



## **HHS Circular C-035**

### **HHS Enterprise Audit Processes and Responsibilities**

#### **Purpose**

The purpose of this circular is to provide guidance to personnel in health and human services (HHS) agencies related to HHS Enterprise audits performed or coordinated by the HHSC Internal Audit Division (HHSC Internal Audit). The circular describes: (a) the process followed by HHSC Internal Audit when performing Enterprise audits; and (b) the primary roles and responsibilities of internal audit teams and agency management and staff involved in HHS Enterprise audits. This directive also applies to non-audit consultations, such as management advisory projects.

#### **Background**

HHSC Internal Audit is responsible for performing HHS Enterprise audits. Enterprise audit coverage consists of assessments of programs, processes, and systems: (a) under the oversight of HHSC deputy executive commissioners; or (b) that involve two or more HHS agencies. HHSC Internal Audit may audit programs, processes, and systems at any HHS agency at the request of executive management, with the approval of the HHSC Executive Commissioner.

#### **Directive**

HHS agency management and staff involved in HHS Enterprise audits are responsible for fulfilling assigned responsibilities and following the processes and guidelines provided in this circular.

#### **Authority**

HHSC Internal Audit fulfills its responsibilities, including HHS Enterprise audits, in alignment with the HHSC Internal Audit Charter (Attachment 1). The charter describes Internal Audit's purpose and scope, standards of auditing, independence, and authority. Also included in the charter are key roles and responsibilities of the HHSC Internal Audit Director, the Executive Commissioner, and HHSC and other HHS agency management.

In some instances, an HHS Enterprise audit may be conducted through a coordinated effort of HHS agency internal audit divisions, under the direction of the HHSC Internal Audit Director. At the request of the HHSC Internal Audit Director, and in consultation with affected HHS



agency internal audit directors, HHS agency internal audit divisions may also provide audit staff to augment the HHS Enterprise audit team.

## **Audit Process**

An overview of the internal audit process is depicted in Attachment 2. A brief description of each phase of an audit follows.

### Planning

Initial communications with the audit client occurs at inception of the project through the Audit Notification Memo and the Entrance Conference. The Audit Notification Memo is distributed to the applicable HHS agency internal audit directors. The memo and Entrance Conference provide information such as the preliminary project scope and objectives, planning approach and methodology, anticipated timelines for key project milestones and deliverables (such as completion of planning and fieldwork and draft report release date), and the audit team lead and staff. Key client contacts are identified by responsible management early in the planning phase.

During planning, the audit team conducts a risk assessment of the process, activity, or system under review, including an assessment of fraud, based upon interviews conducted and other information gathered and analyzed during planning. The project risk assessment, which includes consideration of risks and management controls, provides the foundation for determining: (a) project scope and objectives; and (b) audit work and testing to be performed.

At the end of planning, an Engagement Memo is distributed to responsible management and key client contacts. The memo outlines the refined scope and objectives, audit approach and methodology, and adjusted timelines for key project milestones and deliverables (such as final issues meeting, exit conference, and draft report). An end of planning meeting typically will be scheduled at this time to discuss the audit scope, objectives, methodology, and timelines.

### Fieldwork

During fieldwork, the audit team conducts additional interviews, data and process analysis, and testing of controls. Preliminary issues meetings are held with the client at regular intervals, typically every two weeks. During these meetings the client is updated on audit fieldwork performed, potential issues identified to date, and next steps. If significant issues are identified in the time period between preliminary issues meetings, internal audit directors will be notified as soon as practical.



HHSC Internal Audit will communicate any confidential or sensitive issues identified during an HHS Enterprise audit to appropriate management within the applicable HHS agency. This may include briefing the agency commissioner.

During the final issues meeting held at the end of fieldwork, the audit team provides a summary of the issues and recommendations and obtains feedback from management.

### Reporting

Audit results are documented in a report addressed to the HHSC Executive Commissioner. To help ensure the report is fair, factual, and balanced, the draft report is provided to responsible management and key client contacts for comment and input. The draft report is discussed with management at the exit conference.

Management responses are due two business weeks from distribution of the draft report. Detailed instructions for developing management responses are outlined in Attachment 3. A final draft report that includes management's responses is provided to the HHSC Executive Commissioner for review. The final report is issued to internal parties one week later and to external entities two weeks after internal report release.

### **Status Updates**

HHSC Internal Audit is responsible for updating HHSC executive management on the status of actions planned in response to HHS Enterprise audit recommendations issued by HHSC Internal Audit. At the request of HHSC Internal Audit, HHS agency management provides status updates on outstanding HHS Enterprise audit recommendations. Typically, management is asked to report to HHSC Internal Audit the status of action plans as of the end of the month in which each action plan is expected to be completed.

Detailed instructions for providing status updates to HHSC Internal Audit are described in Attachment 4.

### **Audit Follow-Up**

HHSC Internal Audit may perform follow up of HHS Enterprise audit recommendations it issues. The purpose is to: (a) validate the accuracy of management's assertions about the status of management actions; and (b) determine whether associated risks are sufficiently mitigated and outcomes improved. Follow-up audits generally adhere to the audit process described in this document.



## **Responsibilities**

### HHSC Internal Audit

- Coordinating with HHS agency internal audit divisions to establish the timing of HHS Enterprise audits.
- Notifying applicable HHS agency commissioners when an HHS Enterprise audit involving their agency has been approved by the Executive Commissioner.
- When audit resources may be needed from the HHS internal audit divisions, notifying HHS agency commissioners and internal audit divisions of the need for audit resources as soon as HHS Enterprise audits are approved, or as soon as the need is identified.
- Coordinating with HHS agency internal audit divisions to identify appropriate client contacts and copying HHS agency internal audit divisions: (a) when scheduling initial interviews and making initial information requests; (b) when scheduling key project meetings with clients (including entrance conference, end of planning meeting, preliminary and final issues meetings, and exit conference); and (c) when distributing project deliverables and other key client communications.
- Communicating audit progress and results during fieldwork, including significant issues and recommendations, to HHS internal audit directors and appropriate HHS Enterprise and HHSC management. This includes: (a) inviting HHS internal audit directors and appropriate HHS Enterprise and HHSC management to key project meetings; and (b) briefing HHS agency commissioners on significant issues.
- Reporting results of HHS Enterprise internal audits to the Executive Commissioner and to applicable HHS agency commissioners.
- Tracking and reporting the status of management's implementation of action plans developed in response to significant issues and recommendations identified through HHS Enterprise internal audits.
- In accordance with auditing standards and the HHSC Internal Audit Charter, maintaining the confidentiality of records and information obtained during HHS Enterprise audits.



### HHS Agency Internal Audit Divisions

- Cooperating with HHS Enterprise project teams during planning and performance of HHS Enterprise audits, including (for coordinated audits) providing internal audit working papers in process and draft reports associated with ongoing audits, as requested by the HHSC Internal Audit Director.
- Working with the HHSC Internal Audit Director to ensure appropriate supervisory and staff resources are made available to conduct coordinated HHS Enterprise audits or to augment HHSC Internal Audit teams performing HHS Enterprise audits.
- Inviting HHSC Internal Audit personnel to key client meetings (such as entrance conference, preliminary/final issues meetings, and the exit conference) during coordinated HHS Enterprise audits.
- Working with HHSC Internal Audit to establish protocols for communication with outside entities involved in HHS Enterprise audits.

### HHS Agency Management

- Cooperating with HHS Enterprise project teams during planning and performance of internal audits by providing full and unrestricted access to all activities, personnel, property, records, information, and systems requested by auditors, including contractor and subcontractor resources.
- Reviewing HHS Enterprise audit reports and providing written management responses to address issues and recommendations applicable to its respective HHS agency, including actions planned, responsible managers, and target implementation dates.
- Coordinating with internal divisions and programs, or other HHS agencies as appropriate, to effectively implement management action plans on a timely basis.
- Providing status updates to HHSC Internal Audit regarding management action plans to address outstanding Internal Audit recommendations.



### HHS Agency Commissioners and HHSC Deputy Executive Commissioners

- Monitoring the implementation of action plans established to address outstanding Internal Audit recommendations relating to HHS Enterprise audits.
- In rare circumstances (such as when significant changes occur in the business environment), providing written approval of management's acceptance of risk to the HHSC Internal Audit Director when agency management determines that no action will be taken in response to: (a) an issue reported by Internal Audit as a result of an HHS Enterprise audit; or (b) an outstanding audit issue included in a management status update.

### HHSC Executive Commissioner

- Reviewing Internal Audit reports on audits and management advisory projects.
- Reviewing status reports and updates regarding Internal Audit and audit resolution activities.

### **Inquiries**

Questions regarding the content of this memorandum may be directed to David Griffith, HHSC Internal Audit Director, at (512) 424-6998 or by e-mail at [David.Griffith@hhsc.state.tx.us](mailto:David.Griffith@hhsc.state.tx.us).

### **Attachments**

- Attachment 1 – HHSC Internal Audit Charter
- Attachment 2 – Overview of Audit Process
- Attachment 3 – Instructions for Developing Management Responses
- Attachment 4 – Instructions for Reporting Action Plan Status Updates