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*Internal Audit Division*

**HEALTH AND HUMAN SERVICES COMMISSION**  
**Internal Audit Annual Report**

**Fiscal Year 2013**

October 2013

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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, 2013, and communicates internal audit activities to be performed in the fiscal year ending August 31, 2014. 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 2014 HHSC Internal Audit Plan

The Fiscal Year 2014 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 surveys and interviews of HHS Enterprise and HHSC executives and managers representing key operational and support functions.

Executives and managers provided input that included:

- Validation of the most significant processes, activities, and functions within each division or operational area.
- Identification of risks 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, and budgeting.

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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.

- 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 external audit activities and advising management with respect to internal control and audit-related matters.

### Contact Information

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**SECTION I**

**COMPLIANCE WITH HOUSE BILL 16**

## COMPLIANCE WITH HOUSE BILL 16

Reference	Actions Taken
<p><b>Posting Materials to Agency Internet</b></p> <p>House Bill 16, 83<sup>rd</sup> 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 2013 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 will post the HHSC Internal Audit Plan for fiscal year 2014 and Annual Report for fiscal year 2013 within the Reports and Publications page of the HHSC public home page. The posting will be available within 30 days after October 10, 2013, the date the Internal Audit Plan was approved.</p> <p>HHSC will post the additional information on its HHSC public home page in accordance with direction that will be provided by SAO in its instructions for the fiscal year 2014 Annual Report.</p> <p>Those instructions should be available to HHSC in the fall of 2014.</p>

## **SECTION II**

### **INTERNAL AUDIT PLAN FOR FISCAL YEAR 2013**



Health and Human Services Commission

*Internal Audit Division*

## **Internal Audit Plan**

### **Fiscal Year 2013**

October 9, 2012

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David M. Griffith, CPA, CIA, CGFM  
Internal Audit Director

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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 2013.

## 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, Family and Community Services, 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 October 2012.

### 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.

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 2010 by the independent CPA firm, Calvetti, Ferguson & Wagner, P.C. The firm rendered an unqualified opinion and reported the results to the Executive Commissioner.

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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) 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 324 surveys and 18 interviews of HHS Enterprise and HHSC executives and managers representing key operational and support functions. The activities, business areas, and processes considered during the annual risk assessment are listed in the Appendix.

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 2013, including projects begun in a previous fiscal year and planned to be completed in fiscal year 2013, are listed below with a brief description of each project.

## Audit Projects

### *Managed Care Contract Monitoring*

- Determine whether performance contract monitoring processes effectively and efficiently ensure that managed care organizations are held accountable for delivery of quality services.
- Determine whether fiscal contract monitoring processes effectively support monitoring of performance and costs, and ensure that managed care organizations are paid appropriately.

### *Claims Administrator Contract Monitoring*

- Assess whether governance related processes and infrastructure adequately support contract monitoring and promote the achievement of contracting objectives.
- Evaluate whether the design and performance of monitoring processes are adequate to (a) effectively assess and report contractor performance, including requirements related to Medicaid and CHIP encounter data and (b) ensure corrective actions, when needed, achieve intended results.
- Determine whether roles and responsibilities are clearly defined, assigned, and communicated to personnel who monitor contractor performance.

### *Eligibility Documentation*

- Evaluate the effectiveness of processes designed to achieve compliance with federal requirements for obtaining and retaining documentation that support eligibility determinations.

### *Identity and Access Management*

- Assess the effectiveness of controls over (a) how internal and external information system users are granted an identity, (b) the protection of user identities, and (c) authentication, granting, and revocation of access based on roles, rules, and workflow.
- Identify opportunities to improve strategies, technology, and processes designed to increase efficiency in managing access to information, strengthen data security, and achieve compliance with federal and state requirements.

### *Enterprise Confidential Data Transfers*

- Evaluate whether contracts and agreements include provisions to ensure that HHS agencies' confidential data transfers are protected from unauthorized disclosure or use.
- Review the effectiveness of controls over physical and electronic confidential data transfers between HHS agencies (and contractors

working on their behalf) and external entities, including business partners and contractors.

- Determine whether agency monitoring of business partners and contractors is effective in ensuring the security of HHS confidential data in transit.

### Carry-Forward Audits

#### *Organizational Governance*

- Evaluate the HHSC governance framework and associated processes designed to inform, direct, and monitor the activities of HHSC and the HHS Enterprise towards the achievement of organizational goals and objectives.

#### *HHS Agency Collections of OIG Identified Overpayments*

- Evaluate whether HHS agencies, for (a) overpayments OIG identifies and refers to HHS agencies for collection and (b) settlement amounts to be collected as a result of OIG adjustments to expenditures reported by providers in provider cost reports:
  - Collect overpayments and settlement amounts in accordance with federal and state requirements.
  - Properly track, record, and report associated transactions.
  - Timely return the federal share of overpayments and settlement amounts identified for collection in accordance with federal requirements.
  - Appropriately record and report uncollected amounts as accounts receivable as of the end of each financial reporting period.
- Evaluate whether HHS agency processes are in place to reclaim the federal share of overpayments (a) that are uncollectible because a provider is bankrupt or out of business or (b) when a downward adjustment is made to the overpayment amount.

#### *Social Services Contract Management*

- Determine whether contract management governance-related processes and infrastructure adequately support contract management and promote the achievement of contracting objectives.
- Assess whether roles and responsibilities are clearly defined and communicated.
- Evaluate whether contract management processes ensure financial and performance requirements and associated outcomes are achieved.

### *Center for the Elimination of Disproportionality and Disparities Contract Management*

- Determine whether (a) contract management processes ensure financial and performance requirements and associated outcomes are achieved and (b) contracts include adequate provisions to effectively support program goals and objectives.
- Assess contractor performance, including contract deliverables and expenditures, under the contract between HHSC and The University of Texas M.D. Anderson Cancer Center, Center for Minority Health Research.

### *Medicaid Eligibility and Health Information Services*

- Evaluate the effectiveness of system and process controls, including those designed to ensure the accuracy of eligibility verification and confidentiality of patient information.
- Identify and assess potential risks associated with the planned implementation of future phases of the system, including the availability, accuracy, and confidentiality of patient health records.

### *Prescription Drug Rebate Program*

- Review the effectiveness of HHSC monitoring and oversight of contractor administration of rebates.
- Determine the efficacy of business processes and management controls that support (a) calculation of rebates, including pricing and utilization adjustments, (b) billing of outstanding receivables, (c) dispute resolution, and (d) collection of rebates in accordance with federal and state requirements, contractual agreements, and sound business practices.

### *Security and Integrity of Data Transferred to and from the Premiums Payable System*

- Determine whether controls are effective in ensuring that eligibility and premium payment data transmitted between the Premiums Payable System and relevant HHS and contractor systems is complete, accurate, and secure.

### *Premiums Payable System Application Controls and Related Business Processes*

- Review the effectiveness of automated controls and related business processes designed to support:
  - Accurate and complete processing of eligibility and premium payment data.
  - Appropriate processing and approval of premium payment adjustments.

- Timely and reliable management reporting.
- System access and security administration.
- System maintenance and availability in alignment with user needs and service level agreements.

### 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 Medical Transportation Program Contract Monitoring*

- Determine whether actions implemented to address issues and risks reported in the prior Internal Audit report on Medical Transportation Program Contract Monitoring Processes achieved the intended results.

### Carry-Forward Follow Up Projects

#### *Follow Up of Confidential Data Transfers*

- Determine whether action plans implemented to address issues included in the prior Internal Audit report on Confidential Data Transfers 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.

### Carry-Forward Management Advisory Projects

#### *Medical Transportation Program Financial Controls*

- Assess the design of Medical Transportation Program financial control structure and identify opportunities for improvements to mitigate risks.

### 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
- Healthcare Reform
- Accounts Receivable Process Improvement Workgroup (Medicaid, CSHCN, and Family Planning)
- HHS Enterprise Contract Council

## **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 audit entities. Internal Audit also assists management in coordinating management responses for all HHSC external audits and some HHS external audits.

## **PERM AND MIG COORDINATION**

Internal Audit serves as Texas' single point of contact with the Centers for Medicare and Medicaid Services (CMS) for payment error rate measurement (PERM) reviews and Medicaid Integrity Group (MIG) audits. These CMS initiatives are described below.

### Payment Error Rate Measurement

PERM reviews focus on identifying improper payments in the Medicaid and CHIP programs, and include tests of Medicaid and CHIP eligibility and review of

medical payments at the individual claim level. PERM reviews are conducted on a cyclical basis, resulting in a state being assessed once every three years. States are required to return to CMS the federal share of improper payments. In addition, states must develop corrective action plans to improve systems and processes that contributed to errors identified during PERM reviews.

### Medicaid Integrity Group

MIG activities include (a) reviews of Medicaid provider actions, (b) audits of individual provider's claims, (c) identification of overpayments, and (d) education of providers and others about Medicaid integrity issues. Audits are performed of individual providers, with efforts focused on providers with potential aberrant billing practices. The audits are designed to identify instances of waste, abuse, or fraud. At the discretion of CMS, audits may incorporate statistical extrapolation to estimate total inappropriate Medicaid claim payments for a provider. CMS requires states to refund the federal share of provider overpayments identified, either at the claim level or using extrapolation.

## **REQUIRED PROJECTS**

Statutes, auditing standards, and agency policies mandate the completion of certain projects. Required projects for fiscal year 2013 include:

- Annual HHSC Business Risk Assessment
- Annual Audit Plan
- Annual Internal Auditor's Report

## APPENDIX

### ACTIVITIES, BUSINESS AREAS, AND PROCESSES

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Chief of Staff	<ul style="list-style-type: none"> <li>• External Relations</li> <li>• Office of the Ombudsman</li> <li>• Office of Economic Analysis</li> <li>• Border Affairs</li> <li>• Leadership Development</li> <li>• Special Projects</li> <li>• Executive Administration</li> </ul>	<ul style="list-style-type: none"> <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>• Complaints Management</li> <li>• Customer Support for Medicaid Clients</li> <li>• Agency and Enterprise-wide Complaint Reports</li> <li>• Economic Analysis</li> <li>• Service Delivery Planning, Implementation, and Coordination</li> <li>• Leadership Program</li> <li>• Sunset Review Coordination</li> <li>• HHS Agencies – Self-Evaluation Reports</li> <li>• Critical Projects Meeting</li> <li>• Administration</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Financial Services	<ul style="list-style-type: none"> <li>• Forecasting</li>   <li>• Rate Analysis</li>   <li>• Strategic Decision Support</li>   <li>• Chief Actuary</li>   <li>• Enterprise Budget and Fiscal Policy</li>   <li>• Chief Financial Officer <ul style="list-style-type: none"> <li>○ Budget 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>• Cost Reporting</li> <li>• Acute Care Services Rate Determinations</li> <li>• Hospital Services Rate Determinations</li> <li>• Long-Term Services and Support Rate Determinations</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>• Managed Care Cost Analysis</li>   <li>• Consolidated Budget Development</li> <li>• State/Federal Reporting and Compliance Monitoring</li> <li>• Fiscal Policy Development</li> <li>• Cross-Agency Fiscal Management</li>   <li>• Budget Development, Tracking, and Reporting</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	○ Fiscal Management Office	<ul style="list-style-type: none"><li>● Financial Reporting</li><li>● Payroll</li><li>● Accounts Payable</li><li>● Travel Reimbursement</li><li>● Accounts Receivable</li></ul>

<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>• Policy</li>   <li>• Office of Acquired Brain Injury</li>   <li>• Office of the Medical Director</li>   <li>• Informal Dispute Resolution</li>   <li>• Office of e-Health Coordination</li>   <li>• Administrative Operations</li> </ul>	<ul style="list-style-type: none"> <li>• Quality Management</li>   <li>• Policy Analysis, Development, and Coordination – DADS</li> <li>• Rule Development – DADS</li> <li>• Policy Analysis, Development, and Coordination – DSHS</li> <li>• Rule Development – DSHS</li>   <li>• Contract Management</li> <li>• Program Management</li> <li>• Policy Analysis and Development</li>   <li>• Provider Communications</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 Policy Analysis, Development, and Coordination</li> <li>• Contract Management</li>   <li>• Administration</li> </ul>



<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Managed Care Operations</li>   <li>○ Vendor Drug Program</li>   <li>○ Policy Development</li>   <li>● Frew Oversight</li>   <li>● Office for Program Coordination for Children and Youth</li>   <li>● Policy</li> </ul>	<ul style="list-style-type: none"> <li>● Health Plan Management</li> <li>● Financial Analysis</li> <li>● Quality Assurance</li> <li>● Encounter and Enrollment Data Management</li> <li>● 1115 Waiver Reporting (Managed Care)</li>   <li>● Program Oversight</li> <li>● Contract Management</li> <li>● Rebate Administration</li>   <li>● Policy Analysis and Development</li> <li>● Rule Development</li> <li>● State Plan and Federal Negotiations</li> <li>● Waiver Development and Federal Negotiations</li>   <li>● Technical Assistance</li> <li>● Policy and Program Analysis, Development, and Coordination</li>   <li>● Policy Analysis, Development, and Coordination</li> <li>● Program Management</li>   <li>● Cross-division and Cross-agency Policy</li> <li>● Special Projects</li> </ul>

<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>• Infrastructure and Operations</li>   <li>• IT Customer Service</li>   <li>• IT Business Services</li>   <li>• Technology</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>• Texas Integrated Eligibility Redesign System Production Operations</li> <li>• Technology Infrastructure – Statewide Network Services</li> <li>• State Data Center Services</li>   <li>• IT Client Systems – Image Development and Maintenance</li> <li>• IT Client Systems – Electronic Software Distribution</li> <li>• IT Customer Service Desk Incident Intake, Routing, and Resolution</li>   <li>• Project Oversight and Reporting Processes (including to Federal and State Authorities)</li> <li>• Software Asset Management</li> <li>• Audit Coordination and Tracking</li>   <li>• Business Technology Solutions</li> <li>• System Modernization</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Information Security</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-Agency Strategy, Standards, and Coordination</li> <li>• Security and Privacy Policy and Compliance</li> <li>• Security Incident Prevention, Monitoring, and Response</li> <li>• Risk Management</li> </ul>



<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Program Innovation</li>   <li>• Community Access and Services</li> </ul>	<ul style="list-style-type: none"> <li>○ Data Management Reporting</li> <li>○ Appeals and Requests for Reviews, Preparation and Management</li> <li>○ State/Federal Reporting Liaison</li>   <li>• Business Process Analysis and Improvement</li> <li>• Information Technology Strategy and Development</li> <li>• Project Management</li> <li>• Change Management and Communications</li>   <li>• Community Access               <ul style="list-style-type: none"> <li>○ Community Training</li> <li>○ Community Outreach</li> <li>○ Community Relationship Development</li> <li>○ Statewide Network of Community Partners to Support Eligibility Determination Development and Support</li> <li>○ Faith and Community-based Liaison</li> </ul> </li> <li>• Community Services – Management of Community Programs               <ul style="list-style-type: none"> <li>○ Computers for Learning</li> <li>○ Community Resource Coordinating Groups</li> <li>○ Healthy Marriage</li> </ul> </li> <li>• Community Services – Management and Oversight of Community-Based Contracts</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Policy</li> </ul>	<ul style="list-style-type: none"> <li>○ Alternatives to Abortion</li> <li>○ Management of Community Contracts</li> <li>• Policy Analysis, Development, and Coordination - DFPS/DARS</li> <li>• Rule Development – DFPS/DARS</li> <li>• Policy Analysis, Development, and Coordination – Eligibility and Social Services</li> <li>• Rule Development – Eligibility and Social Services</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>System Support Services</p>	<ul style="list-style-type: none"> <li>• Business and Regional Services                             <ul style="list-style-type: none"> <li>○ Enterprise Contract and Procurement Services</li> <li>○ Facility Management and Leasing</li> <li>○ Facility Support Services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Contract Management</li> <li>• Procurement</li> <li>• Contract and Administration                             <ul style="list-style-type: none"> <li>○ Contract Oversight and Grant Processes Oversight</li> <li>○ Procurement/ Requisition Services</li> <li>○ HUB Program Services</li> </ul> </li> <li>• Lease Management</li> <li>• Facility Management</li> <li>• Mail Services</li> <li>• Warehouse Services</li> <li>• Incident Management</li> <li>• Maintenance and Construction (State Hospitals and State Supported Living Centers)</li> <li>• Real Estate</li> <li>• Training and Development (State Hospitals and State Supported Living Centers)</li> <li>• Fleet Management</li> <li>• Computer Aided Facility Management</li> <li>• Supply Services (State Hospitals and State Supported Living Centers)</li> <li>• Nutrition and Food Services (State Hospitals and State Supported Living Centers)</li> <li>• Risk Management (State Hospitals and State Supported Living Centers)</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Regional Administrative Services</li> <li>○ Risk Management</li> <li>○ Emergency Services</li> <li>● Civil Rights</li> </ul>	<ul style="list-style-type: none"> <li>● Incident Management</li> <li>● Interstate Compact Coordinator (State Hospitals and State Supported Living Centers)</li> <li>● Enterprise Receiving</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>● Safety Program</li> <li>● Emergency Management Program Coordination</li> <li>● Workers' Compensation</li> <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>● Discrimination Complaints (Employee and Client)</li> <li>● Reasonable Accommodations</li> <li>● Accessibility – Language Services and Electronic Information Resources</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Workforce Support Services</li>   <li>• Contract Oversight and Staff Services</li>   <li>• Human Resources</li>                 <li>• Center for the Elimination of Disproportionality and Disparities</li>   <li>• Operations and Program Support</li> </ul>	<ul style="list-style-type: none"> <li>• Conflict Resolution</li> <li>• Administrative Complaints</li> <li>• Civil Rights Training</li>   <li>• Employee Advisory Committee</li> <li>• Succession Planning Initiative</li> <li>• Summer Internship Program</li> <li>• Survey of Employee Engagement</li>   <li>• Contract Management</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>• Training and Organizational Development                         <ul style="list-style-type: none"> <li>○ Management and Staff Development</li> </ul> </li> <li>• Technical Assistance</li>   <li>• Contract Management</li>   <li>• Asset Management</li> <li>• Employee Wellness</li> <li>• Records Management</li> <li>• Business Continuity and Emergency Preparedness</li> <li>• Administrative Contracts</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Operations Reviews</li> <li>• Management Studies</li> <li>• Select Procurements</li> <li>• Business Process Analyses and Development</li> <li>• Contract Management</li> <li>• Grant Writing</li> <li>• Contract Council Support</li> <li>• Interagency Project Management</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Governance	<ul style="list-style-type: none"> <li>• Chief Counsel               <ul style="list-style-type: none"> <li>○ System Services</li> <li>○ General Counsel</li> <li>○ System Oversight</li> </ul> </li> <li>• HHS Communications</li> <li>• Internal Audit</li> <li>• Office of Inspector General               <ul style="list-style-type: none"> <li>○ Chief Counsel</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Appeals and Hearings               <ul style="list-style-type: none"> <li>○ Fair Hearings</li> <li>○ Administrative and Contested Cases</li> <li>○ Employee Grievance</li> </ul> </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>• 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> <li>• External Audit Coordination</li> <li>• Sanctions</li> <li>• Overpayment Recoveries</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Compliance</li>   <li>○ Enforcement</li>   <li>○ Operations</li> </ul>	<ul style="list-style-type: none"> <li>● Administrative Actions and Litigation</li>   <li>● Audit Services                             <ul style="list-style-type: none"> <li>○ Medicaid/CHIP</li> <li>○ Cost Report Review</li> <li>○ Subrecipient Finance Review</li> <li>○ Contract Audits</li> <li>○ Outpatient Hospital</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>○ Limited Program Management (Medicaid Recipients)</li> </ul> </li>   <li>● General Investigations</li> <li>● Medicaid Provider Integrity</li>   <li>● Third Party Liabilities</li> <li>● Fraud Referrals and Case Management</li> <li>● Criminal Background Checks</li> <li>● Research, Analysis and Detection Case Development and Management</li> <li>● Performance Measures Data Compiler</li> <li>● Contract Management</li> <li>● Policy Analysis and Recommendations</li> <li>● Professional Training and Development</li> </ul>

## Fiscal Year 2013 Planned Projects

### ***Reports Issued in Fiscal Year 2013***

- Enterprise Audit of HHS Agency Collections of OIG Identified Overpayments, Project Number 11-01-005, January 29, 2013
- Review of Medical Transportation Program Financial Controls, Project Number 12-02-005, April 12, 2013
- Audit of Center for the Elimination of Disproportionality and Disparities Contract Management, Project Number 11-02-008, April 9, 2013
- Audit of Medicaid Eligibility and Health Information Services, Project Number 12-02-003, May 9, 2013
- Audit of Security and Integrity of Data Transferred to and from Premiums Payable System, Project Number 12-02-007, May 15, 2013
- Follow Up of Confidential Data Transfers Audit, Project Number 12-02-006, August 6, 2013

### ***Projects to be Carried Forward to Fiscal Year 2014***

- Audit of Eligibility Documentation, Project Number 13-02-003
- Audit of Premiums Payable System Application Controls and Related Business Processes, Project Number 13-01-001
- Audit of Organizational Governance, Project Number 11-02-007
- Audit of Social Services Contract Management, Project Number 12-02-002
- Audit of Claims Administrator Contract Monitoring, Project Number 13-02-002
- Audit of Identity and Access Management, Project Number 13-02-004

## Fiscal Year 2013 Internal Audit Plan Changes

The following project was removed from the Fiscal Year 2013 Audit Plan due to coverage from two federal audits:

- Prescription Drug Rebate Program
  - The Department of Health and Human Services Office of Inspector General (DHHS OIG), Audit of Physician Administered Drug Rebates started August 2012
  - The Department of Health and Human Services Office of Inspector General (DHHS OIG), Audit of Drug Rebates started February 2013

The following projects were included in the Fiscal Year 2013 Audit Plan but were not initiated due to other resource requirements. The projects were considered for the Fiscal Year 2014 Audit Plan:

- Audit of Managed Care Contract Monitoring
- Audit of Enterprise Confidential Data Transfers
- Follow Up Audit of Medical Transportation Program Contract Monitoring

## Risk Assessment Methodology and Results for Fiscal Year 2013

The risk assessment methodology is described on page 4 of the audit plan. In addition, detailed results of the risk assessment are presented in the risk footprint located on page II - 32.

**HHSC RISK FOOTPRINT**

Activities	Business Areas													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Health Services Operations	Medical Transportation Program	Medicaid/CHIP Division - Managed Care Operations	Medicaid/CHIP Division - Medicaid Contract Management and Operations	Medicaid/CHIP Division - Policy Development	Frew Oversight	Medicaid/CHIP Division - Healthcare Transformation Waiver and Cost Containment	Medicaid/CHIP Division - Vendor Drug Program	Office of Program Coordination for Children and Youth	Policy	Medicaid/CHIP Division - Medicaid Health Information Technology	Administration and Communication Services			
Information Technology	Information Security	Infrastructure and Operations	IT Customer Service	Applications	Office of the Chief Information Officer	Technology	IT Business Services							
Financial Services	CFO - Fiscal Management Office	Forecasting	CFO - Budget Management Office	Rate Analysis	Enterprise Budget and Fiscal Policy	Strategic Decision Support	Chief Actuary							
Chief of Staff	Border Affairs	Office of the Ombudsman	External Relations	Special Projects	Executive Administration	Office of Economic Analysis	Leadership Development							
Governance	Office of Inspector General - Enforcement	Chief Counsel - System Oversight	Office of Inspector General - Chief Counsel	Chief Counsel - General Counsel	Office of Inspector General - Operations	Office of Inspector General - Compliance	Chief Counsel - System Services	HHS Communications						
Social Services	Eligibility Operations	Eligibility Business Support	Policy	Community Access and Services										
Health Policy and Clinical Services	Texas Institute for Health Care Quality and Efficiency - Quality Unit	Office of e-Health Coordination	Office of the Medical Director	Office of Acquired Brain Injury	Administrative Operations	Policy	Informal Dispute Resolution							
System Support Services	Center for Elimination of Disproportionality and Disparities	Administrative Services Development*	Human Resources	Contract Oversight and Staff Services	Business and Regional Services - Enterprise Contract and Procurement Services	Business and Regional Services - Regional Administrative Services	Special Projects	Business and Regional Services - Facility Management and Leasing	Business and Regional Services - Emergency Services	Workforce Support Services	Business and Regional Services - Risk Management	Civil Rights	Operations and Program Support	Business and Regional Services - Facility Support Services

**Key:**  
■ High risk - Audit work should be performed as resources are available, and management should perform ongoing oversight and monitoring to ensure supervisory and execution controls are working.  
■ Medium risk - Management should perform periodic oversight to ensure that supervisory and execution controls are working.  
■ Low risk - Management should perform review of supervisory and execution controls as needed.

**Notes:**  
 \* Administrative Services Development was merged with Enterprise Contract and Procurement Services on September 1, 2012 and is reflected as such on page 23 of the Audit Plan. The data obtained for the risk assessment reflects the period prior to this date, therefore this footprint depicts the area separately.

## **SECTION III**

### **CONSULTING ENGAGEMENT COMPLETED**

## CONSULTING ENGAGEMENT COMPLETED

<b>Project Description</b>	
<b>Review of Medical Transportation Program Financial Controls, Project Number 12-02-005, April 12, 2013</b>	
<b>Project Objective:</b>	
<ul style="list-style-type: none"> <li>• Assess the design of the Medical Transportation Program (MTP) financial control structure and identify opportunities for improvement to mitigate risks.</li> </ul>	
#	<b>Observations and Recommendations</b>
<b>1. Develop a Plan to Improve the Design of Financial Controls</b>	
1	<p>MTP should assess Internal Audit's recommendations and develop a plan to improve the design of MTP financial controls that includes:</p> <ul style="list-style-type: none"> <li>• Implementing financial controls to mitigate risks.</li> <li>• Improving segregation of duties.</li> <li>• Formalizing procedures and defining staff roles and responsibilities.</li> <li>• Reviewing staff system access rights to ensure that access aligns with roles and responsibilities, and periodically verifying access rights.</li> </ul>
<b>2. Update Policies and Procedures to Formalize Revisions to Financial Controls and Communicate Changes to Applicable Staff</b>	
2	<p>MTP should update policies and procedures to formalize any revisions to financial controls. Policies and procedures should include well defined roles and responsibilities to ensure established policies and procedures are consistently followed. MTP should communicate changes to applicable MTP staff, and provide training as appropriate.</p>

## **SECTION IV**

### **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 V**

**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2014**



# Health and Human Services Commission

*Internal Audit Division*

## **Internal Audit Plan**

Fiscal Year 2014

October 10, 2013

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David M. Griffith, CPA, CIA, CGFM  
Internal Audit Director

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Kyle L. Jansky, 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 2014.

## 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 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 March 2013.

### 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 and in 2013 to include the Deputy Executive Commissioner for Procurement and Contracting.

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.

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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) 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 253 surveys and 16 interviews of HHS Enterprise and HHSC executives and managers representing key operational and support functions. The activities, business areas, and processes considered during the annual risk assessment are listed in the Appendix.

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 2014, including projects begun in a previous fiscal year and planned to be completed in fiscal year 2014, are listed below with a brief description of each project.

## Audit Projects

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

- Evaluate the effectiveness of TIERS general and application controls designed to ensure the (a) accuracy of eligibility determinations and (b) confidentiality, integrity, and availability of data.

### *Managed Transportation Organization Contract Monitoring*

- Evaluate whether contract monitoring processes support the managed transportation delivery model and ensure contract outcomes are achieved.

### *Medicaid/CHIP Division Delivery System Reform Incentive Payment (DSRIP) Processes*

- 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.

### *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.

### *Security Incident Reporting and Prevention*

- Determine whether activities and technologies that support security incident reporting and prevention 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.

### *Sole Source and Emergency Procurements*

- Determine whether sole source and emergency procurements are appropriate, justified, and approved in accordance with state and agency guidelines.

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

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

### *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.

### *HHSC IT Oversight of Outsourced Services*

- Assess whether HHSC IT contract monitoring effectively supports and promotes the achievement of outsourcing objectives.

### *Prescription Drug Rebate Program*

- Review the effectiveness of HHSC monitoring and oversight of contractor administration of rebates.
- Determine the efficacy of business processes and management controls that support (a) calculation of rebates, including pricing and utilization adjustments, (b) billing of outstanding receivables, (c) dispute resolution, and (d) collection of rebates in accordance with federal and state requirements, contractual agreements, and sound business practices.

### Carry-Forward Audits

#### *Organizational Governance*

- Evaluate the HHSC governance framework and associated processes designed to inform, direct, and monitor the activities of HHSC and the HHS Enterprise toward the achievement of organizational goals and objectives.

#### *Social Services Contract Monitoring*

- Evaluate whether Office of Social Services contract monitoring processes ensure contract outcomes are achieved.

### *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.

### *Identity and Access Management*

- Assess the effectiveness of controls over (a) how internal and external information system users are granted an identity, (b) the protection of user identities, and (c) authentication and authorization, including granting and revocation of access to IT support personnel and individuals that use applications.
- Identify opportunities to improve identity and access management strategies, technology, and business processes designed to (a) strengthen compliance with federal and state data security and other requirements, (b) increase efficiencies, and (c) improve the end user experience through single sign-on strategies.

### *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.

### 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 Regional Administrative Services*

- Determine whether actions implemented to address issues and risks reported in the prior Internal Audit report on Regional Administrative Services 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
- Recovery Audit Contractor Governance Committee
- CMS PERM Technical Advisory Group

## 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 audit entities. Internal Audit also assists management in coordinating management responses for all HHSC external audits and some HHS external audits.

## PERM AND MIG COORDINATION

Internal Audit serves as Texas' single point of contact with the Centers for Medicare and Medicaid Services (CMS) for payment error rate measurement (PERM) reviews and Medicaid Integrity Group (MIG) audits. These CMS initiatives are described below.

### Payment Error Rate Measurement

PERM reviews focus on identifying improper payments in the Medicaid and CHIP programs, and include tests of Medicaid and CHIP eligibility and review of medical payments at the individual claim level. PERM reviews are conducted on a cyclical basis, resulting in a state being assessed once every three years. States are required to return to CMS the federal share of improper payments. In addition, states must develop corrective action plans to improve systems and processes that contributed to errors identified during PERM reviews.

### Medicaid Integrity Group

MIG activities include (a) reviews of Medicaid provider actions, (b) audits of individual provider's claims, (c) identification of overpayments, and (d) education of providers and others about Medicaid integrity issues. Audits are performed of individual providers, with efforts focused on providers with potential aberrant billing practices. The audits are designed to identify instances of waste, abuse, or fraud. At the discretion of CMS, audits may incorporate statistical extrapolation to estimate total inappropriate Medicaid claim payments for a provider. CMS requires states to refund the federal share of provider overpayments identified, either at the claim level or using extrapolation.

## REQUIRED PROJECTS

Statutes, auditing standards, and agency policies mandate the completion of certain projects. Required projects for fiscal year 2014 include:

- Annual HHSC Business Risk Assessment
- Annual Audit Plan
- Annual Internal Auditor's Report

## APPENDIX

### ACTIVITIES, BUSINESS AREAS, AND PROCESSES

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Governance	<ul style="list-style-type: none"> <li>• Chief Counsel               <ul style="list-style-type: none"> <li>○ System Services</li> <li>○ General Counsel</li> <li>○ System Oversight</li> </ul> </li> <li>• HHS Communications</li> <li>• Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Appeals and Hearings               <ul style="list-style-type: none"> <li>○ Fair Hearings</li> <li>○ Administrative and Contested Cases</li> <li>○ Employee Grievance</li> </ul> </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>• 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> <li>• External Audit Coordination</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>● Office of Inspector General                             <ul style="list-style-type: none"> <li>○ Chief Counsel</li> <li>○ Compliance</li> <li>○ Enforcement</li> <li>○ Operations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Overpayment Recoupment and Penalties</li> <li>● Administrative Litigation</li> <li>● Other Sanctions</li> <li>● OIG Administrative Actions</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>○ Outpatient Hospital</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>○ Limited Program Management (Medicaid Recipients)</li> </ul> </li> <li>● General Investigations</li> <li>● Medicaid Provider Integrity</li> <li>● Third Party Liabilities</li> <li>● Fraud Referrals and Case Management</li> <li>● Criminal Background Checks</li> <li>● Research, Analysis and Detection Case Development and Management</li> <li>● Performance Measures Data Compiler</li> <li>● Contract Management</li> <li>● Policy Analysis and Recommendations</li> <li>● Professional Training and Development</li> <li>● External Relations</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"><li>○ Internal Affairs</li></ul>	<ul style="list-style-type: none"><li>● Investigations<ul style="list-style-type: none"><li>○ State Supported Living Centers</li><li>○ Vital Statistics</li><li>○ Programs</li><li>○ State Hospitals</li></ul></li></ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
Chief of Staff	<ul style="list-style-type: none"> <li>• Executive Office Administration</li> <li>• External Relations</li> <li>• Office of the Ombudsman</li> <li>• Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Administration</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>• Complaints Management</li> <li>• Customer Support for Medicaid Clients</li> <li>• Agency and Enterprise-wide Complaint Reports</li> <li>• Sunset Review Coordination</li> <li>• HHS Agencies – Self-Evaluation Reports</li> <li>• Critical Projects Meeting</li> </ul>



<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Program Operations</li>   <li>○ Vendor Drug Program</li>   <li>○ Policy Development</li>   <li>● Frew Oversight</li>   <li>● Policy</li>   <li>● Veterans' Services</li>   <li>● Economic Analysis</li> </ul>	<ul style="list-style-type: none"> <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>   <li>● Program Oversight</li> <li>● Contract Management</li> <li>● Rebate Administration</li> <li>● MCO Pharmacy Benefit Oversight</li>   <li>● Policy Analysis and Development</li> <li>● Rule Development</li> <li>● State Plan and Federal Negotiations</li> <li>● Waiver Development and Federal Negotiations</li> <li>● Medical Benefits Policy Development</li> <li>● Stakeholder Outreach</li>   <li>● Technical Assistance</li> <li>● Policy and Program Analysis, Development, and Coordination</li>   <li>● Cross-division and Cross-agency Policy</li> <li>● Special Projects</li>   <li>● Coordination of Veterans' Services</li>   <li>● Economic Analysis</li> <li>● 1115 Waiver Implementation</li> <li>● Uncompensated Care Pool Allocation</li> <li>● Disproportionate Share Hospital Allocation</li> </ul>

<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>• Policy</li> <li>• Health Coordination and Consumer Services</li> <li>• Office of the Medical Director</li> <li>• Informal Dispute Resolution</li> </ul>	<ul style="list-style-type: none"> <li>• Quality Management</li> <li>• Quality Policy Development, Coordination and Implementation</li> <li>• Contract and/or Grant Oversight</li> <li>• Interagency Quality Coordination</li> <li>• Policy Analysis, Development, and Coordination – DADS</li> <li>• Rule Development – DADS</li> <li>• Policy Analysis, Development, and Coordination – DSHS</li> <li>• Rule Development – DSHS</li> <li>• Office for Program Coordination for Children and Youth                             <ul style="list-style-type: none"> <li>○ Policy Analysis, Development, and Coordination</li> <li>○ Program Management</li> </ul> </li> <li>• Office of Acquired Brain Injury                             <ul style="list-style-type: none"> <li>○ Contract Management</li> <li>○ Program Management</li> <li>○ Policy Analysis and Development</li> </ul> </li> <li>• Provider Communications</li> <li>• Informal Dispute Resolution Process</li> <li>• Independent Informal Dispute Resolution Process (federal process for nursing facilities only)</li> <li>• Informal Reconsideration</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"><li>• Office of e-Health Coordination</li><li>• Administrative Operations</li></ul>	<ul style="list-style-type: none"><li>• Health IT Policy Analysis, Development, and Coordination</li><li>• Contract Management</li><li>• Administration</li></ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Social Services</p>	<ul style="list-style-type: none"> <li>● Business Operations and Support                             <ul style="list-style-type: none"> <li>○ Program Financial Management and Budget</li> <li>○ Contract Management and Administration</li> </ul> </li> <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> </ul>	<ul style="list-style-type: none"> <li>● Financial Management</li> <li>● Electronic Benefits Transfer (EBT) Issuance and Settlement Review and Reconciliation</li> <li>● Contract Monitoring</li> <li>● Procurement Support and Coordination</li> <li>● Official Contract Correspondence Process</li> <li>● Contract Maintenance</li> <li>● Contracts – Outstationed Workers Program</li> <li>● Oversight and Management 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> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Program Innovation</li>   <li>• Community Access and Services                             <ul style="list-style-type: none"> <li>○ Community Access</li>   <li>○ Community Services</li> </ul> </li>   <li>• Policy Strategy, Analysis and Development</li> </ul>	<ul style="list-style-type: none"> <li>• Business Process Analysis and Improvement</li> <li>• Information Technology Strategy and Development</li> <li>• Project Management</li> <li>• Change Management and Communications</li>   <li>• Community Training</li> <li>• Community Outreach</li> <li>• Community Relationship Development</li> <li>• Statewide Network of Community Partners to Support Eligibility Determination Development and Support</li> <li>• Faith and Community-based Liaison</li> <li>• Office of Border Affairs</li>   <li>• Management of Community Programs                             <ul style="list-style-type: none"> <li>○ Computers for Learning</li> <li>○ Community Resource Coordinating Groups</li> <li>○ Healthy Marriage</li> </ul> </li> <li>• Management and Oversight of Community-Based Contracts                             <ul style="list-style-type: none"> <li>○ Alternatives to Abortion</li> <li>○ Management of Community Contracts</li> <li>○ Management of Community Contracts Supplemental Nutrition Assistance Program Education (SNAPed)</li> </ul> </li>   <li>• Policy Analysis, Development, and Coordination – Eligibility and Social Services</li> </ul>

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<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"><li>• Policy</li></ul>	<ul style="list-style-type: none"><li>• Policy Analysis, Development, and Coordination – DFPS/DARS</li><li>• Rule Review – DFPS/DARS</li><li>• Rule Review – Eligibility and Social Services</li></ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>System Support Services</p>	<ul style="list-style-type: none"> <li>● Business and Regional Services                             <ul style="list-style-type: none"> <li>○ Facility Management and Leasing</li>   <li>○ Facility Support Services</li>   <li>○ Emergency Services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Lease Management</li> <li>● Facility Management</li> <li>● Mail Services</li> <li>● Warehouse Services</li> <li>● Incident Management</li>   <li>● Maintenance and Construction (State Hospitals and State Supported Living Centers)</li> <li>● Real Estate</li> <li>● Training and Development (State Hospitals and State Supported Living Centers)</li> <li>● Fleet Management</li> <li>● Computer Aided Facility Management</li> <li>● Supply Services (State Hospitals and State Supported Living Centers)</li> <li>● Nutrition and Food Services (State Hospitals and State Supported Living Centers)</li> <li>● Risk Management (State Hospitals and State Supported Living Centers)</li> <li>● Incident Management</li> <li>● Interstate Compact Coordinator (State Hospitals and State Supported Living Centers)</li> <li>● Enterprise Receiving</li>   <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> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>○ Regional Administrative Services</li>   <li>○ Risk Management</li>   <li>● Civil Rights</li>   <li>● Leadership Development</li>   <li>● Contract Oversight and Staff Services</li>   <li>● Human Resources</li> </ul>	<ul style="list-style-type: none"> <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>● Safety Program</li> <li>● Emergency Management Program Coordination</li> <li>● Workers' Compensation</li>   <li>● Discrimination Complaints (Employee and Client)</li> <li>● Reasonable Accommodations</li> <li>● Conflict Resolution</li> <li>● Accessibility – Language Services and Electronic Information Resources</li> <li>● Administrative Complaints</li> <li>● Civil Rights Training</li>   <li>● Leadership Development Programs</li>   <li>● Contract Management</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>● Training and Organizational Development                             <ul style="list-style-type: none"> <li>○ Management and Staff Development</li> </ul> </li> <li>● Technical Assistance</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Center for the Elimination of Disproportionality and Disparities</li> <li>• Operations and Program Support</li> <li>• Special Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Contract Management</li> <li>• Training</li> <li>• Asset Management</li> <li>• Records Management</li> <li>• Business Continuity and Emergency Preparedness</li> <li>• Administrative Contracts</li> <li>• Survey of Employee Engagement</li> <li>• Wellness Program</li> <li>• Operations Reviews</li> <li>• Business Process Analyses and Development</li> <li>• Interagency and Intraagency Project Management</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Procurement and Contracting Services</p>	<ul style="list-style-type: none"> <li>• Contract and Administration</li>   <li>• Historically Underutilized Business (HUB) Program Services</li>   <li>• Procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Contract Oversight and Grant Processes Oversight</li> <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 (HHSC and DADS)</li> <li>• Request for Proposals</li> <li>• Procurement Card</li> <li>• Office Supply</li> <li>• Strategic Sourcing</li> </ul>



<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
	<ul style="list-style-type: none"> <li>• Technology</li>   <li>• Information Security</li> </ul>	<ul style="list-style-type: none"> <li>• Business Technology Solutions</li> <li>• System Modernization</li> <li>• Cross-Agency Strategy, Standards, and Coordination</li>   <li>• Security and Privacy Policy and Compliance</li> <li>• Security Incident Prevention, Monitoring, and Response</li> <li>• Risk Management</li> </ul>

<i>Activities</i>	<i>Business Areas</i>	<i>Processes</i>
<p>Financial Services</p>	<ul style="list-style-type: none"> <li>• Office of the Deputy Executive Commissioner for Financial Services</li> <li>• HHS System Forecasting</li> <li>• Rate Analysis</li> <li>• Strategic Decision Support</li> <li>• Actuarial Analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Administration</li> <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>• 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> <li>○ Coordination and Development of Enterprise Data Warehouse</li> </ul> </li> <li>• Managed Care Cost Analysis</li> </ul>

<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>● 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>● Consolidated Budget Development</li> <li>● State/Federal Reporting and Compliance Monitoring</li> <li>● Fiscal Policy Development</li> <li>● Cross-Agency Fiscal Management</li>   <li>● Budget Development, Tracking, and Reporting</li>   <li>● Financial Reporting</li> <li>● Payroll</li> <li>● Accounts Payable</li> <li>● Travel Reimbursement</li> <li>● Accounts Receivable</li> </ul>

## Direct Hours Budgeted for Fiscal Year 2014

<i>Projects</i>	<i>Estimated Hours</i>
<b><i>Fiscal Year 2014 Hours Budgeted for Remaining Work on Carry-Forward Projects</i></b>	
• Organizational Governance	150
• Social Services Contract Monitoring	1,400
• Premium Payment Processes	750
• Claims Administrator Contract Monitoring	1,600
• Identity and Access Management	450
• Eligibility Documentation	1,200
<b><i>Hours Budgeted for Projects to be Performed in Fiscal Year 2014</i></b>	<b><i>Estimated Total Project Hours</i></b>
• Texas Integrated Eligibility Redesign System (TIERS) Data Processing and Integrity	500
• Managed Transportation Organization Contract Monitoring	1,500
• Medicaid/CHIP Division Delivery System Reform Incentive Payment (DSRIP) Processes	3,000
• Eligibility Operations – Data Integrity Unit Processes	3,000
• Security Incident Reporting and Prevention	2,500
• Sole Source and Emergency Procurements	1,500
• HHS Enterprise Administrative Report and Tracking (HEART) System Access and Security	1,000
• Office of Community Services Subrecipient Monitoring	2,500
• HHSC IT Oversight of Outsourced Services	2,000
• Prescription Drug Rebate Program	2,500
• Follow Up of Regional Administrative Services	2,250

## Processes and Activities with Risks Ranked as High Not Scheduled for Audit in Fiscal Year 2014

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. Some of the processes and activities within the HHS Enterprise and HHSC with risks ranked as high that are not scheduled for audit in fiscal year 2014 include:

- Federal Grants Management
- Oversight of Statewide Network of Community Partners
- Medicaid/CHIP Division Managed Care Organization Contract Management
- Rate Analysis Processes
- Facility Management and Leasing Processes
- Hospital Uncompensated Care Payments

HHSC management through its management 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 2014, audit resources could be redirected to address one or more of these processes and activities in lieu of other approved audit projects.

## Risk Assessment Methodology and Results for Fiscal Year 2014

The risk assessment methodology is described on page 4 of the audit plan. In addition, detailed results of the risk assessment are presented in the risk footprint located on page V - 33.

HHSC RISK FOOTPRINT

Activities	Business Areas											
	1	2	3	4	5	6	7	8	9	10	11	12
Chief Deputy Commissioner	Medicaid CHIP Division - Vendor Drug Program	Medical Transportation Program	Medicaid CHIP Division - Healthcare Transformation Waiver and Cost Containment	Medicaid CHIP Division - Operations Coordination	Medicaid CHIP Division - Program Operations	Medicaid CHIP Division - Policy Development	Economic Analysis	Policy	Administration and Communication Services	Frew Oversight	Medicaid CHIP Division - Medicaid Health Information Technology	Veterans' Services
Social Services	Eligibility Operations: Eligibility Services - Vendor	Eligibility Operations: Eligibility Services - Field	Business Operations and Support: Program Financial Management and Budget	Business Operations and Support: Contract Management and Administration	Policy Strategy, Analysis and Development	Eligibility Operations: Eligibility Services - Support	Program Innovation	Community Services	Community Access	Policy		
Information Technology	Information Security	Infrastructure and Operations	Applications	IT Customer Service	Office of the Chief Information Officer	IT Business Services	Technology					
Financial Services	Actuarial Analysis	HHS System Forecasting	Rate Analysis	CFO - Fiscal Management Office	CFO - Budget Management Office	HHS System Budget and Fiscal Policy	Strategic Decision Support					
System Support Services	Contract Oversight and Staff Services	Center for Elimination of Disproportionality and Disparities	Business and Regional Services - Facility Management and Leasing	Human Resources	Business and Regional Services - Emergency Services	Business and Regional Services - Regional Administrative Services	Business and Regional Services - Facility Support Services	Leadership Development	Business and Regional Services - Risk Management	Civil Rights	Operations and Program Support	Special Projects
Procurement & Contracting	Procurement	Contract and Administration	HUB Program Services									
Health Policy & Clinical Services	Health Coordination and Consumer Services	Office of e-Health Coordination	Texas Institute for Health Care Quality and Efficiency - Quality Unit	Office of the Medical Director	Healthcare Quality Analytics, Research and Coordination Support	Policy	Informal Dispute Resolution					
Governance	Chief Counsel - System Oversight	Office of Inspector General - Internal Affairs	Office of Inspector General - Enforcement	Office of Inspector General - Compliance	Chief Counsel - System Services	Chief Counsel - General Counsel	Office of Inspector General - Operations	Office of Inspector General - Chief Counsel	HHS Communications			
Chief of Staff	Special Projects	Office of the Ombudsman	Executive Administration	External Relations								

**Key:**  
■ High risk - Audit work should be performed as resources are available, and management should perform ongoing oversight and monitoring to ensure supervisory and execution controls are working.  
■ Medium risk - Management should perform periodic oversight to ensure that supervisory and execution controls are working.  
■ Low risk - Management should perform review of supervisory and execution controls as needed.

**SECTION VI**

**EXTERNAL AUDIT SERVICES PROCURED**

## EXTERNAL AUDIT SERVICES PROCURED – FISCAL YEAR 2013

Program	Audit Services Procured or Ongoing
<b>Contracted by:</b> Internal Audit	<p><b>Vendor:</b> Texas State Auditor's Office – Contract No. 529-13-0082-00001</p> <p><b>Scope:</b> Onsite Audit – selected foster care contractors in accordance with Senate Bill 6, 79<sup>th</sup> Regular Session, 2004, codified at Section 2155.1442, <i>Texas Government Code</i>.</p> <p><b>Execution Date:</b> March 25, 2013</p> <p><b>Termination Date:</b> August 31, 2013</p> <p><b>Report Issue Date:</b> August 31, 2013</p>
<b>Contracted by:</b> Internal Audit	<p><b>Vendor:</b> Myers and Stauffer, LC – Contract No. 529-13-7777-00457</p> <p><b>Scope:</b> Information Technology Audit – Identity and Access Management.</p> <p><b>Execution Date:</b> June 5, 2013</p> <p><b>Termination Date:</b> April 4, 2014</p> <p><b>Report Issue Date:</b> No reports to date. Anticipated issue date is March 4, 2014.</p>
<b>Contracted by:</b> Internal Audit	<p><b>Vendor:</b> Honkamp Krueger &amp; Co., PC – Contract No. 529-13-0073-00001</p> <p><b>Scope:</b> External Quality Assurance Review – peer review of HHSC Internal Audit Division.</p> <p><b>Execution Date:</b> June 9, 2013</p> <p><b>Termination Date:</b> August 31, 2013</p> <p><b>Report Issue Date:</b> August 31, 2013</p>

Program	Audit Services Procured or Ongoing
<p><b>Contracted by:</b> Internal Audit</p>	<p><b>Vendor:</b> Clifton Larson Allen, LLP – 529-12-7777-00594</p> <p><b>Scope:</b> Information Technology Audit – Medicaid Eligibility and Health Information Services (MEHIS). The audit scope includes (a) the existing automated system, MEHIS, (b) planned system enhancements, and (c) related business processes in place to achieve intended service delivery outcomes.</p> <p><b>Execution Date:</b> August 30, 2012</p> <p><b>Termination Date:</b> April 30, 2013</p> <p><b>Report Issue Date:</b> May 9, 2013</p>
<p><b>Contracted by:</b> Hospital Rate Setting</p>	<p><b>Vendor:</b> Myers and Stauffer L.C. – Contract No. 529-12-0015-00001</p> <p><b>Scope:</b> Examination Engagement – Review all Disproportionate Share Hospital (DSH) payments and methodologies for fiscal years 2009 and 2010 per the federal DSH Rule published in the <i>Federal Register</i> on December 19, 2008.</p> <p><b>Execution Date:</b> May 4, 2012</p> <p><b>Termination Date:</b> February 28, 2014, unless extended for two additional program year audits.</p> <p><b>Report Issue Date:</b> Fiscal Year 2009 DSH program audit "Report on Disproportionate Share Hospital Verifications (With Independent Accountant's Report Thereon)" released December 7, 2012. The final report for Medicaid state plan rate year 2010 is due November 15, 2013.</p>
<p><b>Contracted by:</b> Medicaid/CHIP Division</p>	<p><b>Vendor:</b> Myers and Stauffer, LC – Contract No. 529-13-0092-00001</p> <p><b>Scope:</b> Financial Statement Review – The vendor will examine financial statements and underlying documentation, and then issue a corresponding written opinion to HHSC that expresses a conclusion about the reliability of the written assertions prepared by that third party.</p> <p><b>Execution Date:</b> April 19, 2013</p> <p><b>Termination Date:</b> April 30, 2014</p> <p><b>Report Issue Date:</b> No reports to date.</p>

Program	Audit Services Procured or Ongoing
<b>Contracted by:</b> Health Policy and Clinical Services	<b>Vendor:</b> The University of Texas – Contract No. 529-12-0117-00001  <b>Scope:</b> HHSC Texas Home Visiting Program – Evaluate the performance of primary mission objectives.  <b>Execution date:</b> April 19, 2012  <b>Termination Date:</b> September 29, 2014  <b>Report Issue Date:</b> September 27, 2013
<b>Contracted by:</b> Medicaid/CHIP Division	<b>Vendor:</b> Davila Buschhorn & Associates, P.C. – Contract No. 529-10-0007-00001  <b>Scope:</b> Retrospective Cost Settlement Audit – Pharmacy Claims/Pharmacy Rebate Administrator and subcontractors for fiscal year 2011.  <b>Execution date:</b> July 24, 2010  <b>Termination Date:</b> July 30, 2016  <b>Report Issue Date:</b> September 10, 2012
<b>Contracted by:</b> Medicaid/CHIP Division	<b>Vendor:</b> PHBV Partners, LLP – Contract No. 529-13-0099-00001  <b>Scope:</b> Claims Processing and Rebate Administration Audit.  <b>Execution date:</b> August 4, 2010  <b>Termination Date:</b> July 30, 2013  <b>Report Issue Date:</b> July 1, 2013
<b>Contracted by:</b> Medicaid/CHIP Division	<b>Vendor:</b> Davila, Buschhorn, and Associates, PC – Contract No. 529-09-0048-00002  <b>Scope:</b> Financial Statement Review – To review underlying documentation, and then issue a corresponding written opinion that expresses a conclusion about the reliability of the written assertions prepared by that third party.  <b>Execution date:</b> September 2, 2009  <b>Termination Date:</b> April 30, 2014  <b>Report Issue Date:</b> May 3, 2013

Program	Audit Services Procured or Ongoing
<b>Contracted by:</b> Vendor Drug Program	<b>Vendor:</b> PHBV Partners, L.L.P. – Contract No. 529-12-0129-00001  <b>Scope:</b> Statement on Standards for Attestation Engagements (SSAE) 16 Audit of the ACS Texas Vendor Drug Program Pharmacy Claims and Rebate Administration for the period of September 1, 2011 through August 31, 2012.  <b>Execution date:</b> August 4, 2010  <b>Termination Date:</b> July 30, 2013  <b>Report Issue Date:</b> October 31, 2012
<b>Contracted by:</b> Medicaid/CHIP Division	<b>Vendor:</b> Health Management Systems, Inc. – Contract No. 529-13-0008-00001  <b>Scope:</b> Recovery Audit Program in compliance with section 6411 of the Patient Protection and Affordable Care Act.  <b>Execution date:</b> March 19, 2013  <b>Termination Date:</b> March 18, 2016  <b>Report Issue Date:</b> No reports to date.
<b>Contracted by:</b> Claims Administrator Operations	<b>Vendor:</b> PHBV Partners, L.L.P. – Contract No. 529-12-0129-00001  <b>Scope:</b> SSAE 16 Audit of ACS-TMHP (Claims Administrator) for the period of September 1, 2011 through August 31, 2012.  <b>Execution date:</b> August 4, 2010  <b>Termination Date:</b> July 30, 2013  <b>Report Issue Date:</b> October 31, 2012
<b>Contracted by:</b> Claims Administrator Operations	<b>Vendor:</b> PHBV Partners, L.L.P. – Contract No. 529-12-0129-00001  <b>Scope:</b> Agreed-Upon Procedures Engagements – HIPAA Onsite Readiness Reviews (DentaQuest, Healthspring, and MCNA).  <b>Execution Date:</b> July 19, 2012  <b>Termination Date:</b> July 30, 2013  <b>Report Issue Dates:</b> October 25, 2012; June 25, 2013

Program	Audit Services Procured or Ongoing
<b>Contracted by:</b> Office of Family Services (EBT)	<b>Vendor:</b> CliftonLarsonAllen LLP – Contract No 52900-3-0000068699  <b>Scope:</b> SSAE 16 Type II Audit of the Electronic Benefit Transfer (EBT) System.  <b>Execution Date:</b> January 4, 2013  <b>Termination Date:</b> November 30, 2015  <b>Report Issue Date:</b> Anticipated issue date is October 31, 2013.
<b>Contracted by:</b> Office of e-Health Coordination	<b>Vendor:</b> Horne LLP – Contract No. 529-12-7777-00567  <b>Scope:</b> Risk assessment and financial reviews.  <b>Execution Date:</b> July 6, 2012  <b>Termination Date:</b> September 1, 2013  <b>Report Issue Date:</b> June 13, 2013

## **SECTION VII**

### **REPORTING SUSPECTED FRAUD AND ABUSE**

## REPORTING SUSPECTED FRAUD AND ABUSE

Reference	Actions Taken
<p><b>Fraud Reporting</b></p> <p>The 2014-15 General Appropriations Act, Senate Bill 1, 83<sup>rd</sup> Legislature, Regular Session, 2013 (Article IX, Section 7.09), 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 Prevention and Awareness</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>