

Annual Internal Audit Report

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

Fiscal Year 2023

November 2023



TEXAS
Health and Human
Services

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Introduction

The Fiscal Year 2023 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 2023 Internal Audit Plan was posted to the Reports and Presentations page in September 2022. The Fiscal Year 2022 Annual Internal Audit Report was posted to the Reports and Presentations page in November 2022.

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

2. Internal Audit Plan for Fiscal Year 2023

Status of Fiscal Year 2023 Planned Audits

Health and Human Services System²

Report #	Project Name	Report Date or Status
22-01-013a	Information Technology (IT) Contract Management Phase I	October 2022
22-01-013b	IT Contract Management Phase II	January 2023
22-01-032	Vulnerability and Patch Management	May 2023

Health and Human Services Commission

Report #	Project Name	Report Date or Status
21-01-017	Audit of Adult Mental Health and Crisis Services	August 2023
22-01-010	Guardianship Program	November 2022
22-01-026	Payroll, Time, Labor, and Leave	November 2022
22-01-027	Office of Inspector General Investigations and Reviews Section's Referral Process	January 2023
22-01-028	Audit of State Hospital Incentive-Based Practices	December 2022
22-01-029	Cost Reporting	April 2023
23-01-009	Petty Cash	January 2023
23-01-010	Business Management of State Supported Living Centers (SSLCs) and State Hospitals (SHs)	Reporting
23-01-011	Tuition Reimbursement	May 2023
23-01-012	Contract Close Out of Select Programs	July 2023
23-01-014	SSLC Incentive Pay	August 2023
23-01-015	Payments on Contracts	August 2023
23-01-016a	Texas Integrated Eligibility Redesign System (TIERS) Application and General Controls - Part I	August 2023
23-01-017	Community Care Services Eligibility	Fieldwork

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

Report #	Project Name	Report Date or Status
23-01-018	Bridge Extensions	Reporting
23-01-019	2-1-1 Texas Information and Referral Network (TIRN)	Fieldwork
23-01-020	Medicaid and Children's Health Insurance Program (CHIP) Services - Program Support & Interest List	Fieldwork
23-01-021	Monitoring of Third-Party Subcontractors	Planning/Carry forward to fiscal year 2024 Internal Audit Plan
23-01-023	Asset Management Office (AMO)	Planning/Carry forward to fiscal year 2024 Internal Audit Plan
Not assigned	HHS Enterprise Portal	Carry forward to fiscal year 2024 Internal Audit Plan
Not assigned	Take Charge Texas Application and General Controls	Carry forward to fiscal year 2024 Internal Audit Plan
Not assigned	Contract Administration and Provider Monitoring (CAPM)	Carry forward to fiscal year 2024 Internal Audit Plan

Department of State Health Services

Report #	Project Name	Report Date or Status
23-01-013	Audit of Lab Equipment and Inventory Processes - South Texas Lab	June 2023
22-01-022	Newborn Screening Care Coordination	Fieldwork
22-01-030	Select Contracts at DSHS	April 2023
Not assigned	Audit of Environmental Surveillance and Toxicology	Carry forward to fiscal year 2024 Internal Audit Plan

Explanation of Deviations from 2023 Internal Audit Plan

As noted below in Section V, Internal Audit Plan for Fiscal Year 2024, 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 six projects were added by either Executive Management request or identified during our continuous risk assessment process:

- Tuition Reimbursement
- Contract Close Out of Select Programs
- SSLC Incentive Pay
- Payments on Contracts
- Bridge Extensions: This audit was also added to the fiscal year 2024 Audit Plan as carryover.
- Asset Management Office (AMO): This audit was also added to the fiscal year 2024 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 2023:

Project #	Project Title	Report Date for Complete Projects or Project Status
22-04-031a	Alternatives to Abortion Program (Phase 1)	October 2022
22-04-031b	Alternatives to Abortion Program (Phase 2)	December 2022
22-04-031c	Alternatives to Abortion Program (Phase 3)	February 2023
22-04-033a	Identification of Fiscal Monitoring Across HHS (Phase 1)	December 2022
22-04-033b	Identification of Fiscal Monitoring Across HHS (Phase 2)	March 2023
22-04-033c	Identification of Fiscal Monitoring Across HHS (Phase 3)	August 2023

Summary of Key Consulting Services and Results

Alternatives to Abortion Program (Phase 1)

Objective: Assess and offer items for consideration concerning policies and procedures related to contract risk assessment, contractor monitoring, enhanced monitoring, and how the risk assessment impacts monitoring plans. HHS Internal Audit reviewed policies, procedures, and monitoring tools related to contract risk assessment, contractor monitoring, and enhanced monitoring.

Alternatives to Abortion Program (Phase 2)

Objective: Assess and make recommendations on fiscal oversight, including invoice processing and monitoring as well as subcontractor risk assessment and monitoring. HHS Internal Audit reviewed policies, procedures, and fiscal monitoring tools, including supporting documentation, used in fiscal monitoring activities.

Alternatives to Abortion Program (Phase 3)

Objective: Assess and provide items for consideration concerning the Alternatives to Abortion (A2A) program's ability to implement contract oversight, accountability, and performance management and to assess and provide items for consideration on the A2A program's administrative efficiency of documentation and systems used to generate and store documentation. HHS Internal Audit reviewed policies, procedures, and any performance monitoring tools, including supporting documentation, used in contract oversight and performance management monitoring activities.

Identification of Fiscal Monitoring Across HHS (Phase 1)

Objectives: Identify all fiscal monitoring functions and resources within HHS, to include an assessment of whether identified functions cover all relevant agency expenditures, assess policies, procedures, and processes in use by those functions, to include citation of standards (statute, rule, etc.) used in developing policies, procedures, and processes and in performing monitoring reviews, and identify the strengths and weaknesses in policies, procedures, and processes. HHS Internal Audit reviewed policies, procedures, and tools relevant to fiscal monitoring.

Identification of Fiscal Monitoring Across HHS (Phase 2)

Objectives: Develop items for consideration when aligning policies, procedures, and processes with best practices. HHS Internal Audit reviewed current policies, procedures, and tools relevant to fiscal monitoring for grants as well as identified best practices through research.

Identification of Fiscal Monitoring Across HHS (Phase 3)

Objectives: Identify items to consider while improving executive oversight of fiscal monitoring functions and resources. HHS Internal Audit reviewed current policies, procedures, and tools relevant to fiscal monitoring for grants as well as identified best practices through research.

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 2024

The audit plan below includes 29 total audits (13 carried over from fiscal year 2023) 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 2024 Internal Audit Plan was approved by the HHS Executive Commissioner in August 2023.

Planned projects with an "*" are projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2024 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)
HHS IT Security Incident Response Framework	2,500
HHS Enterprise Portal	2,500
Monitoring of Third-Party Subcontractors *	2,000
Take Charge Texas Application and General Controls	2,500
IT Governance	3,000
Texas Administrative Code (TAC) 202	1,200
Ethics Requirements	500
Audit Verifications	8,000

Health and Human Services Commission

Project Title	Budget (Hours)
Asset Management Office	3,000
Records Management	1,800
Travel Reimbursement	1,500
HHS Privacy Office	1,800

³ Includes both HHSC and DSHS.

Project Title	Budget (Hours)
Bridge Extensions *	250
2-1-1 Texas Information and Referral Network (TIRN) *	1,000
Community Care Services Eligibility	800
Business Management of SSLCs and SHs	850
Medicaid and CHIP Services - Program Support & Interest List	1,600
Contract Administration and Provider Monitoring (CAPM) *	2,500
TIERS Application and General Controls	2,500
Peer & Recovery Services Programs, Policy and Planning *	1,800
Intergovernmental Transfers for Select Programs	2,000
Accounts Receivable Processes	2,000
Long Term Care Regulation	2,000
Liquidated Damages *	2,500

Department of State Health Services

Project Title	Budget (Hours)
Newborn Screening Care Coordination	800
Laboratory Services for Newborn Screening	2,500
Tuberculosis Program Services and Coordination	2,000
Environmental Surveillance Section	2,000
Radiation Section	1,800

High Risks Unaddressed by Plan

The following business processes were ranked as "high risk" but not included in the Fiscal Year 2024 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 Pharmacy Services
State Hospitals	<ul style="list-style-type: none"> State Hospitals
Access and Eligibility Services	<ul style="list-style-type: none"> Contract Management

Business Area	Auditable Unit(s)
Chief Financial Officer	<ul style="list-style-type: none"> Accounting

Department of State Health Services

Business Area	Auditable Unit(s)
None	

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 2024 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 2023

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
Texas Medicaid & Health Partnership (TMHP) Accenture System and Organization Controls (SOC) - 1 Audit	X	X	X	X
Conduent Vendor Drug Program SOC-1 Audit	X	X	X	X
Eligibility Support Services program (ESS), Children's Health Insurance Program (CHIP), and Enrollment Broker Retrospective Cost Settlement Audits	X	X	X	X
Medicaid Recovery Audit Contractor (RAC)	X	X	X	X
Audits of Medicaid Providers	X	X	X	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 Health Insurance Portability and Accountability Act (HIPAA) Audit	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.