

Annual Internal Audit Report

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

Fiscal Year 2022

November 2022



TEXAS
Health and Human
Services

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Introduction

The Fiscal Year 2022 Annual Internal Audit Report for the Texas Health and Human Services System Office of Audit and Compliance's Internal Audit Division (HHS Internal Audit) is provided in accordance with the Texas Internal Auditing Act requirements for internal auditors to prepare and distribute an annual report of activities and complies with the guidelines set forth by the State Auditor's Office.

HHS Internal Audit completed audit work and provided management with information and analyses to assist in initiating improvements to operations and to strengthen internal controls. In addition to audit work, HHS Internal Audit provided advice and assistance on governance, risk management, and controls, and management actively engages HHS Internal Audit as they continue to work toward more effective and efficient processes in the agency.

1. Compliance with Texas Government Code, Section 2102.015¹

Texas Health and Human Services (HHS) sent the approved audit plan and the annual internal audit report for posting to the Reports and Presentations page of the HHS public home page within 30 days of approval as required by statute. The Fiscal Year 2022 Internal Audit Plan was posted to the Reports and Presentations page in September 2021. The Fiscal Year 2021 Annual Internal Audit Report was posted to the Reports and Presentations page in November 2021.

¹ [Section 2102.015. Publication of Audit Plan and Annual Report on Internet](#)

2. Internal Audit Plan for Fiscal Year 2022

Status of Fiscal Year 2022 Planned Audits

Health and Human Services System²

Report #	Project Name	Report Date or Status
21-01-010	Audit of IT Infrastructure	Cancelled – See Explanation Below
21-01-011	Audit of CAPPs Procurement Scoring	February 2022
21-01-022	Audit of Procurement Cards	February 2022
22-01-008	IT General Controls Audit of Select Systems <ul style="list-style-type: none"> • HCS Provider Payment • Medicaid Client Portal • Business Objects 	June 2022 August 2022 August 2022
22-01-013	IT Contract Management <ul style="list-style-type: none"> • Phase I • Phase II 	Reporting Fieldwork
22-01-016	Incident Reporting	Cancelled – See Explanation Below
22-01-032	Vulnerability and Patch Management	Planning

Health and Human Services Commission

Report #	Project Name	Report Date or Status
21-01-007	Audit of Provider Finance - Hospital Supplemental Payments	September 2021
21-01-012	Audit of Select Contracts	November 2021
21-01-016	Audit of Premiums Payable System	September 2021
21-01-017	Audit of Adult Mental Health and Crisis Services	Carry forward to fiscal year 2023 Internal Audit Plan
21-01-025	Audit of Utilization Review	February 2022
21-01-026	Audit of Home and Community-Based Services-Adult Mental Health (HCBS-AMH)	January 2022

² Includes both HHSC and the Department of State Health Services (DSHS).

Report #	Project Name	Report Date or Status
21-01-032	Audit of Youth Empowerment Services (YES) Waiver Programs	November 2021
22-01-007	Office of the Ombudsman	April 2022
22-01-010	Guardianship Program	Reporting
22-01-018	Leasing Activities	Cancelled – See Explanation Below
22-01-019	Audit of COVID-19 Funding at HHSC	August 2022
22-01-020	Emergency Procurement of Contracts	August 2022
22-01-024	Audit of State Supported Living Center and State Hospital Differential Pay	August 2022 – See Explanation Below
22-01-026	Payroll, Time, Labor, and Leave	Reporting
22-01-027	Office of Inspector General Investigations and Reviews Section's Referral Process	Fieldwork
22-01-028	Audit of State Hospital Incentive-Based Practices	Reporting
22-01-029	Cost Reporting, Time, and Accountability Review	Fieldwork
23-01-009	Petty Cash	Fieldwork/Carry forward to fiscal year 2023 Internal Audit Plan
Not assigned	2-1-1 Texas Information and Referral Network (TIRN)	Carry forward to fiscal year 2023 Internal Audit Plan
Not assigned	Community Care Services Eligibility	Carry forward to fiscal year 2023 Internal Audit Plan
Not assigned	Medicaid and CHIP Services - Program Support & Interest List	Carry forward to fiscal year 2023 Internal Audit Plan
Not assigned	Business Management of SSLC's and SH's	Carry forward to fiscal year 2023 Internal Audit Plan

Department of State Health Services

Report #	Project Name	Report Date or Status
22-01-017	COVID-19 Funding at DSHS	August 2022

Report #	Project Name	Report Date or Status
22-01-022	Newborn Screening Care Coordination	Carry forward to fiscal year 2023 Internal Audit Plan
22-01-030	Select Contracts at DSHS	Fieldwork

Explanation of Deviations from 2022 Internal Audit Plan

As noted below in Section V, Internal Audit Plan for Fiscal Year 2023, the HHS Internal Audit risk assessment process is a perpetual process. As a result, the audit plan may change quarterly due to more frequent identification of, and response to, shifts in risk. The following projects were removed/added for the following reasons:

- Audit of IT Infrastructure (removed): Recommendations would have been directed to another state agency due to the structure of some of the contracts under review. HHS Internal Audit does not have the authority to make recommendations outside of the HHS system.
- Incident Reporting (removed): Recommendations from a previous audit were sufficient to address risks related to the audit objective.
- Leasing Activities (removed): Texas Facilities Commission (TFC), not Health and Human Services (HHS) System, is the leasing authority for the state. Risks associated with the audit objectives would be related to TFC processes.
- Audit of State Supported Living Center and State Hospital Differential Pay (added): Ongoing risk assessment processes identified risks related to shift differential and maximum-security pay.
- Audit of State Hospital Incentive Based Practices (added): Executive Management requested the audit at the end of fiscal year 2022. This audit was also added to the FY 2023 Audit Plan as carryover.

3. Consulting Services and Nonaudit Services Completed

HHS Internal Audit staff presented the audit process, risk assessment, and control frameworks at staff meetings and as requested by management. In addition, HHS Internal Audit completed the following consulting services during fiscal year 2022:

Project #	Project Title	Report Date for Complete Projects or Project Status
22-04-009	Women's Health Contracting	January 2022
22-04-011	PCS SCOR Baseline Risk Assessment Tool	December 2021
22-04-012	PCS Contract Monitoring Identification	March 2022
22-04-021	SAO Contract Monitoring Assessment Review	March 2022
22-04-025	COVID-19 Block Grant for Community Health Services	June 2022

Summary of Key Consulting Services and Results

Women's Health Contracting

Objective: Review the monitoring processes in place for women's health contracts and identify areas for improvement based on any misalignment of risks and controls. HHS Internal Audit analyzed risks and controls for fiscal and programmatic monitoring processes and noted areas of consideration to ensure program objectives are achieved with reasonable and necessary costs.

PCS SCOR Baseline Risk Assessment Tool

Objective: Review the SCOR baseline risk assessment tool and provide feedback regarding any gaps identified. HHS Internal Audit evaluated the SCOR risk factors and score ranges used to assign levels of risk to agency contracts. Items for consideration were provided on the risk assessment process by including additional risk factors tied to monitoring results.

PCS Contract Monitoring Identification

Objective: Identify agency contracts needing enhanced monitoring based on current policy and provide information on program procedures relevant to contract monitoring. HHS Internal Audit reviewed SCOR data to identify contracts subject to

enhanced monitoring and contacted HHS departments for regular and enhanced contract monitoring procedures. PCS was provided items for consideration, including improving controls over the risk assessment process and clarifying enhanced monitoring procedures in the HHS Procurement and Contract Management Handbook.

SAO Contract Monitoring Assessment Review

Objective: Determine rationale behind the State Auditor's Office (SAO) ranking HHSC as "additional monitoring warranted", what this means for contracting, and potential changes to lower the SAO ranking. HHS Internal Audit analyzed contracting related open recommendations from internal and external HHS audits and provided suggestions to improve the SAO ranking of HHS for two of the three contracting periods.

COVID-19 Block Grant for Community Health Services

Objectives: Determine the policies and procedures currently in place for the COVID-19 Community Mental Health Services Block Grant and review supporting documentation and provide areas of consideration on potential gaps in processes and the adequacy of supporting documentation. Policies and procedures describing COVID-19 expenditure support were reviewed to analyze compliance with current processes. Invoice processing procedures were flowcharted and suggestions to improve the retention of support documentation were provided.

4. External Quality Assurance Review

The HHS Internal Audit's External Quality Assurance Review was completed in July 2022, by Postlethwaite & Netterville, a state contracted vendor. Excerpts from the Executive Summary of the resulting report include the following opinions:

Postlethwaite & Netterville, APAC (P&N) is pleased to have provided the Texas Health and Human Services system (HHS) with a full external Quality Assurance Review (QAR) of its Internal Audit Division (Internal Audit) for the period of September 1, 2019 through August 31, 2022.

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

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

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

*It is our overall opinion that the Internal Audit Division at HHS **Generally Conforms** with the following for the period of September 1, 2019 through August 31, 2022:*

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

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

OPINION AS TO CONFORMANCE WITH THE GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

*It is our overall opinion that the Internal Audit Division at HHS receives a Peer Review Rating of **Pass** for the period of September 1, 2019 through August 31, 2022 with the Generally Accepted Government Auditing Standards (GAGAS) distributed by the Government Accountability Office (GAO) (2018 Revision).*

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the relevant requirements of GAGAS.

5. Internal Audit Plan for Fiscal Year 2023

The audit plan below includes 24 total audits (16 carried over from fiscal year 2022) and will be added to throughout the year based on risk and agency needs. In addition, HHS Internal Audit staff will conduct verification work on recommendations reported by management as implemented and address management requests as possible. The Fiscal Year 2023 Internal Audit Plan was approved by the HHS Executive Commissioner in September 2022.

Planned projects with an "*" are projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2023 Internal Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

Planned Projects

Health and Human Services System³

Project Title	Budget (Hours)
Vulnerability and Patch Management	2,500
HHS Enterprise Portal	2,500
Monitoring of Third-Party Subcontractors *	2,000
Take Charge Texas Application and General Controls	2,500
Audit Verifications	6,000

Health and Human Services Commission

Project Title	Budget (Hours)
Guardianship Program	200
Contract Management for IT-Related Contracts (Information Technology) * <i>(IT Contract Management in the 2022 audit plan)</i>	150
Payroll, Time, Labor, and Leave	500
State Hospital Incentive-Based Practices	500

³ Includes both HHSC and the Department of State Health Services (DSHS).

Project Title	Budget (Hours)
Contract Management for IT-Related Contracts (Program) * <i>(IT Contract Management in the 2022 audit plan)</i>	2,000
Cost Reporting	1,800
Office of Inspector General Investigations and Reviews Section's Referral Process	1,200
Adult Mental Health and Crisis Services *	2,500
Petty Cash	1,200
2-1-1 Texas Information and Referral Network (TIRN) *	2,000
Community Care Services Eligibility	1,800
Business Management of SSLC's and SH's *	2,000
Medicaid and CHIP Services - Program Support & Interest List	2,500
Contract Administration and Provider Monitoring (CAPM) *	2,500
TIERS Application and General Controls	3,000

Department of State Health Services

Project Title	Budget (Hours)
Newborn Screening Care Coordination	2,500
Select Contracts at DSHS	2,000
Audit of Environmental Surveillance and Toxicology (DSHS)	2,000
Audit of Lab Equipment Inventory Processes - South Texas Lab	2,500

High Risks Unaddressed by Plan

The following business processes were ranked as "high risk" but not included in the Fiscal Year 2023 Internal Audit Plan either due to recent audit activity, management priorities, or resource limitations:

Health and Human Services Commission

Business Area	Auditable Unit(s)
State Supported Living Centers	<ul style="list-style-type: none"> Programs SSLC
State Hospitals	<ul style="list-style-type: none"> State Hospitals
Behavioral Health Services	<ul style="list-style-type: none"> TTOR Children's Mental Health

Business Area	Auditable Unit(s)
Managed Care Operations	<ul style="list-style-type: none"> Managed Care Compliance and Operations
Chief Financial Officer	<ul style="list-style-type: none"> Provider Finance - Cost Reporting, Time, and Accountability Review
Information Technology & Chief Information Officer	<ul style="list-style-type: none"> Information Security Officer Application Services IT Business Operations IT Infrastructure
Regulatory Services	<ul style="list-style-type: none"> Child Care Regulation

Department of State Health Services

Business Area	Auditable Unit(s)
Regional & Local Health Operations	<ul style="list-style-type: none"> Public Health Regions
TB/HIV/STD	<ul style="list-style-type: none"> Pharmacy Branch HIV/STD Prevention and Care Branch

Risk Assessment Methodology

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

1. **Define the audit universe.** Develop a comprehensive list of "auditable units" (i.e., program areas/units, activities, processes, etc.). This includes an ongoing review of organizational charts, agency reports, and the Health and Human Services Commission and Department of State Health Services Strategic Plans. Criteria for selecting "auditable units" includes: level of contribution to HHS Goals and Strategies, the magnitude of impact on the organization, the level of importance to justify the cost of control, and the efficiency in minimizing auditable units when possible.
2. **Select and weight risk factors.** Risk factors are specific and identifiable sources of uncertainty or potential negative consequences. Risk is inherent to every auditable unit - what varies among units is the degree or level of risk. Level of risk is determined by the extent of impact to the agency as a whole, should the specific risk occur. Risk factors are selected by consideration of current issues by the Chief Audit Executive.

3. In addition, HHS Internal Audit **staff assesses risk on five additional risk factors** based on the Committee of Sponsoring Organizations' (COSO) Internal Control Framework:
 - Control Environment
 - Assessing Risk
 - Control Activities
 - Information and Communication
 - Monitoring Activities
4. **Prioritize auditable units** to assess overall risk level.
 - **Score:** HHS Internal Audit scored each auditable unit using the Internal Audit Risk Factors and Scoring Guide.
 - **Additional Points:** Areas identified as of interest or concern by executive management team members or the Chief Audit Executive received additional points at the discretion of the scoring team.
 - **Rank:** Calculate based on the sum of all scores and rank all units relative to one another. Identify high, medium and low risk areas.
5. **Monitoring and Updating Risk Assessment.** Information is gained and added to the risk assessment tool through routine meetings with agency management, information learned during audit work, external reports and notifications, and other sources that identify risks. Risks are perpetually monitored, and the risk assessment is updated as often as needed, to address the most current risks at HHS. The audit plan is monitored and assessed routinely, and amendments are proposed as appropriate.
6. **Identify Areas of Audit for the Proposed Fiscal Year 2023 Internal Audit Plan.** Based on available staff hours, review of audit history, input from executive management, and other factors develop a proposal for the Executive Commissioner's review and input.

6. External Audit Services Procured in Fiscal Year 2022

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

Description	Q1	Q2	Q3	Q4
Related Party Administrative Testing	X			
TMHP Accenture SOC-1 Audit	X	X	X	X
Conduent Vendor Drug Program SOC-1 Audit	X	X	X	X
Delivery System Reform Incentive Payments	X			
Eligibility Support Services program (ESS), Children's Health Insurance Program (CHIP), and Enrollment Broker Retrospective Cost Settlement Audits	X	X	X	X
Medicaid Recovery Audit Contractor (RAC)	X	X	X	X
Audits of Medicaid Providers	X	X	X	X
Managed Care Organization (MCO) Self-Reported Data	X			
Managed Care Organization (MCO) Financial Statistical Reports (FSR)	X	X	X	X
TMHP – Retrospective Cost Settlement Audit	X	X	X	X
Vendor Drug Program HIPAA Audit	X	X	X	X
Medical Transportation Organization - Financial Statistical Reports (FSR)	X	X	X	X
Disproportionate Share Hospital and Uncompensated Care Audit Services	X	X	X	X
Electronic Health Record (EHR) Incentive Payments	X	X	X	X

7. Reporting Suspected Fraud and Abuse

The HHS Internet and Intranet and HHS Circular C-027 provide information on how to report suspected fraud, waste, and abuse. Employees must report suspected fraud, waste, or abuse in health and human services programs to the HHS Inspector General and the Texas State Auditor's Office. To our knowledge, these reports are being made in accordance Section 7.09, page IX-38, the [General Appropriation Act \(87th Legislature\)](#).

To support compliance with [Texas Government Code, Section 321.022](#) related to investigation coordination requirements, HHS Internal Audit has documented procedures for supporting State Auditor's Office investigations.