Financials including,
  - Accounts Receivable Tracking System (ARTS)
- Medicaid Fraud and Abuse Detection System (MFADS)
- Automated System for the Office of Inspector General (ASOIG)
- Centralized Accounting and Payroll/Personnel System (CAPPS)
- Disaster Assistance Payment Processing (DAPP)
- Computer Aided Facility Management (CAFM) and Capital Assets Planning System (CAPS)
- HHS Legislative Tracking System (LTS)
- HHS Enterprise Administrative Reporting and Tracking System (HEART)
- IT Systems at State Hospitals including,
  - WORx Drug Therapy Management System (WORx)
  - MiSys Healthcare Laboratory System/Sunquest (MiSys Lab)
  - Client Record System (CRS)
- HHS Contract Administration and Tracking System (HCATS)
- Medicaid Contract Administration and Tracking System (MCATS)
- Financial Systems Data Warehouse (INFO-FSDW)

## Fiscal Year 2015 Planned Projects

### *Reports Issued in Fiscal Year 2015*

- Audit of TIERS Data Processing and Integrity, Project Number 14-02-001, February 27, 2015
- Audit of HHS Enterprise Administrative Report and Tracking (HEART) System Access and Security, Project Number 14-02-002, March 12, 2015
- Audit of Eligibility Documentation, Project Number 13-02-003, March 13, 2015
- Audit of Non-Routine Procurements and Purchases, Project Number 14-01-004, March 24, 2015
- Audit of Premium Payment Processes, Project Number 13-02-001, March 25, 2015
- Follow Up of Regional Administrative Services, Project Number 14-03-006, March 25, 2015
- Audit of Security Incident Management, Project Number 14-02-003, May 29, 2015
- Audit of After-the-Fact purchases, Project Number 15-01-007, August 10, 2015
- Audit of Claims Administrator Contract Monitoring, Project Number 13-02-002, August 20, 2015

### *Projects to be Carried Forward to Fiscal Year 2016*

- Audit of Rate Analysis Supplemental Payments, Project Number 15-02-001
  - Audit of Managed Care Contract Oversight, Project Number 15-02-003
  - Audit of Office of Community Services Subrecipient Monitoring, Project Number 15-02-004
  - Audit of Eligibility Operations - Data Integrity Unit Processes, Project Number 15-02-006
  - Audit of Oversight and Monitoring of Managed Transportation Services\*, Project Number 14-02-008
- \*Previously titled Managed Transportation Organization Contract Monitoring*

## **Fiscal Year 2015 Internal Audit Plan Changes**

The following projects were removed from the Fiscal Year 2015 Audit Plan due to resource requirements. The projects were considered for the Fiscal Year 2016 Audit Plan:

- Follow Up of Data Center Services Security Issues
- HHS Enterprise Tracking of Complaints and Inquiries in HEART

The following project was included in the Fiscal Year 2015 Audit Plan:

- Audit of After-the-Fact Purchases

The following projects were added in the Fiscal Year 2015 Audit Plan but were not initiated due to resource requirements. The projects were considered for the Fiscal Year 2016 Audit Plan:

- Audit of Oversight of Statewide Network of Community Partners
- Audit of Medicaid/CHIP Enrollment Broker Contract Monitoring
- Audit of Medicaid and CHIP Division Delivery System Reform Incentive Payment (DSRIP) Program
- Follow Up of HHS Enterprise Information Systems

## **Risk Assessment Methodology and Results for Fiscal Year 2015**

The risk assessment methodology is described on page 5 of the audit plan.

**SECTION IV**  
**CONSULTING SERVICES AND**  
**NON-AUDIT SERVICES COMPLETED**

## **CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED**

HHSC Internal Audit completed one consulting service project in fiscal year 2015. We do not consider the results of this review as a public report.

**SECTION V**  
**EXTERNAL QUALITY ASSURANCE REVIEW**

**HHSC Internal Audit Division received an unqualified quality assurance review  
from Honkamp Krueger & Co., P.C. on August 31, 2013.**



**HONKAMP KRUEGER & CO, P.C.**

*CPAs & Business Consultants*

## **Quality Assessment Review**

**For**

**Texas Health and Human Services**

**Commission**

**Internal Audit Division**



Mr. David Griffith  
Internal Audit Director  
Texas Health and Human Services Commission  
4900 North Lamar Boulevard  
Austin, TX 78751

Dear David:

We have reviewed the system of quality control for the Texas Health and Human Services Commission (HHSC) Internal Audit Division (IAD) in effect from September 1, 2010 through August 31, 2013. A system of quality control encompasses IAD's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*, *The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards)*, and the *Texas Internal Auditing Act*. The elements of quality control are described in *Government Auditing Standards* and *IIA Standards*. IAD is responsible for designing a system of quality control and complying with it to provide IAD with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and IAD's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards*, *IIA Standards*, and guidelines established by The IIA for conducting quality assessment reviews. During our review, we interviewed and surveyed HHSC leadership and IAD personnel and obtained an understanding of the nature of the IAD audit organization, and the design of the IAD's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the IAD's system of quality control. The engagements selected represented completed engagements from September 1, 2010 through July 11, 2013.

In performing our review, we obtained an understanding of the system of quality control for the IAD's audit organization. In addition, we tested compliance with the IAD's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the IAD's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. We believe that the procedures we performed provide a reasonable basis for our opinion.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.



In our opinion, the system of quality control for the audit organization of HHSC in effect from September 1, 2010 through August 31, 2013, has been suitably designed and complied with to provide IAD reasonable assurance of performing and reporting in conformity with *Government Auditing Standards*, *The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards)*, *The IIA Code of Ethics* which is a part of The IIA "Professional Practices Framework", and the *Texas Internal Auditing Act* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. IAD has received a quality assessment review rating of *pass*.

Respectfully,

A handwritten signature in black ink that reads "David M. Walsh III".

David M. Walsh III  
Team Leader – Quality Assessment Services

Kent D. Sewright  
Team Member – Quality Assessment Services

Randy M. Schmitt  
Team Member – Quality Assessment Services

**SECTION VI**  
**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2016**



# Health and Human Services Commission

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*Internal Audit Division*

## **Internal Audit Plan**

Fiscal Year 2016

September 22, 2015

  
\_\_\_\_\_  
Nicole Guerrero, MBA, CIA, CGAP  
Director of Internal Audit

  
\_\_\_\_\_  
Chris Traylor  
Executive Commissioner

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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 Enterprise<sup>1</sup>. 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 standards<sup>2</sup>, Internal Audit is organizationally independent, and operates free from interference in determining the scope of internal audits, performing work, and communicating results.

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<sup>1</sup> 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.

<sup>2</sup> 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 standards<sup>3</sup>. 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.

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<sup>3</sup> *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.

## Direct Hours Budgeted for Fiscal Year 2016

### *Fiscal Year 2016 Hours Budgeted for Remaining Work on Carry-Forward and Projects*

<i>Projects</i>	<i>Estimated Hours</i>
<ul style="list-style-type: none"> <li>• Managed Care Contract Oversight* <i>*Previously titled Managed Care Contract Management</i></li> </ul>	300
<ul style="list-style-type: none"> <li>• Rate Analysis Supplemental Payments</li> </ul>	410
<ul style="list-style-type: none"> <li>• Office of Community Services Subrecipient Monitoring</li> </ul>	400
<ul style="list-style-type: none"> <li>• Eligibility Operations - Data Integrity Unit Processes</li> </ul>	450
<ul style="list-style-type: none"> <li>• Oversight and Monitoring of Managed Transportation Services* <i>*Previously titled Medical Transportation Program Contract Monitoring of Transportation Services</i></li> </ul>	1,000

### *Hours Budgeted for Projects to be Performed in Fiscal Year 2016*

	<i>Estimated Total Project Hours</i>
<ul style="list-style-type: none"> <li>• Pay for Quality Program</li> </ul>	3,000
<ul style="list-style-type: none"> <li>• Operations Coordination Management Processes</li> </ul>	3,500
<ul style="list-style-type: none"> <li>• Medicaid/CHIP Project Management Office</li> </ul>	2,500
<ul style="list-style-type: none"> <li>• Medicaid/CHIP Enrollment Broker Contract Monitoring</li> </ul>	3,500
<ul style="list-style-type: none"> <li>• Oversight of Selected Administrative Goods and Services Contracts</li> </ul>	2,000
<ul style="list-style-type: none"> <li>• Oversight of Outsourced Services</li> </ul>	2,750
<ul style="list-style-type: none"> <li>• Access to HHSAS and HCATS</li> </ul>	750
<ul style="list-style-type: none"> <li>• Accounts Receivable Processes</li> </ul>	2,500
<ul style="list-style-type: none"> <li>• Oversight of Statewide Network of Community Partners</li> </ul>	2,750
<ul style="list-style-type: none"> <li>• Selected Follow-up Audits</li> </ul>	750
<ul style="list-style-type: none"> <li>• Consulting Services-TBD</li> </ul>	750

## **Processes and Activities with Risks Ranked as High Not Scheduled for Audit in Fiscal Year 2016**

Although the Internal Audit Plan contains audit projects addressing the high risk processes and activities, 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 provide reasonable coverage of the business processes rated as high risk and maximize limited internal audit resources. HHSC management understands the limitations of audit coverage and the risks assumed by management in the areas not audited. Some HHS Enterprise and HHSC processes and activities with risks ranked as high that are not scheduled for audit in fiscal year 2016 include:

- Texas Integrated Eligibility Redesign System (TIERS) Production Operations
- IT Systems at State Hospitals
- TIERS (includes Bendex, BEER, WTPY, SOLQ)
- Medicaid/ CHIP - Vendor Drug Program Rebate Administration
- Eligibility Operations
- Healthcare Transformation Waiver Operations - Delivery System Reform Incentive Payment Program

HHSC management, through its oversight of these higher risk processes and activities, will help mitigate the risks not addressed through audit coverage. If the level of risk changes significantly during fiscal year 2016, audit resources could be redirected to address one or more of these processes and activities in lieu of other approved audit projects.

**SECTION VII**

**EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2015**

## EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2015

The following is a list of external audit services procured or ongoing in Fiscal Year 2015.

- Electronic Health Record Incentive Payments (Agreed-Upon Procedures Audit)
- Managed Care Organization - Financial Statistical Reports (Financial Audit)
- Medical Transportation Full Risk Brokers (Financial Audit)
- Enrollment Broker (Retrospective Cost Settlement/Financial Audit)
- Recovery Audit Contractor (Recovery Audit)
- Delivery System Reform Incentive Payments (Agreed-upon Procedures Audit)
- Managed Care Organization (MCO) Performance (Performance Audit)
- Xerox (TMHP, PCRA) (Retrospective Cost Settlement Audit)
- Electronic Benefits Transfer (SSAE 16 Audit)
- Disproportionate Share Hospital Rates (Financial and Compliance)
- Uncompensated Care Pool (Financial and Compliance)
- Xerox Pharmacy (SSAE-16 and HIPAA Compliance Audit)
- Accenture/TMHP (SSAE-16 Compliance Audit)
- Long Term Care Services and Supports of Selected MCOs (Performance Audit)
- Accenture/TMHP (HIPAA Compliance Audit)
- Eligibility Operations - Data Integrity Unit Processes Audit (Performance Audit)
- TIERS Data Processing and Integrity (Information Technology Audit)

**SECTION VIII**  
**REPORTING SUSPECTED FRAUD AND ABUSE**

## REPORTING SUSPECTED FRAUD AND ABUSE

Reference	Actions Taken
<p><b>Fraud Reporting</b></p> <p>The General Appropriations Act, (84<sup>th</sup> Legislature, Conference Committee Report) retained the language for Article IX, Section 7.09 that includes state agency fraud reporting requirements related to the following:</p> <ul style="list-style-type: none"> <li>• Agency Internet website content</li> <li>• SAO fraud hotline information</li> <li>• SAO website link for fraud reporting</li> <li>• Agency policies</li> <li>• Fraud reporting to the SAO</li> </ul>	<p>The home page of the Health and Human Services (HHS) Enterprise Internet and the Health and the Human Services Commission (HHSC) Internet and Intranet provide information on how to report suspected fraud, waste, and abuse involving health and human services programs directly to the State Auditor’s Office (SAO). The home pages include the SAO fraud hotline information and a link to the SAO website for fraud reporting.</p> <p>HHS Enterprise policy concerning fraud, waste, and abuse was established in HHS Circular C-027, <i>HHS Enterprise Fraud, Waste, and Abuse Reporting, Responsibilities, and Coordination</i>. The circular includes information on how to report suspected fraud involving state funds to the state auditor.</p>
<p><b>Coordination of Investigations</b></p> <p>Chapter 321, <i>Texas Government Code</i>, Section 321.022 requires each state agency to report fraud to the SAO and requires coordination of investigations between the SAO and certain entities, including state agencies.</p>	<p>Per HHS Circular C-027, all employees or contractors who suspect fraud, waste or abuse are required to immediately report the questionable activity to both the HHSC Office of Inspector General (OIG) and the SAO. The OIG is required to refer information to internal and external authorities that have jurisdiction, as appropriate (so that they may pursue independent investigations, audits, and reviews consistent with their authority).</p>