

Annual Internal Audit Report

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

Fiscal Year 2021

November 2021



TEXAS
Health and Human
Services

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Introduction

The Fiscal Year 2021 Annual Internal Audit Report for the Texas Health and Human Services Commission Internal Audit Division (HHSC 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. HHSC 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, HHSC Internal Audit provided advice and assistance on governance, risk management, and controls, and management actively engages HHSC Internal Audit as they continue to work toward more effective and efficient processes in the agency.

1. Compliance with Texas Government Code¹

Texas Health and Human Services (HHS) posts the approved audit plan and the Annual Audit Report 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 Audit Plan](#) signed by the Executive Commissioner and Director of Audit and Compliance on September 1, 2021, was posted to the Reports and Presentations page in September 2021. A Fiscal Year 2021 Audit Plan update was posted timely by updating the Fiscal Year 2021 Audit Plan September 2020 posting. The [Fiscal Year 2020 HHS System Internal Audit Annual Report](#) dated October 2020 was posted to the Reports and Presentations page in November 2020.

¹ Section 2102.015, Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the Website

2. Internal Audit Plan for Fiscal Year 2021

Status of Fiscal Year 2021 Planned Audits

Health and Human Services System²

Table 1. HHS System (HHSC and DSHS) Fiscal Year 2021 Audit Status

Report #	Report Title	Report Date or Status
20-01-015	IT Preparedness for Malware Threats and Malicious Software	October 2020
21-01-022	Procurement Cards	Fieldwork – Expected December 2021
21-01-009	Texas Administrative Code, Chapter 202 Requirements	July 2021
21-01-010	Information Technology Infrastructure	Planning/Cancelled – See Explanation Below
21-01-011	Centralized Accounting and Payroll/Personnel System (CAPPS) Procurement Scoring	Planning - – Expected January 2022
21-01-012	Select Contracts	Reporting – Expected November 2021
20-03-012	Fiscal Year 2020 Fourth Quarter Verifications	September 2020
21-03-006	Fiscal Year 2021 First Quarter Verifications Fiscal Year 2021 Second Quarter Verifications Fiscal Year 2021 Third Quarter Verifications	December 2020 March 2021 June 2021

Health and Human Services Commission

Table 2. HHSC Projects Fiscal Year 2021 Audit Status

Report #	Report Title	Report Date or Status
19-01-027	Contract Expenditures	November 2020
20-01-018	Data Use Agreements	September 2020
20-01-020	Office of Civil Rights	December 2020
20-01-027	Office of Inspector General's Benefits Program Integrity	September 2020

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

Report #	Report Title	Report Date or Status
20-01-029	Rate Analysis - School Health and Related Services (SHARS)	January 2021
20-01-023	Access and Eligibility Services' Community Access	February 2021
20-01-030	C-061 External Data Sharing Compliance	March 2021
20-01-019	Information Security Office Exceptions	March 2021
21-01-013	Health Care Regulation	August 2021
21-01-014	Women's Infant, and Children's Program (WIC)	July 2021
21-01-015	State Plan for Independent Living	June 2021
21-01-016	Premiums Payable System	Reporting – Expected September 2021
21-01-017	Adult Mental Health and Crisis Services	Not Started
21-01-025	Utilization Review	Fieldwork – Expected December 2021
21-01-007	Provider Finance (formerly Rate Analysis) – Hospital Supplemental Payments	Reporting – Expected September 2021
21-01-023	Learning Resource Network	August 2021
21-01-026	Home and Community Based Services-Audit Mental Health	Fieldwork – Expected December 2021
21-01-032	Youth Empowerment Services	Fieldwork – Expected November 2021

Department of State Health Services

Table 3. DSHS Projects Fiscal Year 2021 Audit Status

Report #	Report Title	Report Date or Status
21-01-031	Consumer Protection-Business Filing and Verification	April 2021
20-01-016	DSHS Pharmacy	Cancelled – See Explanation Below
21-01-019	Texas HIV Medication Program (THMP)	June 2021

Explanation of Deviations from 2021 Internal Audit Plan

As noted below in Section V, Internal Audit Plan for Fiscal Year 2022, 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 for the following reasons:

- *Audit of IT Infrastructure:* The audit was technically a carryover from FY2021 to FY2022; however, removal from the plan was granted September 2021 during the audit planning phase, since the HHS Internal Audit Division lacks the authority to provide recommendations for DIR's Shared Technology Services due to the 'owner-operator governance model' used for these contracts. While management decisions are made by groups where HHS is represented along with other state agencies, the HHS Internal Audit Division is not responsible for providing auditing services to DIR and state agencies beyond the HHS system. The director of Internal Audit will communicate any risks identified during the planning phase of this audit to the Texas State Auditor's Office as an audit would fall under their authority.
- *Audit of DSHS Pharmacy:* Risks associated with the Audit of DSHS Pharmacy were covered in the Audit of Texas HIV Medication Program that was released June 2021. Recommendations were issued to improve pharmacy operations that impacted overall pharmacy operations at DSHS and not just pharmacy operations related to the HIV program.

3. Consulting Services and Nonaudit Services Completed

HHSC Internal Audit staff presented on the audit process, risk assessment, and control frameworks at staff meetings and leadership academies as requested by management. In addition, HHSC Internal Audit completed the following consulting services during fiscal year 2021:

Table 4. Consulting Services Completed in Fiscal Year 2021

Report #	Project Title	Report Date or Status
20-04-013	Rate Analysis – Acute Care	September 2020
21-04-021	Procurement and Contracting Services Procurement Processes	November 2020
Management Assistance	<ul style="list-style-type: none"> Compliance and Quality Control (CQC) Risk Register Health, Developmental, and Independence Services (HDIS) Results Management Office (RMO)-Risk Assessment 	No formal report issued

Rate Analysis – Acute Care

Objective

Review Fee-Based Services team’s rate calculation processes and identify areas for improvement based on any misalignment of risks and controls.

Scope

The calendar fee review, policy implementation, Healthcare Common Procedure Coding System (HCPCS) updates, and legislative request processes.

Results

HHSC Internal Audit suggested the following Rate Analysis – Acute Care:

- Apply protection to key cells in the spreadsheet used to calculate rates and fiscal impact and review the template for necessary updates on a regular basis.

- Obtain information from program areas about steps taken to validate data provided by programs used in calculating rates. If a program does not have a data validation process, request the program implements data validation procedures.
- Formalize processes for reviewing fiscal impact analyses to support consistency and improve project management related to rate hearing preparations.

Procurement and Contracting Services Procurement Processes

Objectives

Create a flowchart of the PCS procurement process for Request for Proposals (RFPs) and identify controls and potential weaknesses that could expose the agency to successful vendor protests. The controls assessment included coverage of compliance with Comptroller reporting requirements.

Scope

The current RFP processes and procedures and related statutes.

Results

HHSC Internal Audit suggested Procurement and Contracting Services management consider implementing the Procurement and Contracting Oversight Committee (PCOC) to better define the governance structure over the procurement process. Opportunities to improve the Quality Advisory Team (QAT) procurement process flow charts include adding:

- PCS policy and procedure for submitting a procurement to the Statewide Procurement Division.
- Processes for reporting identified conflicts of interest and/or nepotism to the PCS Deputy Associate Commissioner and identifying issues noted on the State Auditor's Office Disclosure Statement for Purchasing Personnel that must be reported to the Executive Commissioner.
- Determination of the competitive range in the procurement file.

4. External Quality Assurance Review

The HHS Internal Audit External Quality Assurance Review was completed in August 2019, 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, 2016 through August 31, 2019.

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, 2016 through August 31, 2019:*

- 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.*

There were no opportunities for improvement identified that would be considered reportable items.

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, 2016 through August 31, 2019 with the Generally Accepted Government Auditing Standards (GAGAS) distributed by the Government Accountability Office (GAO) (2011 Revision). There were no opportunities for improvement identified that would be considered reportable items.*

5. Internal Audit Plan for Fiscal Year 2022

The audit plan below includes 21 total audits (9 carried over from fiscal year 2021) and will be added to throughout the year based on risk and agency needs. In addition, HHSC Internal Audit staff will conduct verification work on recommendations reported by management as implemented and address management requests as possible. The Fiscal Year 2022 Internal Audit Plan was approved by the HHS Executive Commissioner on September 1, 2021.

Planned Projects

Health and Human Services System³

Table 5. Planned HHS System Projects for Fiscal Year 2022

Project Title	Budget (Hours)
Audit of Procurement Cards	1300
Audit of CAPPs Procurement Scoring*	2337
Incident Reporting	2000
Vulnerability and Patch Management	2500
IT Contract Management*	2500
IT General Controls Audit of Select Systems	2500
Audit Verifications	6000

Projects with a "*" indicate projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2022 Internal Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

Health and Human Services Commission

Table 6. Planned HHSC Projects for Fiscal Year 2022

Project Title	Budget (Hours)
Audit of Adult Mental Health and Crisis Services*	2500
Audit of Utilization Review	1420

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

Project Title	Budget (Hours)
Audit of Home and Community-Based Services-Adult Mental Health (HCBS-AMH)	550
Audit of Youth Empowerment Services (YES) Waiver Programs	400
Audit of Select Contracts*	50
Audit of Premiums Payable System	40
Audit of Provider Finance – Hospital Supplemental Payments	10
Petty Cash	1200
Office of the Ombudsman	1200
2-1-1 Texas Information and Referral Network (TIRN)	2000
Community Care Services Eligibility*	1800
Audit of COVID-19 Funding at HHSC*	2000
Business Management of SSLC's and SH's	2000
Medicaid and CHIP Services - Program Support & Interest List*	2500
Guardianship Program	1800
Office of Inspector General Investigations and Reviews Section's Referral Process	1200
Leasing Activities*	1800
Cost Reporting, Time, and Accountability Review	1800
Payroll, Time, Labor, and Leave	1800
Emergency Procurement of Contracts*	2000

Projects with a "*" indicate projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2022 Internal Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

Department of State Health Services

Table 7. Planned DSHS Projects for Fiscal Year 2022

Project Title	Budget (Hours)
COVID-19 Funding at DSHS*	2000
Newborn Screening Care Coordination	2500
Select Contracts at DSHS*	2000

Projects with a "*" indicate projects that will address contract management and other requirements. None of the projects included in the Fiscal Year 2022 Internal Audit Plan specifically address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

High Risks Unaddressed by Plan

The following business processes were ranked as "high risk" but not included in the Fiscal Year 2021 Internal Audit Plan either due to recent audit activity, management priorities, or resource limitations:

Health and Human Services Commission

Table 8. HHSC High Risk Areas Not Addressed by the Fiscal Year 2022 Audit Plan

Business Area	Auditable Unit(s)
State Supported Living Center	<ul style="list-style-type: none"> • Programs • Quality Assurance • State Supported Living Centers
State Hospitals	<ul style="list-style-type: none"> • State Hospitals
Behavioral Health Services	<ul style="list-style-type: none"> • Mental Health Contract Management Unit • Texas Targeted Opioid Response (TTOR) Children's Mental Health
Medicaid & CHIP Services	<ul style="list-style-type: none"> • Managed Care Compliance and Operations (recently audited) • Contract Administration & Provider Monitoring (recently audited)
Regulatory Services	Child Care Regulation (recently audited)

Department of State Health Services

Table 9. DSHS High Risk Areas Not Addressed by the Fiscal Year 2022 Audit Plan

Business Area	Auditable Unit(s)
Regional and Local Health Operations	Public Health Regions
TB/HIV/STD	TB and Hansen's Services Branch

Risk Assessment Methodology

To facilitate more timely response to shifting risks, the Internal Audit Division 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 Director of Internal Audit.
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; and 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 Director of Internal Audit received additional points at the discretion of the scoring team.

6. External Audit Services Procured in Fiscal Year 2021

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

Table 10. External Audit Services Procured in Fiscal Year 2021

Description	Q1	Q2	Q3	Q4
Audit of Vendor Drug Program Drug Rebate Analysis and Management System (DRAMS)	X	X		
Managed Care Organization (MCO) Financial Statistical Reports (FSR)	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
Related Party Administrative Testing	X	X	X	X
Conduent Vendor Drug Program SOC-1 Audit	X	X	X	X
TMHP Accenture SOC-1 Audit	X	X	X	X
Delivery System Reform Incentive Payments	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
Document Processing Services Financial Audit	X	X	X	
Managed Care Organization (MCO) Self-Reported Data	X	X	X	X
TMHP – Retrospective Cost Settlement Audit			X	X
Vendor Drug Program HIPPA Audit			X	X

7. Reporting Suspected Fraud and Abuse

The HHS Internet and Intranet home pages 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-37, the [General Appropriations Act \(86th Legislature\)](#), and 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, HHSC Internal Audit has documented procedures for supporting State Auditor's Office investigations.